

NESHAMINY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2018



INTRODUCTORY SECTION

NESHAMINY SCHOOL DISTRICT

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of School Directors
Neshaminy School District
Langhorne, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

To the Board of School Directors
Neshaminy School District
Langhorne, Pennsylvania

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 the Neshaminy School District 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 (GAAP).

Emphasis of Matter

For the year ended June 30, 2018, the Neshaminy School District adopted new accounting guidance, implementing Governmental Accounting Standards Board Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 17, budgetary comparison information on pages 66 and 67, schedule of the school district's proportionate share of the PSERS net pension liability on page 68, schedule of the school district's PSERS pension contributions on page 69, schedule of the school district's proportionate share of the PSERS net other postemployment benefit plan liability on page 70, schedule of the school district's PSERS other postemployment benefit plan contributions on page 71, and schedule of changes in the total other postemployment benefit plan liability and related ratios on page 72 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.

To the Board of School Directors
Neshaminy School District
Langhorne, Pennsylvania

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Neshaminy School District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by 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, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2019, on our consideration of the Neshaminy 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 the Neshaminy School District's internal control over financial reporting and compliance.

Maillie LLP

Oaks, Pennsylvania
January 8, 2019

NESHAMINY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED JUNE 30, 2018

The discussion and analysis of the Neshaminy School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole, by providing additional information that is not provided in the government-wide financial statements. Please read it in conjunction with the basic financial statements and single audit report.

FINANCIAL HIGHLIGHTS

- The School District's liabilities and deferred inflows exceeded assets and deferred outflows by \$191.0 million at the close of the most recent fiscal year.
- Overall revenues were \$177.0 million, \$5.8 million less than expenses.
- Student enrollment has moderately increased over the last few years.
- The District implemented GASB statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation, the District treated their proportionate share of the beginning of year PSERS net OPEB liability and beginning of year single employer OPEB liability as having been recognized in the period incurred.

OVERVIEW OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34 and present government-wide financial statements, fund financial statements, and notes to the basic financial statements, using both the accrual and modified accrual basis of accounting, respectively.

Government-Wide Financial Statements

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

The *Statement of Net Position* reports assets, deferred outflows, liabilities and deferred inflows for the entire School District (governmental activities and business-type activities). Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The *Statement of Activities* reports the School District's expenses, revenues, depreciation and other changes in net position during the year. This report focuses on the net cost of individual functions with reconciliation between the beginning net position and the ending net position.

NESHAMINY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

Fund Financial Statements

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 School District's funds can be divided into three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

- **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 how cash and other financial assets can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Such information may be useful in evaluating the government's short-term financing requirements. Because this information does not encompass the additional long-term focus of the School District-wide statements, additional information to explain the relationship (or differences) between them can be found in the reconciliation statements.

The *Balance Sheet - Governmental Funds* reports assets, deferred outflows, liabilities, deferred inflows and fund balance of the General Fund and Capital Projects Fund.

The *Reconciliation of Total Governmental Funds Balances to Net Position of Governmental Activities* explains the differences in Governmental Funds balances reported on the *Balance Sheet - Governmental Funds* and the total net position reported on the *Statement of Net Position*.

The *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds* reports the revenues, expenditures and changes in fund balance for the General Fund and Capital Projects Fund.

The *Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities* provides a reconciliation of the changes in fund balances reported on the *Statement of Revenues, Expenditures and Changes in Fund Balances* to the changes in net position as reported on the *Statement of Activities*.

- **Proprietary Funds.** *Proprietary Funds* are used to account for activities that are similar to those often found in the private sector. The District maintains one Proprietary Fund Type, which is an Enterprise Fund, for food service. The *Enterprise Fund* is used to account for the School District's operations that are financed and operated in a manner similar to private business enterprises. The cost of providing goods or services to the students on a continuing basis is financed or recovered primarily through user charges or cost reimbursement plans. The Food Service Fund accounts for the revenues, food purchases and other costs and expenses of providing meals to students during the school year. This fund is reported as a major fund.

The *Statement of Net Position - Proprietary Fund* reports assets, liabilities and net position for the Food Service Fund.

NESHAMINY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED JUNE 30, 2018

The *Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund* reports the revenues, expenses and changes in net position for the Food Service Fund.

The *Statement of Cash Flows - Proprietary Fund* reports the inflows and outflows of cash during the fiscal year for the Food Service Fund.

- ***Fiduciary Funds.*** *Fiduciary Funds* are used to account for resources held for the benefit of parties outside the governmental entity. *Fiduciary Funds* are not reflected in the government-wide financial statements because the District cannot use these funds to finance its operations. The School District uses an *Activity Fund* to account for resources held for student activities in the middle schools and high school and a *Trust Fund* to account for the receipts and disbursement of monies contributed to the School District for scholarships and memorials.

The *Statement of Fiduciary Net Position - Fiduciary Funds* reports assets and liabilities for the School District's student activity accounts and scholarship accounts.

The *Statement of Changes in Fiduciary Net Position - Fiduciary Funds* reports changes in net position for the School District's scholarship accounts.

Notes to the Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As of June 30, 2018, the School District had total assets and deferred outflows of \$273.0 million with 3.3% of these assets being in cash and cash equivalents (or \$9.036 million), 11.1% (or \$30.3 million) being in investments and 62.7% (or \$171.3 million) being in the net value of land, buildings, furniture and equipment and construction in progress. The remaining 22.9% is attributed to the \$11.6 million in receivables and \$46.9 million deferred outflow related to the pensions, \$1.4 million in deferred outflow related to OPEB, and \$1.9 million in deferred charges on refunding. Changes in the capital assets include net additions of \$5,735,192 and retirement of assets of \$20,004.

As of June 30, 2018, the School District had total liabilities and deferred inflows of \$464.1 million with 30% (or \$137.3 million) being in bonds payable, 1% (or \$5.06 million) being in accumulated compensated absences, .5% (or \$2.3 million) being in accounts payable, .2% (or \$986,878) being in accrued interest and 1.9% (or \$9.04 million) being in accrued salaries and benefits. The net pension liability was \$283.0 million. The principal paid for debt service during the year was \$3.1 million.

The resulting (\$191.0) million in net position includes unrestricted net position of (\$227.8) million and \$36.8 million in net investment in capital assets. There was an increase in net investment in capital assets of .1% and a decrease in unrestricted net position of 9.7%. This results in an overall decrease in net position of 11.8%.

NESHAMINY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

Statement of Net Position

	Government-Wide Activities		Total Change 2017-2018
	2018	2017	
Assets:			
Governmental activities:			
Other assets	\$ 51,140,775	\$ 55,188,081	\$ (4,047,306)
Capital assets	171,144,154	172,157,548	(1,013,394)
Total governmental assets	<u>222,284,929</u>	<u>227,345,629</u>	<u>(5,060,700)</u>
Business-type activities:			
Other assets	573,929	397,014	176,915
Capital assets	115,047	166,505	(51,458)
Total business-type assets	<u>688,976</u>	<u>563,519</u>	<u>125,457</u>
Total assets:			
Other assets and deferred outflows	51,714,704	55,585,095	(3,870,391)
Capital assets	171,259,201	172,324,053	(1,064,852)
Total assets	<u>222,973,905</u>	<u>227,909,148</u>	<u>(4,935,243)</u>
Deferred Outflows of Resources:			
Governmental activities:			
Deferred outflows of resources, pension activity	45,997,000	56,215,000	(10,218,000)
Deferred outflows of resources, OPEB activity	1,375,304	-	1,375,304
Deferred amount on refunding	1,885,783	2,293,947	(408,164)
Total governmental deferred outflows of resources	<u>49,258,087</u>	<u>58,508,947</u>	<u>(9,250,860)</u>
Business-type activities:			
Deferred outflows of resources, pension activity	828,000	1,012,000	(184,000)
Deferred outflows of resources, OPEB activity	12,000	-	12,000
Deferred amount on refunding	-	-	-
Total business-type deferred outflows of resources	<u>840,000</u>	<u>1,012,000</u>	<u>(172,000)</u>
Total deferred outflows of resources:			
Deferred outflows of resources, pension activity	46,825,000	57,227,000	(10,402,000)
Deferred outflows of resources, OPEB activity	1,387,304	-	1,387,304
Deferred amount on refunding	1,885,783	2,293,947	(408,164)
Total deferred outflows of resources	<u>50,098,087</u>	<u>59,520,947</u>	<u>(9,422,860)</u>
Liabilities:			
Governmental activities:			
Other liabilities	13,771,502	14,268,927	(497,425)
Long-term liabilities	437,669,245	436,365,504	1,303,741
Total governmental liabilities	<u>451,440,747</u>	<u>450,634,431</u>	<u>806,316</u>
Business-type activities:			
Other liabilities	104,563	65,694	38,869
Unearned revenue	1,232	27,228	(25,996)
Long-term liabilities	5,215,000	5,123,000	92,000
Total business-type liabilities	<u>5,320,795</u>	<u>5,215,922</u>	<u>104,873</u>
Total liabilities:			
Other liabilities	13,877,297	14,361,849	(484,552)
Long-term liabilities	442,884,245	441,488,504	1,395,741
Total liabilities	<u>456,761,542</u>	<u>455,850,353</u>	<u>911,189</u>
Governmental activities:			
Deferred inflows of resources, pension activity	5,678,000	2,370,000	3,308,000
Deferred inflows of resources, OPEB activity	1,504,501	-	1,504,501
Total governmental deferred inflows of resources	<u>7,182,501</u>	<u>2,370,000</u>	<u>4,812,501</u>
Business-type activities:			
Deferred inflows of resources, pension activity	102,000	42,000	60,000
Deferred inflows of resources, OPEB activity	13,000	-	13,000
Total business-type deferred inflows of resources	<u>115,000</u>	<u>42,000</u>	<u>73,000</u>
Total deferred inflows of resources:			
Deferred inflows of resources, pension activity and OPEB activity	<u>7,297,501</u>	<u>2,412,000</u>	<u>4,885,501</u>
Net Position:			
Governmental activities:			
Net investment in capital assets	36,683,676	36,590,686	92,990
Unrestricted net position	(223,763,908)	(203,740,541)	(20,023,367)
Total governmental net position	<u>(187,080,232)</u>	<u>(167,149,855)</u>	<u>(19,930,377)</u>
Business-type activities:			
Net investment in capital assets	115,047	166,505	(51,458)
Unrestricted net position	(4,021,866)	(3,848,908)	(172,958)
Total business-type net position	<u>(3,906,819)</u>	<u>(3,682,403)</u>	<u>(224,416)</u>
Total net position:			
Net investment in capital assets	36,798,723	36,757,191	41,532
Unrestricted net position	(227,785,774)	(207,589,449)	(20,196,325)
Total net position	<u>\$ (190,987,051)</u>	<u>\$ (170,832,258)</u>	<u>\$ (20,154,793)</u>

NESHAMINY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

As seen in the changes in net position chart below, the School District's total revenues increased by \$2,903,777, which included a governmental activities increase of \$2,624,868 and a business-type activities increase of \$278,939. The School District's total expenses decreased by \$3,437,884 which consisted of a governmental activities decrease of \$3,541,896 and a business-type activities increase of \$104,012. This resulted in a decrease in total net position of \$5,814,717 which included a decrease in governmental activities of \$5,813,301 and a decrease in business-type activities of \$1,416.

The largest increase in general revenues was in property taxes. Property taxes increased by \$2,483,245 due to the addition of several housing developments in the district.

The largest increase in expenses was in operation and maintenance of plant. This increased by \$2,743,926. The increase may seem substantial but it is due largely in part to an adjustment made in 16/17.

Changes in Net Position

	<u>Government-Wide Activities</u>		<u>Total Change</u>
	<u>2018</u>	<u>2017</u>	<u>2017-2018</u>
Revenues:			
Program revenues:			
Governmental activities:			
Charges for services	\$ 188,709	\$ 384,970	\$ (196,261)
Operating grants and contributions	31,869,809	32,298,268	(428,459)
Business-type activities:			
Charges for services	1,977,450	1,760,621	216,829
Operating grants and contributions	1,584,878	1,531,189	53,689
General revenues:			
Governmental activities:			
Property taxes	126,269,152	123,785,907	2,483,245
Unrestricted grants and contributions	13,370,719	13,160,612	210,107
Gain on sale of capital assets	-	2,785	(2,785)
Receipts from member clients	13,237	-	13,237
Investment earnings	973,640	460,442	513,198
Miscellaneous	762,688	730,132	32,556
Business-type activities:			
Investment earnings	11,245	2,824	8,421
Total governmental activities revenues forward	<u>173,447,954</u>	<u>170,823,116</u>	<u>2,624,838</u>
Total business-type activities revenues forward	<u>3,573,573</u>	<u>3,294,634</u>	<u>278,939</u>
Total forward	<u>177,021,527</u>	<u>174,117,750</u>	<u>2,903,777</u>
Expenses:			
Governmental activities:			
Instruction:			
Regular	78,132,990	78,800,156	(667,166)
Special	32,845,735	36,527,073	(3,681,338)
Vocational	8,998,845	9,162,081	(163,236)
Other	1,259,664	1,023,854	235,810
Professional/education service	13,682	13,533	149
Subtotal forward	<u>\$ 121,250,916</u>	<u>\$ 125,526,697</u>	<u>\$ (4,275,781)</u>

NESHAMINY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

	Government-Wide Activities		Total Change 2017-2016
	2018	2017	
Revenues:			
Total governmental activities revenues forwarded	\$ 173,447,954	\$ 170,823,116	\$ 2,624,838
Total business-type activities revenues forwarded	<u>3,573,573</u>	<u>3,294,634</u>	<u>278,939</u>
Total forwarded	<u>177,021,527</u>	<u>174,117,750</u>	<u>2,903,777</u>
Expenses:			
Governmental activities:			
Subtotal forwarded	121,250,916	125,526,697	(4,275,781)
Support services:			
Pupil	7,043,626	7,490,118	(446,492)
Instructional staff	3,982,446	3,788,912	193,534
Administration	9,089,354	9,338,708	(249,354)
Pupil health	1,813,485	1,856,968	(43,483)
Business	1,689,759	1,712,858	(23,099)
Operation and maintenance of plant	12,425,010	9,681,084	2,743,926
Pupil transportation	9,783,664	10,903,882	(1,120,218)
Central	3,760,806	3,841,955	(81,149)
Other	110,427	114,367	(3,940)
Operation of non-instructional services:			
Student activities	1,953,675	1,965,878	(12,203)
Community services	523,243	871,775	(348,532)
Loss on disposal of capital assets	1,000	-	1,000
Interest on long-term debt	<u>5,833,844</u>	<u>5,709,949</u>	<u>123,895</u>
Total governmental activities expenses	<u>179,261,255</u>	<u>182,803,151</u>	<u>(3,541,896)</u>
Total business-type activities - food service, community aquatics, core swimming	<u>3,574,989</u>	<u>3,470,977</u>	<u>104,012</u>
Total expenses	<u>182,836,244</u>	<u>186,274,128</u>	<u>(3,437,884)</u>
Net revenue (expense)			
Governmental activities	(5,813,301)	(11,980,035)	6,166,734
Business-type activities	(1,416)	(176,343)	174,927
Total of revenues over expenses	<u>(5,814,717)</u>	<u>(12,156,378)</u>	<u>6,341,661</u>
Net position - beginning:			
Governmental activities	(181,266,931)	(155,169,820)	(26,097,111)
Business-type activities	(3,905,403)	(3,506,060)	(399,343)
Total net position - beginning	<u>(185,172,334)</u>	<u>(158,675,880)</u>	<u>(26,496,454)</u>
Net position - ending:			
Governmental activities	(187,080,232)	(167,149,855)	(19,930,377)
Business-type activities	(3,906,819)	(3,682,403)	(224,416)
Total net position - ending	<u>\$ (190,987,051)</u>	<u>\$ (170,832,258)</u>	<u>\$ (20,154,793)</u>

NESHAMINY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental Funds report the differences between their assets, deferred outflows, liabilities and deferred inflows as fund balance, which is reported as five components: Nonspendable, Restricted, Committed, Assigned and Unassigned. Nonspendable Fund Balance cannot be spent either because it is not in a spendable form or because it is legally or contractually required to be maintained intact. Restricted Fund Balance is amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by grantors or creditors. Committed Fund Balance is amounts that can be used only for specific purposes determined by a formal action by the Board of School Directors. This includes the budget reserve account. Assigned Fund Balance is amounts that are intended to be used for a specific purpose, as expressed by the Board of School Directors or by an official or body to which the Board of School Directors delegates the Authority. Unassigned Fund Balance is all amounts not included in other spendable classifications.

Fund balance in the *Balance Sheet - Governmental Funds* is the difference between revenue and expenditures at the end of the year, combined with the fund balance from the beginning of the year. Fund balance in the General Fund is summarized below.

	June 30,		
	<u>2018</u>	<u>2017</u>	<u>Difference</u>
Fund balance:			
Nonspendable	\$ 779,353	\$ 1,691,184	\$ (911,831)
Committed	12,000,000	12,000,000	-
Assigned	7,820,353	7,990,861	(170,508)
Unassigned	<u>14,405,739</u>	<u>14,270,010</u>	<u>135,729</u>
Total fund balance	<u>\$ 35,005,445</u>	<u>\$ 35,952,055</u>	<u>\$ (946,610)</u>

For the year ended June 30, 2018, the fund balance in the General Fund decreased \$946,610 from the prior year's balance. The decrease in fund balance is primarily attributable to budgeted increases in employee salaries and benefits.

The fund balance in the Capital Projects Fund decreased by \$2,461,176. This was due to the use of the bond issue funds received for the new elementary school construction project and the guaranteed energy savings agreement (GESA). This decreased total assets by \$2,480,878. The Capital Projects Fund balance is restricted for use with the capital projects only.

Proprietary Funds

Food Service Fund - This fund accounts for the revenues, food purchases and other costs and expenses of providing meals to students during the school year. This fund is reported as a major fund.

Community Aquatics and CORE - These funds account for all revenues and costs and expenses of the community aquatics and CORE programs.

NESHAMINY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

Fund net position in the *Statement of Net Position - Proprietary Fund* is the difference between assets and liabilities at the end of the year. Total net position is summarized below.

	June 30,		Difference
	2018	2017	
Fund net position:			
Total assets and deferred outflows	\$ 3,075,175	\$ 1,872,129	\$ 1,203,046
Total liabilities and deferred inflows	<u>6,981,994</u>	<u>5,553,532</u>	<u>1,428,462</u>
Net investment in capital assets	115,047	166,505	(51,458)
Unrestricted	<u>(4,021,866)</u>	<u>(3,848,908)</u>	<u>(172,958)</u>
Total net position	<u>\$ (3,906,819)</u>	<u>\$ (3,682,403)</u>	<u>\$ (224,416)</u>

As of June 30, 2018, the Enterprise Funds had (\$3,906,819) in net position. The decrease of \$224,416 was due to an increase in the net pension liability on the food service fund.

The food service revenues in 2017-2018 were 2.1% more than the previous year. The major decreases were lunch, ala carte and other revenues. These decreases were offset by large increases in breakfast sales, donated commodities and special functions.

The expenses in 2017-2018 were 1.4% less than the previous year. Some of the major decreases were in equipment, computer supplies and dues and fees. These decreases were offset by large increases in equipment rentals, salaries and benefits.

Fiduciary Funds

The Fiduciary Funds consist of the Private-Purpose Trust Funds and the Activity Fund. The Trust Fund accounts are the receipts and disbursement of monies contributed to the District for scholarships and memorials. The balance as of June 30, 2018 was \$92,566, which was \$2,570 less than the previous year due to a decrease in cash and cash equivalents. The Activity Funds are used for the Student Activity Fund accounts for student activities in the high school and middle schools.

General Fund Budgetary Highlights

Variances between the original 2017-2018 budget and the final year-end budget were due to transfers done throughout the year and federal, state and local grants. The grant budgets are increased as grants are awarded. These are not expected to have a significant effect on future services or liquidity.

The final revenue budget was \$858,909 over the original budget. This was due to \$858,909 in grants awarded during the fiscal year. The negative variance of actual revenues with the final budget of \$3,217,740 is primarily the result of current real estate taxes, delinquent real estate taxes and real estate penalties.

The increase of \$858,909 in the final expenditure budget over the original budget is due to additional expenditures budgeted to take advantage of additional funding from the state grants awarded during the fiscal year. The positive variance of actual expenditures with the final budget of \$7,985,113 is primarily the result of the following factors: Savings of salaries and benefits \$3,737,010; purchased professional services \$975,527.66; purchased property services \$786,452.95; other purchased services \$534,581.15; general supplies \$1,475,926.98.

Transfers

There was a transfer from the General Fund to the Capital Projects Fund of \$1,988,471 to fund future capital projects.

NESHAMINY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The School District's property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary Fund capital assets are also reported in their fund financial statements.

For the year ended June 30, 2018, the School District had \$171,144,154 in capital assets, less depreciation. The additions and retirements, less depreciation, were a decrease of \$1,013,394 and construction in progress increased \$3,910,721. For the year ended June 30, 2018, food service had \$115,047 in capital assets, less depreciation. More detailed information about capital assets can be found in Note F to the financial statements.

Capital Assets
(Net of Accumulated Depreciation)

	Governmental Activities		Total Change 2017-2018
	2018	2017	
Land and improvements	\$ 4,207,505	\$ 4,207,505	\$ -
Buildings and building improvements	109,389,211	113,741,067	(4,351,856)
Furniture and equipment	10,294,839	10,867,098	(572,259)
Construction in progress	47,252,599	43,341,878	3,910,721
Total capital assets	\$ 171,144,154	\$ 172,157,548	\$ (1,013,394)
	Business-Type Activities		
	2018	2017	Total Change 2016-2017
Furniture and equipment	\$ 115,047	\$ 166,505	\$ (51,458)

Debt Administration

In the government-wide and Proprietary Fund financial statements, outstanding debt is reported as liabilities.

For the year ended June 30, 2018, the School District had \$126,840,000 in general obligation bonds, of which \$3,245,000 is due within one year. Additional information on the School District's bonds payable can be found in Note H to the basic financial statements.

NESHAMINY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

Bonds Payable

	Governmental Activities		Total Change 2017-2018
	2018	2017	
Series of 2012	\$ -	\$ 9,055,000	\$ (9,055,000)
Series of 2013	1,715,000	3,130,000	(1,415,000)
Series A of 2015	28,765,000	28,770,000	(5,000)
Series B of 2015	51,310,000	51,480,000	(170,000)
Series C of 2015	27,640,000	29,145,000	(1,505,000)
Series of 2016	9,075,000	9,120,000	(45,000)
Series of 2018	8,335,000		
Total bonds payable	<u>\$ 126,840,000</u>	<u>\$ 130,700,000</u>	<u>\$ (12,195,000)</u>

MAJOR FINANCIAL ISSUES

Most of the major financial issues addressed by the School District during the past year were a continuation of annual or ongoing events that began in the prior year. Among these events are state funding and the pension program.

State Funding

The Governor's 2017-2018 budget for the Commonwealth of Pennsylvania had a slight decrease for the basic education funding.

The state also had a slight increase to the special education funding.

The state's share of instruction expenditures has dropped from 54.2% in 1971-72 to 37.1% in 2017-2018.

o 1971-72	54.2%	o 1991-92	40.3%
o 1987-88	43.2%	o 2017-18	37.1%

Pension Program

The Pennsylvania School Employees Retirement System (PSERS) board has increased the employer retirement rate from 30.03 percent to 32.57 percent of salaries for 2017-18 and this is approximately a \$2 million increase. This will be a growing financial issue for many years until there is some type of pension reform.

Comprehensive Plan

The School District has developed a Comprehensive Plan, which was formerly known as the Strategic Plan. The Comprehensive Plan was mandated by the State as a requirement of every district to have a system in place to monitor our Academic Standards and Assessment. This is a visionary roadmap for the district and the planning includes the community stakeholders.

NESHAMINY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED JUNE 30, 2018

The Neshaminy community is committed to implementing the following goals:

- Student Achievement - Curriculum and Instruction

ACADEMIC CHOICE - IF we ensure that instruction provides academic choice, THEN Neshaminy students will be more engaged and invested in their own learning.

QUALITY ASSESSMENT - IF we create an assessment and grading system that is consistent and reflective of student achievement and understanding, THEN students will be able to use this formative feedback in order to advance their learning and educators will be able to use the data to adjust instruction to best meet the needs of students.

- Student Centered and Community Focused

COMMUNITY ACTIVITIES - IF we involve students in authentic, community-based activities, THEN they will build a foundation for further action as productive members of society.

IMPROVED COMMUNICATION - IF we improve the variety and quality of our communication vehicles, THEN we will better connect our students, parents and the broader school community and enrich learning opportunities.

SOCIAL/EMOTIONAL SUPPORT - IF we provide social and emotional support systems for our students, THEN they will meet with greater academic success.

- Financial Responsibility and Fiscal Resiliency

PROGRAM EVALUATION - IF we regularly evaluate the effectiveness of individual programs, THEN we can better channel appropriate resources.

ALTERNATIVES - IF we increase or develop alternative methods for the delivery of instruction, THEN we will increase the available resources for all students.

NEW REVENUE - IF we pursue new revenue, THEN we will be able to create and offer new learning opportunities.

Labor Relations

The professional staff of the Neshaminy School District is represented by the Neshaminy Federation of Teachers, an affiliation of the Pennsylvania Federation of Teachers. This group has the responsibility of bargaining for these employees. The School District and Neshaminy Federation of Teachers settled the contract in November 2016, retroactive to July 2016, and this will be in effect through June 2019.

The support staff of the Neshaminy School District is represented by the Neshaminy Educational Support Personnel Association, an affiliation of the Pennsylvania State Educational Support Personnel Association. The contract ended on June 30, 2018, and the School District and Neshaminy Educational Support Personnel Association are negotiating a new contract.

NESHAMINY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

FUTURE PROSPECTS

Mission Statement

The Neshaminy community builds futures by empowering each child to become a productive citizen and a lifelong learner. The Neshaminy Community believes that children are the future, all people can learn, all people have worth and a quality education is a right.

In order to carry out the mission and objectives of the School District, the Board, administration and public are continually exploring new and improved vehicles by which the School District will be the **BEST** in providing for the educational needs of its students. The School District is constantly designing methods to maintain our educational excellence while cutting unnecessary spending on those items or services, which will not ultimately benefit the student. Internal controls and constant monitoring of procedures and policies help to ensure the best educational environment for any student here at Neshaminy. Not only is the School District searching for increases in funding, as are all school districts, but we are searching for innovative alternatives to the funding of a school district. Some avenues which the School District is currently exploring are the use of Parent Teacher Organizations, sponsorship from private corporations and donated services to the school district for a variety of educational needs. We will continue to investigate alternatives as well as tax reform to lessen the burden of increases in real estate taxes in subsequent years on the average homeowner in the School District.

The Neshaminy Board of School Directors, administration and the public are committed to meeting the challenges of the present and future conditions to establish the "best education possible" while maintaining fiscal responsibility to the taxpayers.

NESHAMINY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 7,336,837	\$ 1,700,542	\$ 9,037,379
Investments	30,337,573	-	30,337,573
Taxes receivable, net	3,135,542	-	3,135,542
Internal balances	1,490,133	(1,490,133)	-
Due from other governments	7,776,160	69,849	7,846,009
Other receivables, net	285,177	292,465	577,642
Inventories	158,719	1,206	159,925
Prepaid expenses	620,634	-	620,634
Capital assets			
Land and site improvements	4,207,505	-	4,207,505
Buildings and building improvements	204,054,108	-	204,054,108
Furniture and equipment	44,366,863	1,161,564	45,528,427
Construction in progress	47,252,599	-	47,252,599
Accumulated depreciation	(128,736,921)	(1,046,517)	(129,783,438)
TOTAL ASSETS	222,284,929	688,976	222,973,905
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources, pension activity	45,997,000	828,000	46,825,000
Deferred outflows of resources, OPEB activity	1,375,304	12,000	1,387,304
Deferred amount on refunding	1,885,783	-	1,885,783
TOTAL DEFERRED OUTFLOWS OF RESOURCES	49,258,087	840,000	50,098,087
LIABILITIES			
Accounts payable	2,320,544	55,720	2,376,264
Accrued salaries and benefits	9,037,190	48,843	9,086,033
Accrued interest	986,878	-	986,878
Due to other governments	1,547	-	1,547
Unearned revenue	-	1,232	1,232
Other current liabilities	1,287,056	-	1,287,056
Self-insurance liability	138,287	-	138,287
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	4,176,979	-	4,176,979
Portion due or payable after one year			
Bonds payable	133,096,923	-	133,096,923
Compensated absences	5,059,436	-	5,059,436
Net pension liability	277,988,000	5,008,000	282,996,000
Other postemployment benefits	17,347,907	207,000	17,554,907
TOTAL LIABILITIES	451,440,747	5,320,795	456,761,542
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources, pension activity	5,678,000	102,000	5,780,000
Deferred inflows of resources, OPEB activity	1,504,501	13,000	1,517,501
TOTAL DEFERRED INFLOWS OF RESOURCES	7,182,501	115,000	7,297,501
NET POSITION			
Net investment in capital assets	36,683,676	115,047	36,798,723
Unrestricted	(223,763,908)	(4,021,866)	(227,785,774)
TOTAL NET POSITION	\$ (187,080,232)	\$ (3,906,819)	\$ (190,987,051)

See accompanying notes to the basic financial statements.

NESHAMINY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction				
Regular programs	\$ 78,132,990	\$ -	\$ 16,580,919	\$ -
Special programs	32,845,735	-	8,231,616	-
Vocational education	8,998,845	9,075	-	-
Other instructional programs	1,259,664	114,977	5,459,105	-
Professional/education service	13,682	-	-	-
Support services				
Pupil personnel services	7,043,626	-	-	-
Instructional staff services	3,982,446	-	165,772	-
Administration services	9,089,354	-	-	-
Pupil health services	1,813,485	-	178,091	-
Business services	1,689,759	-	-	-
Operation and maintenance of plant services	12,425,010	-	-	-
Student transportation services	9,783,664	-	1,252,322	-
Central services	3,760,806	-	-	-
Other services	110,427	-	-	-
Operation of non-instructional services				
Student activities	1,953,675	64,657	-	-
Community services	523,243	-	1,984	-
Scholarships and awards	-	-	-	-
Facilities acquisition, construction and improvement services	-	-	-	-
Loss on disposal of capital assets	1,000	-	-	-
Interest on long-term debt	5,833,844	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	179,261,255	188,709	31,869,809	-
BUSINESS-TYPE ACTIVITIES				
Food service	3,421,041	1,785,111	1,569,109	-
Core Swimming	67,546	68,703	7,330	-
Community Aquatics	86,402	123,636	8,439	-
TOTAL BUSINESS-TYPE ACTIVITIES	3,574,989	1,977,450	1,584,878	-
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 182,836,244	\$ 2,166,159	\$ 33,454,687	\$ -

GENERAL REVENUES

Property taxes, levied for general purposes
 Grants and contributions not restricted to specific programs
 Investment earnings
 Receipts from member districts
 Miscellaneous

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR, restated

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Totals
\$ (61,552,071)	\$ -	\$ (61,552,071)
(24,614,119)	-	(24,614,119)
(8,989,770)	-	(8,989,770)
4,314,418	-	4,314,418
(13,682)	-	(13,682)
(7,043,626)	-	(7,043,626)
(3,816,674)	-	(3,816,674)
(9,089,354)	-	(9,089,354)
(1,635,394)	-	(1,635,394)
(1,689,759)	-	(1,689,759)
(12,425,010)	-	(12,425,010)
(8,531,342)	-	(8,531,342)
(3,760,806)	-	(3,760,806)
(110,427)	-	(110,427)
(1,889,018)	-	(1,889,018)
(521,259)	-	(521,259)
-	-	-
-	-	-
(1,000)	-	(1,000)
(5,833,844)	-	(5,833,844)
<u>(147,202,737)</u>	<u>-</u>	<u>(147,202,737)</u>
-	(66,821)	(66,821)
-	8,487	8,487
-	45,673	45,673
<u>-</u>	<u>(12,661)</u>	<u>(12,661)</u>
<u>(147,202,737)</u>	<u>(12,661)</u>	<u>(147,215,398)</u>
126,269,152	-	126,269,152
13,370,719	-	13,370,719
973,640	11,245	984,885
13,237	-	13,237
762,688	-	762,688
<u>141,389,436</u>	<u>11,245</u>	<u>141,400,681</u>
(5,813,301)	(1,416)	(5,814,717)
<u>(181,266,931)</u>	<u>(3,905,403)</u>	<u>(185,172,334)</u>
<u>\$ (187,080,232)</u>	<u>\$ (3,906,819)</u>	<u>\$ (190,987,051)</u>

NESHAMINY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 7,234,809	\$ 102,028	\$ 7,336,837
Investments	29,511,960	825,613	30,337,573
Taxes receivable, net	3,135,542	-	3,135,542
Due from other funds	1,546,199	-	1,546,199
Due from other governments	7,776,160	-	7,776,160
Other receivables, net	278,686	6,491	285,177
Inventories	158,719	-	158,719
Prepaid items	620,634	-	620,634
	<u>50,262,709</u>	<u>934,132</u>	<u>51,196,841</u>
TOTAL ASSETS	\$ 50,262,709	\$ 934,132	\$ 51,196,841
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 2,120,453	\$ 200,134	\$ 2,320,587
Due to other funds	56,066	-	56,066
Due to other governments	1,547	-	1,547
Self-insurance liability	138,287	-	138,287
Accrued salaries and benefits	9,037,190	-	9,037,190
Other current liabilities	1,287,013	-	1,287,013
	<u>12,640,556</u>	<u>200,134</u>	<u>12,840,690</u>
TOTAL LIABILITIES	12,640,556	200,134	12,840,690
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues, property taxes	<u>2,616,708</u>	<u>-</u>	<u>2,616,708</u>
FUND BALANCES			
Nonspendable			
Inventories	158,719	-	158,719
Prepaid items	620,634	-	620,634
Restricted for capital projects	-	733,998	733,998
Committed to PSERS	12,000,000	-	12,000,000
Assigned to			
Capital projects	6,000,000	-	6,000,000
Operating expenditures	750,820	-	750,820
Subsequent year's budget	269,533	-	269,533
Technological infrastructure	800,000	-	800,000
Unassigned	14,405,739	-	14,405,739
	<u>35,005,445</u>	<u>733,998</u>	<u>35,739,443</u>
TOTAL FUND BALANCES	35,005,445	733,998	35,739,443
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 50,262,709	\$ 934,132	\$ 51,196,841

See accompanying notes to the basic financial statements.

NESHAMINY SCHOOL DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2018

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 35,739,443
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land and site improvements	4,207,505
Buildings and building improvements	204,054,108
Furniture and equipment	44,366,863
Construction in progress	47,252,599
Accumulated depreciation	(128,736,921)
<p>Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds.</p>	
	1,885,783
<p>Deferred inflows and outflows of resources related to pension and opeb activities are not financial resources and therefore not reported in the governmental funds.</p>	
	40,189,803
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(986,878)
Bonds/note payable	(126,840,000)
Bond premium, net of issuance costs	(10,433,902)
Compensated absences	(5,059,436)
Net pension liability	(277,988,000)
Other postemployment benefits	(17,347,907)
<p>Some of the School District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>	
	<u>2,616,708</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (187,080,232)</u>

See accompanying notes to the basic financial statements.

NESHAMINY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Local sources	\$ 128,370,627	\$ 14,142	\$ 128,384,769
State sources	42,019,440	-	42,019,440
Federal sources	3,168,490	-	3,168,490
TOTAL REVENUES	<u>173,558,557</u>	<u>14,142</u>	<u>173,572,699</u>
EXPENDITURES			
Current			
Instruction	113,594,089	-	113,594,089
Support services	46,653,292	-	46,653,292
Operation of non-instructional services	2,324,093	-	2,324,093
Capital			
Facilities acquisition, construction and improvement services	641,425	4,463,789	5,105,214
Debt service			
Debt issuance cost	160,209	-	160,209
Principal	3,840,557	-	3,840,557
Interest	5,468,380	-	5,468,380
TOTAL EXPENDITURES	<u>172,682,045</u>	<u>4,463,789</u>	<u>177,145,834</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>876,512</u>	<u>(4,449,647)</u>	<u>(3,573,135)</u>
OTHER FINANCING SOURCES (USES)			
Refunding bonds issued	8,335,000	-	8,335,000
Premium on refunding bonds issued	975,896	-	975,896
Payment to refunded bond escrow agent	(9,145,547)	-	(9,145,547)
Transfers in	-	1,988,471	1,988,471
Transfers out	(1,988,471)	-	(1,988,471)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,823,122)</u>	<u>1,988,471</u>	<u>165,349</u>
NET CHANGE IN FUND BALANCES	(946,610)	(2,461,176)	(3,407,786)
FUND BALANCES AT BEGINNING OF YEAR	<u>35,952,055</u>	<u>3,195,174</u>	<u>39,147,229</u>
FUND BALANCES AT END OF YEAR	<u>\$ 35,005,445</u>	<u>\$ 733,998</u>	<u>\$ 35,739,443</u>

See accompanying notes to the basic financial statements.

NESHAMINY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (3,407,786)
<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 as depreciation expense. This is the amount by which depreciation (\$6,747,586) exceeds capital outlays (\$5,735,192) in the current period.</p>	(1,012,394)
<p>Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Unearned tax revenues increased by this amount this year.</p>	(124,745)
<p>Issuance of bonds and notes is a revenue in the Governmental Funds, but the proceeds increase long-term liabilities in the statement of net position. Repayment of bonds, notes and capital lease principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	3,860,000
<p>Governmental Funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences.</p>	(372,697)
<p>In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) and other postemployment benefits--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).</p>	44,689
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds:</p>	
Accrued interest not reflected in Governmental Funds	(17,350)
Pension plan expense	(7,126,000)
<p>The net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.</p>	2,343,982
<p>The net effect of various transactions involving capital assets (i.e., sales, gains on dispositions) is to decrease net position.</p>	<u>(1,000)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (5,813,301)</u>

See accompanying notes to the basic financial statements.

NESHAMINY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	Enterprise Funds			Totals
	Food Service Fund	Core Swimming	Community Aquatics	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,700,542	\$ -	\$ -	\$ 1,700,542
Due from other funds	-	9,991	46,075	56,066
Due from other governments	69,849	-	-	69,849
Other receivables	292,465	-	-	292,465
Inventories	1,206	-	-	1,206
TOTAL CURRENT ASSETS	2,064,062	9,991	46,075	2,120,128
CAPITAL ASSETS				
Furniture and equipment	1,161,564	-	-	1,161,564
Accumulated depreciation	(1,046,517)	-	-	(1,046,517)
TOTAL CAPITAL ASSETS	115,047	-	-	115,047
TOTAL ASSETS	2,179,109	9,991	46,075	2,235,175
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - pension activity	828,000	-	-	828,000
Deferred outflows of resources - OPEB activity	12,000	-	-	12,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	840,000	-	-	840,000
LIABILITIES				
CURRENT LIABILITIES				
Due to other funds	1,544,998	799	402	1,546,199
Accounts payable	55,015	705	-	55,720
Accrued salaries and benefits	48,843	-	-	48,843
Unearned revenue	1,232	-	-	1,232
TOTAL CURRENT LIABILITIES	1,650,088	1,504	402	1,651,994
LONG-TERM LIABILITIES				
Net pension liability	5,008,000	-	-	5,008,000
Net OPEB liability	207,000	-	-	207,000
TOTAL LONG-TERM LIABILITIES	5,215,000	-	-	5,215,000
TOTAL LIABILITIES	6,865,088	1,504	402	6,866,994
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension activity	102,000	-	-	102,000
Deferred inflows of resources - OPEB activity	13,000	-	-	13,000
TOTAL DEFERRED INFLOWS OF RESOURCES	115,000	-	-	115,000
NET POSITION				
Net investment in capital assets	115,047	-	-	115,047
Unrestricted	(4,076,026)	8,487	45,673	(4,021,866)
TOTAL NET POSITION	\$ (3,960,979)	\$ 8,487	\$ 45,673	\$ (3,906,819)

See accompanying notes to the basic financial statements.

NESHAMINY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Enterprise Funds			Totals
	Food Service Fund	Core Swimming	Community Aquatics	
OPERATING REVENUES				
Food service revenues	\$ 1,785,111	\$ -	\$ -	\$ 1,785,111
Swimming program revenues	-	68,703	123,636	192,339
TOTAL OPERATING REVENUES	<u>1,785,111</u>	<u>68,703</u>	<u>123,636</u>	<u>1,977,450</u>
OPERATING EXPENSES				
Salaries	973,865	40,577	66,736	1,081,178
Employee benefits	514,956	15,046	18,609	548,611
Purchased property service	6,122	-	-	6,122
Other purchased service	487,909	-	-	487,909
Supplies	1,365,818	3,683	1,057	1,370,558
Dues and fees	-	8,240	-	8,240
Depreciation	51,458	-	-	51,458
Other operating expenses	20,913	-	-	20,913
TOTAL OPERATING EXPENSES	<u>3,421,041</u>	<u>67,546</u>	<u>86,402</u>	<u>3,574,989</u>
OPERATING INCOME (LOSS)	<u>(1,635,930)</u>	<u>1,157</u>	<u>37,234</u>	<u>(1,597,539)</u>
NONOPERATING REVENUES				
Earnings on investments	11,245	-	-	11,245
State sources	259,116	7,330	8,439	274,885
Federal sources	1,309,993	-	-	1,309,993
TOTAL NONOPERATING REVENUES	<u>1,580,354</u>	<u>7,330</u>	<u>8,439</u>	<u>1,596,123</u>
CHANGE IN NET POSITION	<u>(55,576)</u>	<u>8,487</u>	<u>45,673</u>	<u>(1,416)</u>
NET POSITION AT BEGINNING OF YEAR, restated	<u>(3,905,403)</u>	<u>-</u>	<u>-</u>	<u>(3,905,403)</u>
NET POSITION AT END OF YEAR	<u>\$ (3,960,979)</u>	<u>\$ 8,487</u>	<u>\$ 45,673</u>	<u>\$ (3,906,819)</u>

See accompanying notes to the basic financial statements.

NESHAMINY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Enterprise Funds			
	Food Service Fund	Core Swimming	Community Aquatics	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 1,718,077	\$ 58,712	\$ 77,561	\$ 1,854,350
Payments to employees	(1,325,978)	(55,623)	(85,345)	(1,466,946)
Payments to suppliers	(1,695,367)	(11,218)	(1,057)	(1,707,642)
NET CASH USED BY OPERATING ACTIVITIES	<u>(1,303,268)</u>	<u>(8,129)</u>	<u>(8,841)</u>	<u>(1,320,238)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Due to other funds	1,248,388	799	402	1,249,589
Federal sources	1,139,941	-	-	1,139,941
State sources	259,116	7,330	8,439	274,885
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,647,445</u>	<u>8,129</u>	<u>8,841</u>	<u>2,664,415</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	11,245	-	-	11,245
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,355,422	-	-	1,355,422
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>345,120</u>	<u>-</u>	<u>-</u>	<u>345,120</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,700,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,700,542</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (1,635,930)	\$ 1,157	\$ 37,234	\$ (1,597,539)
Adjustments to reconcile operating income (loss) to net cash used by operating activities				
Depreciation	51,458	-	-	51,458
Pension expense	129,000	-	-	129,000
OPEB expense	(15,000)	-	-	(15,000)
Donated foods	170,052	-	-	170,052
(Increase) decrease in				
Other receivables	(41,038)	(9,991)	(46,075)	(97,104)
Inventories	26,022	-	-	26,022
Increase (decrease) in				
Accounts payable	(10,679)	705	-	(9,974)
Accrued salaries and benefits	48,843	-	-	48,843
Unearned revenue	(25,996)	-	-	(25,996)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (1,303,268)</u>	<u>\$ (8,129)</u>	<u>\$ (8,841)</u>	<u>\$ (1,320,238)</u>
SUPPLEMENTAL DISCLOSURES				
Noncash activities				
Donated foods	\$ 170,052	\$ -	\$ -	\$ 170,052

See accompanying notes to the basic financial statements.

NESHAMINY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Private- Purpose Trust Funds	Activity Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 7,717	\$ 658,857
Investments	<u> 84,849</u>	<u> -</u>
TOTAL ASSETS	92,566	\$ <u><u>658,857</u></u>
LIABILITIES		
Due to student groups	<u> -</u>	\$ <u><u>658,857</u></u>
NET POSITION		
Assets held in trust for other purposes	\$ <u><u>92,566</u></u>	

See accompanying notes to the basic financial statements.

NESHAMINY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018

	<u>Private- Purpose Trust Funds</u>
ADDITIONS	
Investment earnings	\$ <u>315</u>
DEDUCTIONS	
Fees	25
Scholarships awarded	<u>2,860</u>
TOTAL DEDUCTIONS	<u>2,885</u>
CHANGE IN NET POSITION	(2,570)
NET POSITION AT BEGINNING OF YEAR	<u>95,136</u>
NET POSITION AT END OF YEAR	\$ <u><u>92,566</u></u>

See accompanying notes to the basic financial statements.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Neshaminy School District (the "School District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. This report presents the activities of the Neshaminy School District. The School District is not a component unit of another reporting entity nor does it have any component units.

Basis of Presentation and Accounting

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Fund financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary Funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

The Proprietary Fund Type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

The Proprietary Fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the School District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trust Funds are reported using the economic resources measurement focus.

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

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, certain revenue sources are deemed both measurable and available (i.e., collectible within the current year or within 60 days from year-end and available to pay obligations of the current period). This includes property taxes, interest earnings, real estate transfer taxes and certain fees for services. Revenues for state and federally funded projects are recognized at the time the expenditures are incurred and the amount is received during the period or within 60 days from year-end.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and improvements in accordance with the applicable general obligation bond agreements.

Proprietary Funds

Food Service Fund/Core Swimming Fund/Community Aquatics Fund - These fund are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

Private-Purpose Trust Funds and Activity Fund - The Private-Purpose Trust and Activity Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals. The Activity Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Trust Funds are used for the resources of the various scholarships whose sole purpose is to provide annual scholarships to particular students as prescribed by donor stipulations.

The Agency Funds account for the assets held as an agent for the various student activities.

Cash and Cash Equivalents

The School 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 and no restrictions on withdrawal.

Investments

Statutes authorize the School District to invest in: 1) obligations, participations and other instruments of any Federal agency, 2) repurchase agreements with respect to U.S. Treasury bills or obligations, 3) negotiable certificates of deposit, 4) bankers' acceptances, 5) commercial paper, 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and 7) savings or demand deposits. The specific conditions under which the District may invest in these categories are detailed in Pennsylvania Act No. 53 of 1973, as amended by Pennsylvania Act No. 10 of 2016. Investments are stated at fair value or amortized cost, as applicable.

Pennsylvania Local Government Investment Trust Funds are invested in accordance with Section 440.1 of the School Code. Each school district owns a pro rata share of each investment or deposit which is held in the name of the fund.

Under Act No. 72, enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the various banks are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit. These may be bonds of the United States, any state of the United States, or bonds of any political subdivision of Pennsylvania or the general state authority or their authorities created by the General Assembly of the Commonwealth of Pennsylvania or insured with the Federal Deposit Insurance Corporation. The market value of such bonds pledged must equal 120% of the funds deposited. The security pledged by the various depositories utilized during the year and at June 30, 2018, was in excess of the minimum requirements just described.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District has adopted GASB Statements No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, No. 72, Fair Value Measurement and Application and No. 79 Certain External Investment Pools and Pool Participants. In accordance with these Statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Investments in qualifying external investment pools are reported at amortized cost basis.

Short-Term Interfund Receivables/Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the Governmental Funds balance sheet. Short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the statement of net position, except for amounts due between governmental and business-type activities, which, when present, are shown as internal balances.

Inventories and Prepaid Items

Inventory of food and milk in the Food Service Fund consists of supplies purchased and donated foods received from the federal government. Donated foods are valued at their fair market value in accordance with the *Manual of Accounting for Pennsylvania School Systems-Food Service Fund*. Food and supplies are carried at cost using the first-in, first-out method. Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/items in both the government-wide and fund financial statements. Prepaid expenses are reported under the purchase method.

Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School District defines a capital asset as an asset with an initial, individual cost equal to or greater than \$4,000 or purchased with debt proceeds. The asset must also have an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items and capital assets received in a service concession arrangement are reported at acquisition value.

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

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment of the School District are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and building improvements	10-45
Furniture and equipment	5-20

Long-Term Obligations

In the government-wide financial statements and the Proprietary Fund Type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, generally are reported as debt service expenditures.

In the fund financial statements, Governmental Funds 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. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Self-Insurance

The School District is self-insured for workers' compensation. The School District accounts for its self-insurance program in the General Fund.

The School District has accrued \$138,287 in the General Fund representing incurred but unreported claims for the workers' compensation program.

Compensated Absences

It is the School District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. These benefits are accrued when incurred in the government-wide, Proprietary and Fiduciary Funds financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has three items that qualify for reporting in this category. They are the deferred outflow related to pension activity, the deferred outflow related to OPEB activity and the deferred charge on refunding, all of which are reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition prices. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflow related to pension activity is the result of the difference between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in the School District's proportionate share of the total plan from year to year, the difference between actual employer contributions and the School District's proportionate share of total contributions and actual contributions subsequent to the measurement date. The deferred outflow related to OPEB activities is the result of the difference between projected and actual investment earnings and actual contributions subsequent to the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has three items that qualify for reporting in this category. The first item, unavailable revenues, property taxes is reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes, state grants and federal programs. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item, deferred inflows related to pension activity, are reported in the government-wide statement of net position. The deferred inflow related to pension activity is the result of differences between expected and actual experience and changes in the School Districts proportionate share of the total plan from year to year. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The deferred inflow related to OPEB activities is the result of changes in assumptions, changes in the School Districts proportionate share of the total plan from year to year, the difference between employer contributions and the proportionate share of total contributions and the difference between projected and actual investment earnings.

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

GASB Statement No. 54

The School District previously, through *Policy 702 Fund Balance*, adopted GASB Statement No. 54, which redefined how fund balances of the Governmental Funds are presented in the financial statements. Fund balances are classified as follows:

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- ***Restricted*** - Amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by grantors or creditors.
- ***Committed*** - Amounts that can be used only for specific purposes determined by a formal resolution by the Board of School Directors.
- ***Assigned*** - Amounts that are intended to be used for a specific purpose, as expressed by the Board of School Directors or by the Business Administrator to which the Board of School Directors has delegated the authority.
- ***Unassigned*** - All amounts not included in other spendable classifications.

Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of School Directors. The School District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE B - CASH AND INVESTMENTS

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At June 30, 2018, the carrying amount of the District's deposits was \$9,703,953 and the bank balance was \$10,287,830. Of the bank balance, \$364,237 was covered by federal depository insurance. The remaining cash deposits totaling \$9,923,593 are in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and are uninsured. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit.

Interest Rate Risk - The School District's investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments

As of June 30, 2018, the School District held the following investments:

<u>Investment Type</u>	<u>Percentage of Investments</u>	<u>Amortized Cost</u>	<u>Maturities Less Than One Year</u>
State Investment pools	99.72%	\$ 30,337,573	\$ 30,337,573
Certificates of deposit	0.28%	<u>84,849</u>	<u>84,849</u>
		<u>\$ 30,422,422</u>	<u>\$ 30,422,422</u>

A portion of the School District's investments is in the PSDLAF program, of which are funds similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer's investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PSDLAF cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at June 30, 2018, is \$30,337,573. These assets maintain a stable net asset value of \$1 per share. PSDLAF is not SEC-registered. All investments are monitored weekly by Standard & Poor's and are subject to an independent audit on an annual basis.

Investments held with qualifying external state investment pools are valued at amortized cost in accordance with GASB Statement No. 79.

Certificates of deposit held by banks of \$84,849 are stated at cost plus interest earned.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE B - CASH AND INVESTMENTS (Continued)

Fair Value Measurement

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are those that lack significant observable inputs. The School District did not have any recurring fair value measurements as of June 30, 2018.

Credit Risk - State law permits the School District to invest funds in the following types of investments:

Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

The School District's investment policy does not further limit its investment choices. As of June 30, 2018, the School District's investment in the state investment pool was rated AAAM by Standard & Poor's.

NOTE C - TAXES - REAL ESTATE AND OTHER

The School Board is authorized by state law to levy property taxes for School District operations, capital improvements and debt service. Property taxes are based on assessed valuations of real property within the School District.

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

Discount period July 1 to August 31 - 2% of gross levy
Face period September 1 to October 31
Penalty period October 31 to collection - 10% of gross levy
Lien date January 15

School District taxes are billed and collected by the local elected tax collector. Property taxes attach as an enforceable lien on property as of July 1.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted of taxes, interest, other revenue and intergovernmental grants and entitlements. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of accounts receivable by fund is as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Food Service Fund</u>
Real estate taxes	\$ 2,238,204	\$ -	\$ -
Real estate transfer taxes	172,342	-	-
Section 511 taxes	724,996	-	-
Due from other governments			
Federal sources	1,843,471	-	65,607
State subsidies	5,932,689	-	4,242
Other receivables	<u>278,686</u>	<u>6,491</u>	<u>292,465</u>
	<u>\$ 11,190,388</u>	<u>\$ 6,491</u>	<u>\$ 362,314</u>

NOTE E - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 1,544,998
General Fund	Core Swimming Fund	799
General Fund	Community Aquatics Fund	402
Core Swimming	General Fund	9,991
Community Aquatics	General Fund	<u>46,075</u>
		<u>\$ 1,602,265</u>

The amounts between the Food Service Fund and the General Fund are General Fund monies used to pay the salary and benefits of Food Service Fund employees.

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Projects Fund	General Fund	<u>\$ 1,988,471</u>

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE E - INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS (Continued)

Funds are transferred from the General Fund to pay for equipment purchases and construction services.

NOTE F - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land and site improvements	\$ 4,207,505	\$ -	\$ -	\$ 4,207,505
Construction in progress	43,341,878	4,085,402	(174,681)	47,252,599
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	47,549,383	4,085,402	(174,681)	51,460,104
Capital assets being depreciated				
Buildings and building improvements	203,325,645	728,463	-	204,054,108
Accumulated depreciation	(89,584,578)	(5,080,319)	-	(94,664,897)
TOTAL BUILDINGS AND BUILDING IMPROVEMENTS, net	113,741,067	(4,351,856)	-	109,389,211
Furniture and equipment	43,290,859	1,096,008	(20,004)	44,366,863
Accumulated depreciation	(32,423,761)	(1,667,267)	19,004	(34,072,024)
TOTAL FURNITURE AND EQUIP- MENT, net	10,867,098	(571,259)	(1,000)	10,294,839
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	124,608,165	(4,923,115)	(1,000)	119,684,050
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	172,157,548	(837,713)	(175,681)	171,144,154
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	1,161,564	-	-	1,161,564
Accumulated depreciation	(995,059)	(51,458)	-	(1,046,517)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	166,505	(51,458)	-	115,047
CAPITAL ASSETS, net	\$ 172,324,053	\$ (889,171)	\$ (175,681)	\$ 171,259,201

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE F - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

INSTRUCTION	
Regular programs	\$ 3,021,657
Special programs	1,299,641
Vocational education	353,537
Other instructional programs	49,950
SUPPORT SERVICES	
Pupil personnel services	271,374
Instructional staff services	154,290
Administration services	351,593
Pupil health services	69,891
Business services	65,406
Operation and maintenance of plant services	481,798
Student transportation services	394,440
Central services	147,275
Other services	4,410
NON-INSTRUCTIONAL SERVICES	
Student activities	75,450
Community services	<u>6,874</u>
	<u>\$ 6,747,586</u>

Depreciation expense was charged to proprietary functions as follows:

Food Service Fund	<u>\$ 51,458</u>
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NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE G - LONG-TERM DEBT

General Obligation Bonds

The School District issues general obligation bonds to provide funds for acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year.

Annual debt service requirements to maturity for general obligation bonds and the general obligation note are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 3,245,000	\$ 5,502,426	\$ 8,747,426
2020	4,130,000	5,349,139	9,479,139
2021	4,295,000	5,188,873	9,483,873
2022	4,460,000	5,015,158	9,475,158
2023	4,650,000	4,823,783	9,473,783
2024 to 2028	27,895,000	20,783,324	48,678,324
2029 to 2033	34,750,000	14,275,625	49,025,625
2034 to 2038	<u>43,415,000</u>	<u>5,312,825</u>	<u>48,727,825</u>
	<u>\$ 126,840,000</u>	<u>\$ 66,251,153</u>	<u>\$ 193,091,153</u>

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE H - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2018, was as follows:

	Interest Rate	Original Borrowing	Maturity Date
GOVERNMENTAL ACTIVITIES			
BONDS AND NOTES PAYABLE			
Series of 2012	0.75% to 3.00%	\$ 9,715,000	4/15/2024
Series of 2013	0.29% to 4.00%	6,935,000	4/15/2020
Series A of 2015	0.25% to 3.62%	28,780,000	11/1/2036
Series B of 2015	0.25% to 3.31%	51,770,000	11/1/2037
Series C of 2015	0.18% to 5.00%	32,740,000	11/1/2026
Series of 2016	0.70% to 3.00%	9,245,000	2/15/2028
Series of 2018	4.00% to 5.00%	8,335,000	6/30/2024
TOTAL BONDS AND NOTES PAYABLE			
DEFERRED AMOUNTS			
Unamortized bond premium			
COMPENSATED ABSENCES			
NET PENSION LIABILITY			
OTHER POSTEMPLOYMENT BENEFITS			
TOTAL LONG-TERM LIABILITIES			
BUSINESS-TYPE ACTIVITIES			
NET OPEB LIABILITY			
NET PENSION LIABILITY			
TOTAL LONG-TERM LIABILITIES			

Compensated absences and other postemployment benefits are generally liquidated by the General Fund.

In prior years, the School District has defeased various General Obligation Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2018, the principal amount outstanding related to defeased debt was \$47,355,000.

In January 2018, the District issued General Obligation Bonds, Series of 2018, in the amount of \$8,335,000 for the purpose of refunding the District's General Obligation Bonds, Series of 2012, and to pay the costs of issuing the bonds. The refunding decreased the District's total debt service payments by \$190,931 and resulted in an estimated net present value economic gain of \$122,423.

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ 9,055,000	\$ -	\$ (9,055,000)	\$ -	\$ -
3,130,000	-	(1,415,000)	1,715,000	1,475,000
28,770,000	-	(5,000)	28,765,000	5,000
51,480,000	-	(170,000)	51,310,000	170,000
29,145,000	-	(1,505,000)	27,640,000	1,550,000
9,120,000	-	(45,000)	9,075,000	45,000
<u>-</u>	<u>8,335,000</u>	<u>-</u>	<u>8,335,000</u>	<u>-</u>
130,700,000	8,335,000	(12,195,000)	126,840,000	3,245,000
10,469,368	975,896	(1,011,362)	10,433,902	931,979
5,104,125	416,496	(461,185)	5,059,436	-
284,388,000	-	(6,400,000)	277,988,000	-
<u>20,044,086</u>	<u>-</u>	<u>(2,696,179)</u>	<u>17,347,907</u>	<u>-</u>
<u>\$ 450,705,579</u>	<u>\$ 9,727,392</u>	<u>\$ (16,363,726)</u>	<u>\$ 437,669,245</u>	<u>\$ 4,176,979</u>
\$ 223,000	\$ -	\$ (16,000)	\$ 207,000	\$ -
<u>5,123,000</u>	<u>-</u>	<u>(115,000)</u>	<u>5,008,000</u>	<u>-</u>
<u>\$ 5,346,000</u>	<u>\$ -</u>	<u>\$ (131,000)</u>	<u>\$ 5,215,000</u>	<u>\$ -</u>

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE I - NONCANCELABLE LEASE OBLIGATION

In December 1995, the Bucks County Technical School Authority (the "Authority") issued 20-year School Revenue Bonds in the aggregate amount of \$35,360,000 for a new technical school and renovations on the old technical school. These bonds were refinanced in 2005. The bonds are secured under a trust indenture between the Authority and Wachovia National Bank by a pledge of, and are payable solely from, lease rentals payable by the Authority's member school districts, which includes the School District, under an assignment of the lease. Thus, the School District is obligated for a portion of the above amount. Each member school district's portion of the debt is based on a calculation of the apportionment of the lease rental among the member school districts made to create an equal millage impact upon all member school districts, which is effective for five years. This apportionment is then adjusted every five years thereafter until the lease expires or all payments are made. The School District made rental payments in the amount of \$751,222 for the year ended June 30, 2018, of which \$700,557 represented principal payments.

Shown below are the School District's future lease payments, based on the apportionment that is binding through fiscal year 2019:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fees</u>	<u>Totals</u>
2019	\$ <u>729,575</u>	\$ <u>18,239</u>	\$ <u>5,527</u>	\$ <u>753,341</u>

NOTE J - DEFERRED INFLOWS OF RESOURCES

General Fund

Real estate taxes collected within 60 days of the close of the fiscal year are recorded as current revenues. The noncurrent portion of real estate taxes receivable is recorded as deferred inflows of resources until such time as it becomes available. Program grants received prior to the incurrence of qualifying expenditures are recorded as deferred inflows of resources.

At June 30, 2018, deferred inflows of resources consisted of delinquent taxes receivable of \$2,616,708.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE K - UNEARNED REVENUE

Food Service Fund

Unearned revenue of \$1,232 in the Food Service Fund represents deferred inflows of donated commodity revenue.

NOTE L - PENSION PLAN

Summary of Significant Accounting Policies

Pensions - 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. Investments are reported at fair value.

General Information About the Pension Plan

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

Benefits Provided - PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two 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 three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending on 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.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - PENSION PLAN (Continued)

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

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

Contributions

Members 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 services rendered on or after January 1, 2002.
- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and the Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2017, was 29.20% 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 plan from the School District were \$22,128,000 for the year ended June 30, 2017.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - PENSION PLAN (Continued)

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

At June 30, 2018, the School District reported a liability of \$282,996,000 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 School 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 School District's proportion was 0.5730%, which was a decrease of 0.0112% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$31,812,000. At June 30, 2018, the School 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>
GOVERNMENTAL ACTIVITIES		
Difference between expected and actual experience	\$ 2,900,000	\$ 1,680,000
Changes in assumptions	7,552,000	-
Net difference between projected and actual investment earnings	6,442,000	-
Changes in proportions	4,008,000	3,998,000
Difference between employer contributions and proportionate share of total contributions	973,000	-
Contributions subsequent to the measurement date	<u>24,122,000</u>	<u>-</u>
	<u>\$ 45,997,000</u>	<u>\$ 5,678,000</u>
BUSINESS-TYPE ACTIVITIES		
Difference between expected and actual experience	\$ 52,000	\$ 30,000
Changes in assumptions	136,000	-
Net difference between projected and actual investment earnings	116,000	-
Changes in proportions	72,000	72,000
Difference between employer contributions and proportionate share of total contributions	17,000	-
Contributions subsequent to the measurement date	<u>435,000</u>	<u>-</u>
	<u>\$ 828,000</u>	<u>\$ 102,000</u>

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - PENSION PLAN (Continued)

\$24,557,000 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the new 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:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2019	\$ 6,186,000	\$ 111,000
2020	7,645,000	138,000
2021	4,304,000	78,000
2022	<u>(1,938,000)</u>	<u>(36,000)</u>
	<u>\$ 16,197,000</u>	<u>\$ 291,000</u>

Actuarial Assumptions

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

- Actuarial cost method – entry age normal – level percent 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 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.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - PENSION PLAN (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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)	-20.0%	1.1%
	<u>100.0%</u>	

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

Discount Rate - The discount rate used to measure the total 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 plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - PENSION PLAN (Continued)

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School District's proportionate share of the net pension liability	\$ <u>348,343,000</u>	\$ <u>282,996,000</u>	\$ <u>227,824,000</u>

Pension Plan Fiduciary Net Position - Detailed information about PSERS's fiduciary net position is available in the PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

PSERS Plan

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

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

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

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Premium Assistance Eligibility Criteria

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

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

Pension Plan Description

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

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.

Contributions

The Districts' contractually required contribution rate for the fiscal year ended June 30, 2017 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 \$621,000 for the year ended June 30, 2017.

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 \$11,674,000 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 the System's 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, 2018, the District's proportion was 0.5730%, which was a decrease of 0.0112% from its proportion measured as of June 30, 2017.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the years ended June 30, 2018, the District recognized OPEB expense of (\$162,000). 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>
GOVERNMENTAL ACTIVITIES		
Changes in assumptions	\$ -	\$ 533,000
Net difference between projected and actual investment earnings	12,000	-
Changes in proportions	-	204,000
Difference between employer contributions and proportionate share of total contributions	-	10,000
Contributions subsequent to the measurement date	<u>630,000</u>	<u>-</u>
	<u>\$ 642,000</u>	<u>\$ 747,000</u>
	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>
BUSINESS-TYPE ACTIVITIES		
Changes in assumptions	\$ -	\$ 10,000
Changes in proportions	-	3,000
Contributions subsequent to the measurement date	<u>12,000</u>	<u>-</u>
	<u>\$ 12,000</u>	<u>\$ 13,000</u>

\$642,000 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 and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2019	\$ (124,000)	\$ (2,000)
2020	(124,000)	(2,000)
2021	(124,000)	(2,000)
2022	(124,000)	(2,000)
2023	(124,000)	(2,000)
Thereafter	<u>(115,000)</u>	<u>(3,000)</u>
	<u>\$ (735,000)</u>	<u>\$ (13,000)</u>

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2017, was determined by rolling forward the System's Total 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% - S&P 20 Year Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- 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 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- 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 for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both gender assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short-term assets designed to protect the principal of the plan 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 Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
Fixed income	23.6%	1.5%
	<u>100.0%</u>	

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

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

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

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

	1% Decrease	Current Rate	1% Increase
System net OPEB liability	\$ 11,671,000	\$ 11,674,000	\$ 11,677,000

Sensitivity of the District's Proportionate Share of Net OPEB Liability to Change 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:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the net OPEB liability	\$ 13,271,000	\$ 11,674,000	\$ 10,348,000

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 the System's website at www.psers.pa.gov.

Single Employer Plan

Plan Description

The School District provides medical and dental insurance benefits to eligible retired employees, spouses and dependents through a single-employer defined benefit plan. The benefits, benefits level, employee contribution and employer contribution are administrated by the School Board and can be amended by the School District through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone financial report. The activity of the plan is reported in the School District's General Fund.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Plan Membership

At June 30, 2017, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	68
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>894</u>
	<u><u>962</u></u>

Funding Policy and Funding Status

The plan is an unfunded plan with not assets accumulated in a trust. Contributions to the plan are equal to the benefit benefits. For the year ending June 30, 2018, benefit payments paid as they came due were \$733,304.

Benefits Provided

The plan provides the following benefits:

For teachers who retired prior to June 30, 2013, benefits include medical, prescription drug, dental, vision and life insurance until the member is eligible for Medicare. If the member is already retired has 10 or more years of District Service, the District will pay 86% of the premium of the base plan. The member must pay the remainder of the premium. The District pays 100% of the premium for Life Insurance provided in the amount of \$20,000 on the member's life. If a member does not qualify for District subsidy but is eligible for Act 110/43 benefit, the member can continue coverage by paying the COBRA premium rate for medical, prescription drug, and dental. Coverage for both the members spouse and family are included until the member is eligible for Medicare.

For teachers who retired after July 1, 2013, eligibility falls under Act 110/43. This includes all employees upon retirement with 30 years of PSERS service or upon superannuation retirement. Superannuation retirement individuals fall under to additional criteria. First, for individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age. Second, for individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. Retired employees can continue coverage of themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA. The duration of the coverage lasts until the member is eligible for Medicare.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

For administrators who retired prior to June 30, 2009, benefits include medical, prescription drug, dental, vision, and life insurance until the member is eligible for Medicare. If the member has 10 or more years of District Service, the District will pay 83% of the premium for Prescription Drug, Dental and Vision. The member must pay the remainder of the premium. The District pays 100% of the premium for Life Insurance provided in the amount of \$50,000 on the member's life. If the member does not qualify for District subsidy but is eligible for Act 110/43 benefit, member can continue coverage by paying COBRA premium rate for Medical, Prescription Drug, and Dental. Coverage for the members spouse and family are included.

For administrators who retired after July 1, 2009, eligibility falls under Act 110/43. This includes all employees upon retirement with 30 years of PSERS service or upon superannuation retirement. Superannuation retirement individuals fall under to additional criteria. First, for individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age. Second, for individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. Retired employees can continue coverage of themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA. The duration of the coverage lasts until the member is eligible for Medicare.

For cabinet members who retired prior to June 30, 2009, benefits include medical, prescription drug, dental, vision and life insurance. If the member is already retired and has 10 or more years of District service, the District will pay 83% of the premium of the base plan for medical and 83% of the premium for prescription drug, dental and vision. The Member must pay the remainder of the premium. The District pays 100% of the premium for Life Insurance provided in the amount of \$50,000 on the member's life. If the member does not qualify for the District subsidy but is eligible for Act 110/43 benefit, member can continue coverage by paying COBRA premium rate for medical, prescription drug, and dental.

For cabinet members who retired after July 1, 2009, eligibility falls under Act 110/43. This includes all employees upon retirement with 30 years of PSERS service or upon superannuation retirement. Superannuation retirement individuals fall under to additional criteria. First, for individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age. Second, for individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. Retired employees can continue coverage of themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA. The duration of the coverage lasts until the member is eligible for Medicare.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the superintendent, eligibility falls under Act 110/43. This includes all employees upon retirement with 30 years of PSERS service or upon superannuation retirement. Superannuation retirement individuals fall under to additional criteria. First, for individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age. Second, for individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. Retired employees can continue coverage of themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA. The duration of the coverage lasts until the member is eligible for Medicare.

For confidential secretaries who retired prior to June 30, 2009, coverage includes, medical, prescription drug, dental, vision and life insurance. If the member has 10 or more years of District service, the District will pay 83% of the premium for Medical, prescription drug, dental and vision. The member must pay the remainder of the premium. The District pay 100% of premium for Life Insurance provided in the amount of \$30,000 on the member's life. If member does not qualify for District subsidy but is eligible for Act 110/43 benefit, member can continue coverage by paying COBRA premium rate for Medical, Prescription Drug, and Dental. Coverage of individuals include the members spouse and family.

For confidential secretaries who retired after July 1, 2009, eligibility falls under Act 110/43. This includes all employees upon retirement with 30 years of PSERS service or upon superannuation retirement. Superannuation retirement individuals fall under to additional criteria. First, for individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age. Second, for individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. Retired employees can continue coverage of themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA. The duration of the coverage lasts until the member is eligible for Medicare.

For support staff who retired prior to June 30, 2011 and have 10 years of service with the District, coverage includes medical, prescription drug, dental and vision. The District will pay 86% of single coverage premium for prescription drug. The Member must pay 100% of the premium for medical, dental and vision. In addition, the member must pay an additional premium for the coverage of a spouse or any eligible dependents. Covered individuals include the spouse and the family until the member is eligible for Medicare.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

For support staff who retired prior to June 30, 2011 and are age 62 with 10 years of service with the district have coverage for medical, prescription drug, dental and vision. The District will pay 86% of single coverage premium for prescription drugs. For medical, the District will pay 90% of single coverage premium if the member is enrolled in the Keystone or PC Flex medical plans. Otherwise, the District will pay 86% of the single coverage premium for Medical. In addition, the District will pay 90% of the single coverage premiums for Dental and Vision. The member must also pay any additional premium for the coverage of a spouse or any eligible dependents. The coverage includes the members spouse and family until the member is eligible for Medicare.

For support staff who retired prior to June 30, 2011 and either age 62 with 15 years of PSERS service, age 60 with 30 years of PSERS service or 35 year of PSERS service have coverage for medical, prescription drug, dental and vision. The District will pay 86% of the premium for Prescription Drug. For medical, the district will pay 90% if the member is enrolled in the Keystone or PC Flex medical plans. Otherwise, the District will pay 86% of the premium for Medical. In addition, the District will pay 90% of the premium for Dental and Vision. The coverage includes the members spouse and family until the member is eligible for Medicare.

For support staff who retired prior to June 30, 2011, eligibility falls under Act 110/43. This includes all employees upon retirement with 30 years of PSERS service or upon superannuation retirement. Superannuation retirement individuals fall under to additional criteria. First, for individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age. Second, for individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. Retired employees can continue coverage of themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA. The duration of the coverage lasts until the member is eligible for Medicare.

For support staff who retire after July 1, 2011, eligibility falls under Act 110/43. This includes all employees upon retirement with 30 years of PSERS service or upon superannuation retirement. Superannuation retirement individuals fall under to additional criteria. First, for individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, Second, for individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service. Retired employees can continue coverage of themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA. The duration of the coverage lasts until the member is eligible for Medicare.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Life insurance benefits for support staff who retired prior to June 30, 2011 who were full time support who retired after 7/1/2003, are covered \$20,000 for life insurance. The District will pay the entire premium until the age of 72. For support staff who were full time support before 7/1/2003 and after 7/1/1988, are covered \$5,000 for life insurance. The District will pay the entire premium until the age of 72.

For support staff who retire after July 1, 2011, no life insurance benefits are offered for these members.

Assumptions

The following assumptions and actuarial methods and calculation were used:

Interest Rate – 3.13%, based on S&P Municipal Bond 20 Year High Grade Index at July 1, 2017.

Salary – An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed at a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.

Withdrawal – Rates of withdrawal vary by age, gender and years of service, Sample rates for employees with more than 10 years of service are shown below. Rates for new employees start at 22.9% for both men and women and decrease with age and service.

<u>Age</u>	<u>Male Rate</u>	<u>Female Rate</u>	<u>Age</u>	<u>Male Rate</u>	<u>Female Rate</u>
25	2.57%	5.02%	45	1.37%	1.65%
30	2.57%	4.02%	50	1.92%	2.06%
35	1.50%	2.85%	55	3.38%	3.11%
40	1.34%	1.60%	60	5.57%	6.40%

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

Disability – No disability was assumed.

Retirement – Assumed retirement rates are based on PSERS plan experience and vary by age, service and gender.

Percent of Eligible Retirees Electing Coverage in Plan – 30% of employees are assumed to elect coverage.

Percent of Married at Retirement – 55% of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Spouse Age – Wives area assumed to be two years younger than their husbands.

Per Capita Claims Cost - Making use of weighted averages for various plan designs, the per capita cost for medical and prescription drug is based on the expected portion of the group’s overall cost attributed to individuals in the specified age and gender brackets. Dental and vision costs are assumed to not vary with age or gender. The resulting costs are as follows:

Age	Medical and Prescription Drug Combined	
	Males	Females
45-49	\$7,077	\$10,221
50-54	\$9,373	\$11,551
55-56	\$11,416	\$12,087
60-64	\$14,897	\$13,885
65+	\$5,855	\$5,855

Life Insurance – It is assumed that the annual cost to provide life insurance varies by age and gender. The assumed cost is equal to the amount of coverage times the applicable mortality factor contained in the valuation mortality table.

Retiree Contributions - Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.

Health Care Cost Trend Rate – 6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2034 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Actuarial Value of Assets – Equal to the Market Value of Assets

Actuarial Cost Method – Entry Age Normal - Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

Participant Data – Based on census information as of March 2018. Due to the timing of school district turnover, the data is believed to be representative of the population for the 2017-2018 school year.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Changes in Assumptions – In the 2017 actuarial valuation, the discount rate changed from 2.49% to 3.13%. The marriage assumption was lowered from 65% to 55%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2016	\$ <u>7,460,086</u>
Changes for the year	
Service cost	149,876
Interest cost	175,044
Changes for experience	(826,428)
Changes in assumptions	(6,823)
Benefit payments	<u>(1,070,848)</u>
Net changes	<u>(1,579,179)</u>
Balance at June 30, 2017	\$ <u><u>5,880,907</u></u>

Sensitivity of Net OPEB Liabilities in Changes in the Discount Rate

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

	<u>1% Decrease</u>	<u>Current Rates</u>	<u>1% Increase</u>
Total OPEB liability	\$ <u>5,471,590</u>	\$ <u>5,880,907</u>	\$ <u>6,350,439</u>

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

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

	<u>1% Decrease</u>	<u>Current Rates</u>	<u>1% Increase</u>
Total OPEB liability	\$ <u>5,471,590</u>	\$ <u>5,880,907</u>	\$ <u>6,350,439</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the District recognized OPEB expense of \$249,170. 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>
GOVERNMENTAL ACTIVITIES		
Changes in assumptions	\$ -	\$ 6,203
Net difference between projected and actual investments earnings	-	751,298
Contributions subsequent to the measurement date	<u>733,304</u>	<u>-</u>
	\$ <u>733,304</u>	\$ <u>757,501</u>

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2019	\$ (75,750)
2020	(75,750)
2021	(75,750)
2022	(75,750)
2023	(75,750)
Thereafter	<u>(378,751)</u>
	\$ <u>(757,501)</u>

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE N - COMPENSATED ABSENCES

School District employees who are required to work on a 12-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation (for most employee categories) may be taken or accumulated within certain limits and is paid prior to retirement or termination at the employee’s current rate of pay.

The liability to current employees is estimated and will change since unused vacation will be paid at the rate of pay in effect at the time of separation. These accumulated leaves are recorded as an expenditure in the period taken or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, which was \$5,059,436 at June 30, 2018, is recorded in compensated absences in the statement of net position.

NOTE O - RISK MANAGEMENT

Workers’ Compensation Self-Insurance

In fiscal year 1996, the School District established a Workers’ Compensation Program to account for and finance its uninsured risks of loss due to employee claims. This program provides coverage up to a maximum of \$300,000 for each individual worker’s compensation occurrence with specific, lower annual maximums over the life of the claim. The School District purchases commercial insurance for claims in excess of coverage provided by the program.

All School District employees are covered by the program. All salary-paying funds of the School District participate in the program and make payments to the program, which are accounted for in the General Fund, based on estimates of the amounts needed to pay prior and current period claims. The self-insurance liability of \$138,287 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the program’s claims liability for the year ended June 30, 2018, is presented below:

<u>Balance</u> <u>June 30, 2017</u>	<u>Current Year</u> <u>Claims and</u> <u>Changes in</u> <u>Estimates</u>	<u>Claim</u> <u>Payments</u>	<u>Market</u> <u>Adjustment</u>	<u>Balance</u> <u>June 30, 2018</u>
\$ 8,025	\$ 563,977	\$ (429,055)	\$ (4,660)	\$ 138,287

Other Risks

The School 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. It is the policy of the School District to purchase commercial insurance for the risks of loss to which it is exposed, including workers’ compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NESHAMINY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE P - COMMITMENTS

The District is in the process of finalizing an issue with the sitework construction on a new elementary school for \$130,050, which will be completed in November 2018. In the year ended June 30, 2016, the District spent \$24,410,912, in the year ended June 30, 2017, the District spent \$8,393,355, and in the year ended June 30, 2018, the District spend \$503,795 towards the construction of the school.

The District had GESA projects at a middle school and three elementary schools in the summers of 2016 and 2017. The cost of the projects was \$13,995,520, of which \$13,766,238 is recorded in construction in progress. Some items needed to be completed in the 2018-2019 school year, which total \$229,282 still to pay.

NOTE Q - PRIOR PERIOD RESTATEMENT

The School District implemented GASB statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefit (OPEB) plans. GASB No. 75 states that the School District must record their share of the Public School Employee's Retirement System (PSERS) unfunded liability. In addition, the School also must record the total liability of their single employer other postemployment benefit plan.

For the government-wide governmental activities, business-type activities, and the Food Service Fund, the School District has treated their proportionate share of the beginning of year PSERS net OPEB liability of \$12,584,000 and beginning of year single employer OPEB liability of \$7,460,086 as having been recognized in the period incurred. As part of the implementation, the previously recognized obligation for OPEB under GASB 45 in the amount of \$5,704,010 will be reversed. The School District has adjusted beginning net position for the governmental activities from \$(167,149,855) to \$(181,266,931). The School District adjusted beginning net position for the business-type activities and beginning net position for the Food Service Fund from \$(3,682,403) to \$(3,905,403).

REQUIRED SUPPLEMENTARY INFORMATION

NESHAMINY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 132,522,581	\$ 130,879,541	\$ 128,370,627	\$ (2,508,914)
State sources	42,077,442	42,392,518	42,019,440	(373,078)
Federal sources	1,317,365	3,504,238	3,168,490	(335,748)
TOTAL REVENUES	175,917,388	176,776,297	173,558,557	(3,217,740)
EXPENDITURES				
Instruction	116,318,358	116,837,476	113,594,089	3,243,387
Support services	50,392,745	50,663,160	46,653,292	4,009,868
Operation of non-instructional services	1,973,255	2,274,807	2,324,093	(49,286)
Facilities acquisition, construction and improvement services	951,483	951,483	641,425	310,058
Debt service	9,772,408	9,497,409	9,469,146	28,263
Budgetary reserve	400,000	442,823	-	442,823
TOTAL EXPENDITURES	179,808,249	180,667,158	172,682,045	7,985,113
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(3,890,861)	(3,890,861)	876,512	4,767,373
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	-	-	8,335,000	8,335,000
Premium on refunding bonds issued	-	-	975,896	975,896
Payment to refunded bond escrow agent	-	-	(9,145,547)	(9,145,547)
Transfers, net	(1,800,000)	(1,800,000)	(1,988,471)	(188,471)
TOTAL OTHER FINANCING SOURCES (USES)	(1,800,000)	(1,800,000)	(1,823,122)	(23,122)
NET CHANGE IN FUND BALANCE				
	(5,690,861)	(5,690,861)	(946,610)	4,744,251
FUND BALANCE AT BEGINNING OF YEAR				
	-	-	35,952,055	(35,952,055)
FUND BALANCE AT END OF YEAR				
	\$ (5,690,861)	\$ (5,690,861)	\$ 35,005,445	\$ (31,207,804)

See accompanying note to the budgetary comparison schedule.

NESHAMINY SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2018

NOTE A - BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for the Capital Projects Fund. The General Fund is the only fund for which a budget is legally required.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 1, the Business Administrator submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. The School District also prepares budgets for the Capital Projects Fund. No budget is prepared for the Food Service Fund.
2. Public hearings are conducted at the School District offices to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance. The Capital Projects Fund budgets are not legally adopted.
4. Legal budgetary control is maintained by the School Board at the department level. Transfers between departments, whether between funds or within a fund, or revisions that alter total revenues and expenditures of any fund must be approved by the School Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments. There were no budget amendments made in fiscal year 2018.
5. Budgetary data are included in the School District's management information system and are employed as a management control device during the year.
6. Unused appropriations lapse at the end of each fiscal year; however, the School District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount.
7. The budget for the General Fund is adopted substantially on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

All budget amounts presented in the accompanying required supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year).

NESHAMINY SCHOOL DISTRICT
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE PSERS NET PENSION LIABILITY
LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
SCHOOL DISTRICT'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	<u>0.5730%</u>	<u>0.5842%</u>	<u>0.5817%</u>	<u>0.5795%</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	<u>\$ 282,996,000</u>	<u>\$ 289,511,000</u>	<u>\$ 251,965,000</u>	<u>\$ 229,370,000</u>
SCHOOL DISTRICT'S COVERED PAYROLL	<u>\$ 76,294,313</u>	<u>\$ 75,659,071</u>	<u>\$ 74,849,640</u>	<u>\$ 73,943,493</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED PAYROLL	<u>370.93%</u>	<u>382.65%</u>	<u>336.63%</u>	<u>310.20%</u>
THE PLAN'S FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>51.84%</u>	<u>50.14%</u>	<u>45.64%</u>	<u>57.24%</u>

NOTES TO SCHEDULE

The District's covered payroll noted above is as of the measurement date of the net pension liability (June 30, 2017).

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

NESHAMINY SCHOOL DISTRICT
SCHEDULE OF THE SCHOOL DISTRICT'S PSERS PENSION CONTRIBUTIONS
LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CONTRACTUALLY REQUIRED CONTRIBUTION	\$ 24,557,000	\$ 22,128,000	\$ 18,940,000	\$ 15,345,000
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>24,557,000</u>	<u>22,128,000</u>	<u>18,940,000</u>	<u>15,345,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCHOOL DISTRICT'S COVERED PAYROLL	<u>\$ 78,453,017</u>	<u>\$ 76,294,313</u>	<u>\$ 75,659,071</u>	<u>\$ 74,849,640</u>
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	<u>31.30%</u>	<u>29.00%</u>	<u>25.03%</u>	<u>20.50%</u>

NOTE TO SCHEDULE

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

NESHAMINY SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE PSERS NET OTHER POSTEMPLOYMENT BENEFIT PLAN LIABILITY LAST FISCAL YEAR

	<u>2018</u>
SCHOOL DISTRICT'S PROPORTION OF THE NET OPEB LIABILITY (ASSET)	<u>0.5730%</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)	<u>\$ 11,674,000</u>
SCHOOL DISTRICT'S COVERED PAYROLL	<u>\$ 76,294,313</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED PAYROLL	<u>15.30%</u>
THE PLAN'S FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY	<u>5.73%</u>

NOTES TO SCHEDULE

The District's covered payroll noted above is as of the measurement date of the net pension liability (June 30, 2017).

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

NESHAMINY SCHOOL DISTRICT
SCHEDULE OF SCHOOL DISTRICT'S PSERS OTHER POSTEMPLOYMENT
BENEFIT PLAN CONTRIBUTIONS
LAST FISCAL YEAR

	<u>2018</u>
CONTRACTUALLY REQUIRED CONTRIBUTION	\$ 642,000
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>642,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u><u>-</u></u>
SCHOOL DISTRICT'S COVERED PAYROLL	\$ <u><u>78,453,017</u></u>
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	<u><u>0.82%</u></u>

NOTE TO SCHEDULE

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

NESHAMINY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE TOTAL OTHER POSTEMPLOYMENT BENEFIT PLAN LIABILITY AND RELATED RATIOS LAST FISCAL YEAR

TOTAL OPEB LIABILITY	
Service cost	\$ 149,876
Interest	175,044
Differences in experience	(826,428)
Changes of assumptions	(6,823)
Benefit payments	<u>(1,070,848)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	<u>(1,579,179)</u>
TOTAL OPEB LIABILITY, BEGINNING	<u>7,460,086</u>
TOTAL OPEB LIABILITY, ENDING	<u>\$ 5,880,907</u>
COVERED PAYROLL	<u>\$ 71,354,101</u>
TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	<u>8.24%</u>

NOTES TO SCHEDULE

No assets are accumulated in a trust to pay benefits related to this plan.

Changes in assumptions: In the 2017 actuarial valuation, the discount rate changed from 2.49% to 3.13%. The marriage assumption was lowered from 65% to 55%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

SUPPLEMENTARY INFORMATION SECTION

NESHAMINY SCHOOL DISTRICT
SCHEDULE OF GENERAL FUND REVENUES
YEAR ENDED JUNE 30, 2018

GENERAL FUND REVENUES

Local sources

Taxes, current and interim real estate	\$ 118,158,249
Real estate transfer tax	1,798,068
Public utility realty tax	127,296
Public current per capita tax	390,250
Current business privilege tax	1,514,629
Current mercantile tax	1,290,480
Current occupational privilege tax	173,654
Amusement tax	622,802
Delinquent taxes (all levies)	<u>2,315,676</u>
TOTAL TAXES	126,391,104
Earnings from temporary deposits and investments	959,498
Rent from school and other facilities	699,776
Miscellaneous revenue	<u>320,249</u>
TOTAL LOCAL SOURCES	<u>128,370,627</u>

State sources

Basic instructional subsidy	13,370,719
Special education	6,394,699
Transportation	1,252,322
Health service	178,091
Tuition for orphans and court placed children (Sections 1305 and 1306)	165,772
Retirement subsidy	12,484,279
Social Security subsidy	2,816,573
Property tax reduction allocation	3,591,223
Miscellaneous grants	<u>1,765,762</u>
TOTAL STATE SOURCES	<u>42,019,440</u>

Federal sources

Title I	740,780
Other federal programs and grants	<u>2,427,710</u>
TOTAL FEDERAL SOURCES	<u>3,168,490</u>

TOTAL GENERAL FUND REVENUES	<u><u>\$ 173,558,557</u></u>
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NESHAMINY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018

	Activity Fund			Balance June 30, 2018
	Balance July 1, 2017	Additions	Deletions	
ASSETS				
Cash and cash equivalents	\$ <u>606,777</u>	\$ <u>1,435,517</u>	\$ <u>(1,383,437)</u>	\$ <u>658,857</u>
LIABILITIES				
Due to student groups	\$ <u>606,777</u>	\$ <u>1,435,517</u>	\$ <u>(1,383,437)</u>	\$ <u>658,857</u>

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of School Directors
Neshaminy School District
Langhorne, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Neshaminy School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Neshaminy School District's basic financial statements, and have issued our report thereon dated January 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Neshaminy 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 the Neshaminy School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Neshaminy 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of School Directors
Neshaminy School District
Langhorne, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Neshaminy 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.

A handwritten signature in black ink that reads "Maillie LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania
January 8, 2019

***Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance in Accordance with the Uniform Guidance***

To the Board of School Directors
Neshaminy School District
Langhorne, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Neshaminy School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance *Supplement* that could have a direct and material effect on each of the Neshaminy School District's major federal programs for the year ended June 30, 2018. Neshaminy School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Neshaminy 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 the Neshaminy 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 the Neshaminy School District's compliance.

To the Board of School Directors
Neshaminy School District
Langhorne, Pennsylvania

Opinion on Each Major Federal Program

In our opinion, the Neshaminy 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 the Neshaminy 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 the Neshaminy 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 as a basis for designing 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 the Neshaminy 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.

To the Board of School Directors
Neshaminy School District
Langhorne, Pennsylvania

Purpose of this Report

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

Maillie LLP

Oaks, Pennsylvania
January 8, 2019

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

NESHAMINY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>
U.S. DEPARTMENT OF EDUCATION				
Passed through the Pennsylvania Department of Education				
Title I	I	84.010	013-170277	September 22, 2016 to September 30, 2017
Title I	I	84.010	013-180277	August 23, 2017 September 30, 2019
TOTAL TITLE I				
Title III, Language Instruction ESL	I	84.365	010-140277	July 1, 2013 to September 30, 2014
Title III, Language Instruction ESL	I	84.365	010-170277	September 22, 2016 September 30, 2017
Title III, Language Instruction ESL	I	84.365	010-180277	August 23, 2017 September 30, 2017
TOTAL TITLE III				
Title II, Part A	I	84.367	020-140277	July 1, 2013 to September 30, 2014
Title II, Part A	I	84.367	020-170277	September 22, 2016 September 30, 2017
Title II, Part A	I	84.367	020-180277	August 23, 2017 September 30, 2019
TOTAL TITLE II				
Title IV	I	84.424	144-180277	August 23, 2017 September 30, 2018
Passed through the Bucks County Intermediate Unit				
IDEA	I	84.173*	N/A	July 1, 2016 to June 30, 2017
IDEA	I	84.027*	N/A	July 1, 2016 to June 30, 2017
IDEA	I	84.027*	N/A	July 1, 2017 to June 30, 2018
TOTAL SPECIAL EDUCATION CLUSTER				
TOTAL FORWARD				

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2018</u>	<u>Passed Through to Sub-Recipients</u>
\$ 710,030	\$ 223,358	\$ 101,385	\$ 121,973	\$ 121,973	\$ -	\$ -
766,054	<u>549,845</u>	<u>-</u>	<u>618,807</u>	<u>618,807</u>	<u>68,962</u>	<u>-</u>
	<u>773,203</u>	<u>101,385</u>	<u>740,780</u>	<u>740,780</u>	<u>68,962</u>	<u>-</u>
16,422	-	(1,789)	-	-	(1,789)	-
21,121	11,373	(7,459)	18,832	18,832	-	-
21,690	<u>6,197</u>	<u>-</u>	<u>7,183</u>	<u>7,183</u>	<u>986</u>	<u>-</u>
	<u>17,570</u>	<u>(9,248)</u>	<u>26,015</u>	<u>26,015</u>	<u>(803)</u>	<u>-</u>
249,989	(78,476)	(78,476)	-	-	-	-
245,933	151,279	(3,941)	155,220	155,220	-	-
223,226	<u>96,058</u>	<u>-</u>	<u>100,626</u>	<u>100,626</u>	<u>4,568</u>	<u>-</u>
	<u>168,861</u>	<u>(82,417)</u>	<u>255,846</u>	<u>255,846</u>	<u>4,568</u>	<u>-</u>
21,068	7,524	-	4,594	4,594	(2,930)	-
8,820	-	-	8,820	8,820	8,820	-
1,796,265	1,407,826	1,407,826	-	-	-	-
1,828,097	<u>40,063</u>	<u>-</u>	<u>1,828,097</u>	<u>1,828,097</u>	<u>1,788,034</u>	<u>-</u>
	<u>1,447,889</u>	<u>1,407,826</u>	<u>1,836,917</u>	<u>1,836,917</u>	<u>1,796,854</u>	<u>-</u>
	<u>\$ 2,415,047</u>	<u>\$ 1,417,546</u>	<u>\$ 2,864,152</u>	<u>\$ 2,864,152</u>	<u>\$ 1,866,651</u>	<u>\$ -</u>

NESHAMINY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through the Pennsylvania Department of Education				
E.L.E.C.T. Grant	I	93.558	4100060965	July 1, 2016 to June 30, 2017
E.L.E.C.T. Grant	I	93.558	4100060965	July 1, 2017 to June 30, 2018
TOTAL E.L.E.C.T. GRANT				
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Pennsylvania Department of Agriculture				
National School Lunch Program	I	10.555	N/A	July 1, 2017 to June 30, 2018
Passed through the Pennsylvania Department of Education				
Child Nutrition Cluster				
National School Lunch Program	I	10.555	N/A	July 1, 2016 to June 30, 2017
National School Lunch Program	I	10.555	N/A	July 1, 2017 to June 30, 2018
School Breakfast Program	I	10.553	N/A	July 1, 2016 to June 30, 2017
School Breakfast Program	I	10.553	N/A	July 1, 2017 to June 30, 2018
TOTAL CHILD NUTRITION CLUSTER				

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2018</u>	<u>Passed Through to Sub-Recipients</u>
305,537	208,159	208,159	-	-	-	-
307,000	<u>98,400</u>	<u>-</u>	<u>299,821</u>	<u>299,821</u>	<u>201,421</u>	<u>-</u>
	<u>306,559</u>	<u>208,159</u>	<u>299,821</u>	<u>299,821</u>	<u>201,421</u>	<u>-</u>
	144,056 (a)	(27,228) (b)	170,052 (c)	170,052 (c)	(1,232)	-
N/A	167,146	167,146	-	-	-	-
N/A	888,190	-	940,084	940,084	51,894	-
N/A	43,539	43,539	-	-	-	-
N/A	<u>186,141</u>	<u>-</u>	<u>199,857</u>	<u>199,857</u>	<u>13,716</u>	<u>-</u>
	<u>\$ 1,429,072</u>	<u>\$ 183,457</u>	<u>\$ 1,309,993</u>	<u>\$ 1,309,993</u>	<u>\$ 64,378</u>	<u>\$ -</u>

NESHAMINY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date
U.S. DEPARTMENT OF EDUCATION				
TOTAL FORWARDED				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
TOTAL FORWARDED				
U.S. DEPARTMENT OF AGRICULTURE				
SUBTOTAL FORWARDED				
National School Lunch Program	S	N/A	N/A	July 1, 2016 to June 30, 2017
National School Lunch Program	S	N/A	N/A	July 1, 2017 to June 30, 2018
School Breakfast Program	S	N/A	N/A	July 1, 2016 to June 30, 2017
School Breakfast Program	S	N/A	N/A	July 1, 2017 to June 30, 2018
TOTAL U.S. DEPARTMENT OF AGRICULTURE				
TOTAL FEDERAL AND CERTAIN STATE AWARDS				
LESS STATE SHARE				
TOTAL FEDERAL AWARDS				

Footnotes:

- (a) Total amount of foods received from the Department of Agriculture.
- (b) Beginning inventory at July 1, 2017.
- (c) Total amount of foods used.
- (d) Ending inventory at June 30, 2018.

Source Codes:

- I = Indirect funding
- S = State share
- * = Major program

See accompanying notes to the federal and certain state awards.

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2018</u>	<u>Passed Through to Sub-Recipients</u>
	\$ 2,415,047	\$ 1,417,546	\$ 2,864,152	\$ 2,864,152	\$ 1,866,651	\$ -
	<u>306,559</u>	<u>208,159</u>	<u>299,821</u>	<u>299,821</u>	<u>201,421</u>	<u>-</u>
	1,429,072	183,457	1,309,993	1,309,993	64,378	-
N/A	10,043	10,043	-	-	-	-
N/A	58,397	-	60,751	60,751	2,354	-
N/A	4,003	4,003	-	-	-	-
N/A	<u>11,847</u>	<u>-</u>	<u>13,728</u>	<u>13,728</u>	<u>1,881</u>	<u>-</u>
	<u>1,513,362</u>	<u>197,503</u>	<u>1,384,472</u>	<u>1,384,472</u>	<u>68,613</u>	<u>-</u>
	4,234,968	1,823,208	4,548,445	4,548,445	2,136,685	-
	<u>(84,290)</u>	<u>(14,046)</u>	<u>(74,479)</u>	<u>(74,479)</u>	<u>(4,235)</u>	<u>-</u>
	<u>\$ 4,150,678</u>	<u>\$ 1,809,162</u>	<u>\$ 4,473,966</u>	<u>\$ 4,473,966</u>	<u>\$ 2,132,450</u>	<u>\$ -</u>

NESHAMINY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2018

NOTE A - GENERAL

The accompanying schedule of expenditures of federal and certain state awards presents the activity of all federal financial assistance programs of the Neshaminy School District. The School District reporting entity is defined in Note A to the School District's basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

NOTE B - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal and certain state awards is presented using the modified accrual basis of accounting, which is described in Note A to the School District's basic financial statements.

NOTE C - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal revenue recognized in the General Fund and the Enterprise Fund is reconciled to the schedule of expenditures of federal and certain state awards as follows:

FEDERAL REVENUE RECOGNIZED IN	
BASIC FINANCIAL STATEMENTS	
General Fund	\$ 3,163,973
Enterprise Fund	<u>1,309,993</u>
	4,473,966
STATE MATCHING FUNDS	
National School Lunch Program	<u>74,479</u>
	<u><u>\$ 4,548,445</u></u>

NOTE D - INDIRECT COST RATES

The School District has not elected to use the 10% de minimis direct cost rate as allowed in the Uniform Guidance, Section 414.

NESHAMINY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the Neshaminy School District.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Neshaminy School District were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards in Accordance With the Uniform Guidance.
5. The auditors' report on compliance for the major award programs for the Neshaminy School District expresses an unmodified opinion.
6. There are no audit findings that are required to be reported in accordance with 2 CFR 200.516(a) of the Circular.
7. The programs tested as major programs include:

Program	CFDA
Special Education Cluster	84.027, 84.173

The threshold used for distinguishing Types A and B programs was \$750,000.

8. Neshaminy School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.