

WARWICK SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2017

WARWICK SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2017

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Independent Auditors' Report

Board of School Directors
Warwick School District
Lititz, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the nonmajor proprietary fund and the aggregate remaining fund information of Warwick School District (the District or School District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the nonmajor proprietary fund and the aggregate remaining fund information of Warwick School District as of June 30, 2017, and, where applicable, the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 29, 2017 on our consideration of Warwick School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Warwick School District's internal control over financial reporting and compliance.

Brown Schultz Steindler & Fritz

Lancaster, Pennsylvania
November 29, 2017

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017
(Unaudited)

The discussion and analysis of the Warwick School District's (School District or District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2017 are as follows:

- The District adopted new standards for recognizing pension expense in the year ended June 30, 2015. As a result, the District is required to record its share of the Pennsylvania State Employee Retirement System (PERS) unfunded net pension liability. The District's portion of this liability totals \$108,926,000 and has been reported on its government-wide financial statements. The recognition of this liability causes the District's total liabilities and deferred inflows to exceed its total assets and deferred outflows as of June 30, 2017, generating a net deficit of \$(54,955,573). In total, net position increased \$2,030,128.
- General revenues accounted for \$57,377,664 in revenue or 79.9% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$14,398,076 or 20.1% of all revenues of \$71,775,740.
- The School District had \$69,745,612 in expenses; only \$14,398,076 of these expenses were offset by program specific charges for services, grants or contributions.
- Among major funds, the General Fund had \$69,657,591 in revenues and \$57,756,904 in expenditures. In addition, the District transferred \$9,049,798 from the General Fund to the Debt Service Fund.
- As of June 30, 2017, the District's fund balance for the General Fund was \$16,290,694. This is an increase of \$2,842,864 from the beginning of the year General Fund fund balance of \$13,447,830.
- The District issued the Series of 2016 and the Series of 2017 General Obligations Bonds to refund the Series of 2009 General Obligation Bonds during the year ended June 30, 2017.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

Using this Generally Accepted Accounting Principles (GAAP) Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Warwick School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position (deficit) and statement of activities provide information about the activities of the whole School District, presenting an aggregate view of the School District's assets, deferred outflows and inflows and liabilities, regardless of whether they are relevant to the flows and balances of current financial resources. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Warwick School District, the General Fund is by far the most significant fund.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2016-2017 school year?" The statement of net position (deficit) and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position (deficit) and changes in net position. The change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Nonfinancial factors include the School District's property tax base, facility condition, required state mancatonal programs and other factors.

In the statement of net position (deficit) and the statement of activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Debt Service Fund. Nonmajor funds include the Capital Projects Fund, the Special Revenue Funds (Shirley Bell Scholarship Fund, Michael Clouser Scholarship Fund, Christopher Mitchell Scholarship Fund and John R. Bonfield Scholarship Fund) and the Permanent Funds (Eric Zimmerman Memorial Fund and the Berlin Airlift Memorial Scholarship Fund).

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end which are available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position (deficit) and the statement of activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds

These are the funds that account for the operations of the School District that are financed and operated in a manner similar to those found in the private sector; or where the reporting is on determining net position, changes in net position and where a significant portion of funding is through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in the proprietary funds.

The School District as a Whole

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

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

Table 1 provides a summary of the School District's net position at June 30, 2017 and 2016:

	Governmental activities	Table 1 2017 Business- type activities	Total
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Current assets	\$ 24,324,143	\$ 1,611,439	\$ 25,935,582
Capital assets	<u>93,412,612</u>	<u>355,762</u>	<u>93,768,374</u>
Total assets	117,736,755	1,967,201	119,703,956
Deferred outflows of resources	<u>21,049,712</u>		<u>21,049,712</u>
Total assets and deferred outflows	<u><u>\$ 138,786,467</u></u>	<u><u>\$ 1,967,201</u></u>	<u><u>\$ 140,753,668</u></u>
Liabilities:			
Current liabilities	\$ 15,738,516	\$ 488,139	\$ 16,226,655
Long-term liabilities	<u>178,575,586</u>		<u>178,575,586</u>
Total liabilities	<u>194,314,102</u>	<u>488,139</u>	<u>194,802,241</u>
Deferred inflows of resources	<u>907,000</u>		<u>907,000</u>
Net position (deficit):			
Net investment in capital assets	21,346,299	129,799	21,476,098
Restricted for permanent endowments	26,253		26,253
Unrestricted	<u>(77,807,187)</u>	<u>1,349,263</u>	<u>(76,457,924)</u>
Total net position (deficit)	<u>(56,434,635)</u>	<u>1,479,062</u>	<u>(54,955,573)</u>
Total liabilities deferred inflows and net position (deficit)	<u><u>\$ 138,786,467</u></u>	<u><u>\$ 1,967,201</u></u>	<u><u>\$ 140,753,668</u></u>

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

	Governmental activities	Table 1 2016 Business- type activities	Total
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Current assets and other assets	\$ 21,540,081	\$ 1,346,723	\$ 22,886,804
Capital assets	<u>96,472,054</u>	<u>446,823</u>	<u>96,918,877</u>
Total assets	118,012,135	1,793,546	119,805,681
Deferred outflows of resources	<u>9,095,465</u>		<u>9,095,465</u>
Total assets and deferred outflows	<u>\$ 127,107,600</u>	<u>\$ 1,793,546</u>	<u>\$ 128,901,146</u>
Liabilities:			
Current liabilities	\$ 16,274,218	\$ 397,615	\$ 16,671,833
Long-term liabilities	<u>168,636,014</u>		<u>168,636,014</u>
Total liabilities	<u>184,910,232</u>	<u>397,615</u>	<u>185,307,847</u>
Deferred inflows of resources	<u>579,000</u>		<u>579,000</u>
Net position (deficit):			
Net investment in capital assets	18,947,992	148,800	19,096,792
Restricted for capital projects	2		2
Restricted for permanent endowments	26,570		26,570
Unrestricted	<u>(77,356,196)</u>	<u>1,247,131</u>	<u>(76,109,065)</u>
Total net position (deficit)	<u>(58,381,632)</u>	<u>1,395,931</u>	<u>(56,985,701)</u>
Total liabilities, deferred inflows and net position (deficit)	<u>\$ 127,107,600</u>	<u>\$ 1,793,546</u>	<u>\$ 128,901,146</u>

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

Table 2 shows the change in net position for the fiscal years ended June 30, 2017 and 2016.

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

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

	Governmental activities	Table 2 2016 Business- type activities	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Program revenues:			
Charges for services	\$ 102,020	\$ 1,242,687	\$ 1,344,707
Operating grants and contributions	10,759,023	868,218	11,627,241
General revenues:			
Property and earned income taxes	44,641,411		44,641,411
Grants and entitlements	10,349,578		10,349,578
Other	172,323	1,789	174,112
	<u>66,024,355</u>	<u>2,112,694</u>	<u>68,137,049</u>
 Total revenues			
 Program expenses:			
Instruction	42,201,554		42,201,554
Support services	17,843,933		17,843,933
Operation of noninstructional services, extracurricular activities	1,664,415		1,664,415
Community services	93,169		93,169
Interest and fiscal charges	2,755,526		2,755,526
Miscellaneous	9,962		9,962
Food services		1,910,110	1,910,110
Intellectual property		15,512	15,512
	<u>64,568,559</u>	<u>1,925,622</u>	<u>66,494,181</u>
 Total expenses			
 Increase in net position	<u>\$ 1,455,796</u>	<u>\$ 187,072</u>	<u>\$ 1,642,868</u>

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

Governmental Activities

The statement of activities shows the cost of program services and the charges for services and operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Table 3

	<u>Total cost of services 2017</u>	<u>Net cost of services 2017</u>
Instruction	\$ 43,476,066	\$ 35,172,836
Support services	18,957,296	16,685,624
Operation of noninstructional services, extracurricular activities and other	1,810,377	1,500,517
Interest and fiscal charges	<u>3,448,816</u>	<u>2,067,642</u>
Total expenses	<u>\$ 67,692,555</u>	<u>\$ 55,426,619</u>

Table 3

	<u>Total cost of services 2016</u>	<u>Net cost of services 2016</u>
Instruction	\$ 42,201,554	\$ 34,575,046
Support services	17,843,933	15,811,578
Operation of noninstructional services, extracurricular activities and other	1,767,546	1,484,930
Interest and fiscal charges	<u>2,755,526</u>	<u>1,835,962</u>
Total expenses	<u>\$ 64,568,559</u>	<u>\$ 53,707,516</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Support services expenses are for services that provide administrative, technical and logistical support to facilitate and enhance instruction.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

Operation of noninstructional services include activities pertaining to keeping the school grounds, buildings and equipment in an effective working condition. Extracurricular activities include expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involve the transactions associated with the payment of interest and other charges related to debt of the School District.

The dependence upon tax revenues is apparent. Over 82% of instructional activities were supported through taxes and other general revenues for the fiscal years 2017 and 2016. Approximately 89% of the District's support services were supported through taxes and other general revenues for each of the 2017 and 2016 fiscal years. Other noninstructional activities are also supported primarily through taxes and other general revenues for fiscal years 2017 and 2016. The community, as a whole, is the primary support for the Warwick School District.

The School District's Funds

In 2016-17, the results of operations for the General Fund showed an excess of revenue over expenditures and other financing uses of \$2,842,864 with an ending fund balance of \$16,290,694. This fund balance included the following commitments approved by the Board of Directors: \$2,255,979 for a projected operating deficit; \$2,943,982 for pension rate stabilization and \$3,516,136 for construction and improvements and \$1,000,000 for capital expenditures.

General Fund Budgeting Highlights

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of accounting consistent with the modified accrual basis of accounting except that a budgetary reserve is provided. The most significant budgeted fund is the General Fund.

The School District uses a modified site-based budgeting process. The budgeting systems are designed to tightly control total site budgets, but provide flexibility for site management.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

Budget to Actual Comparison – Revenues

In 2017, actual General Fund revenues exceeded budgeted revenues by \$1,506,349.

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

Budget to Actual Comparison – Expenditures

The total General Fund expenditures came in under budget by \$2,881,985, and fund transfers were over budget by \$57,734. Notable variances resulted from the following:

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

General Fund Budget Revisions

During the fiscal year, the School Board, in accordance with Department of Education regulations authorizes revisions to original budget amounts to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year. Refer to the statement of revenues, expenditures and changes in fund balances – budget and actual – General Fund showing the District's original and final budgeted amounts compared with actual amounts.

Current Year – Prior Year Comparison – General Fund Revenues

Local revenue increased by \$2,159,238 compared to the prior fiscal year.

State revenues increased by \$1,593,943 primarily due to an increase in the retirement revenue subsidy of \$596,932. Since the retirement rate increased from 25.84% for the 2015-16 school year to 30.03% for the 2016-17 school year, the District received an increase in funding related to those rate increases. Other state revenue sources were comparable to the prior year.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

Federal subsidies were virtually flat to prior year with a slight decrease of \$61,414, which is mainly attributed to a decrease in ACCESS Medical Assistance funding of \$47,058 in comparison with the 2015-16 fiscal year.

Current Year – Prior Year Comparison – General Fund Expenditures

Total 2016-17 General Fund expenditures increased over the prior year by \$1,161,197.

Total wage and salary expenditures remained about flat as compared to the prior fiscal year. Retirement contribution expenditures accounted for increased expenditures of almost \$1.2 million due to a PSERS rate increase from 25.84% to 30.03%. Health insurance costs decreased by about \$500,000.

Proprietary Funds

The District's Food Service Fund had another financially sound year reflecting an increase in net position of \$48,135. This basically break even result occurred despite increased government regulation.

Due to an increase in expense of \$138,683 over the prior fiscal year, the WarwickWARE Fund's change in net position for the 2016-17 school year was \$34,996 compared to \$180,312 for the 2015-16 school year. This fund provides alternative funding to the District through the marketing of its suite of educational software products to other districts.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

Capital Assets

At the end of the fiscal years 2017 and 2016, the School District had \$93,768,374 and \$96,918,877, respectively, invested in land, buildings, furniture and equipment and vehicles.

Table 4 shows the fiscal 2017 and 2016 balances:

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

(See Note 6 for further detail)

	Governmental activities	Business- type activities	Total
Land	\$ 2,672,598		\$ 2,672,598
Building and improvements	86,942,859		86,942,859
Land improvements	3,676,288		3,676,288
Furniture and equipment	3,068,612	\$ 148,800	3,217,412
Vehicles	111,697		111,697
Intangible asset, intellectual property		298,023	298,023
Totals	\$ 96,472,054	\$ 446,823	\$ 96,918,877

The decrease in governmental activities capital assets resulted primarily from no significant building improvements to offset this year's depreciation expense of \$4,328,307, along with the additions and deletions of capital assets.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

Debt Administration

The School District had \$68,390,000 and \$75,285,000 of General Obligation Bonds payable as of June 30, 2017 and 2016, respectively. Bond principal payments paid in 2017 and 2016 were \$6,450,000 and \$4,810,000, respectively. As of June 30, 2017, the current portion due for fiscal year 2018 is \$6,775,000.

See Note 9 for further detail.

Current Financial Issues and Outlook

The School District operates four standing committees (Education, Student Activities, Finance & Legal and Building & Property) comprised of Board members, administration and community volunteers. These committees review and recommend numerous items to the Board for approval including, but not limited to, policy, program, curricula, financial and others. The committee system is one-of-a-kind in the Commonwealth of Pennsylvania with recognition for community involvement.

Externally, the Commonwealth of Pennsylvania was found by the Pennsylvania Supreme Court in March 1997 to be operating an unconstitutional system of school funding, one that was neither adequate nor equitable. Since 1997, the Commonwealth has directed its tax revenue growth toward school districts with little property tax wealth. The legislators and government officials continue to negotiate the plan for improvement of the financing of public schools in the Commonwealth of Pennsylvania.

Historically, state funding has been targeted to communities with higher concentrations of low income residents. Because the District has consistently experienced moderate commercial and residential growth, and the makeup of its community does not compare to other larger urban districts in Pennsylvania, Warwick School District does not anticipate any meaningful increase in future state revenues. The concern is that, to meet the requirements of the court, the Commonwealth may require redistribution of commercial and industrial property tax. With 23% of the School District's wealth coming from business and industry, this could have a significant negative impact on the School District's residential taxpayers.

As the District looks to the future, concerns remain regarding PSERS contributions, Act 1 restrictions on local taxation, postponed county reassessments, additional cuts to state education allocations, additional state and federal unfunded mandates and the current projected fiscal reality of the economy.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2017
(Unaudited)

However, the District's outlook presently includes plans for three alternative funding options. The District revised its business plan for marketing its suite of educational software products to other districts. WarwickWARE emerged from the need for tools that would provide school personnel with better access to and ease of use of data management, warehousing and interpretation. Because it was developed by teachers for teachers and other educational professionals, it has been successfully marketed to seven other Pennsylvania school districts. The revised business plan targets future markets and maps out projected revenues with a corresponding expenditure plan. Revenues from this alternative funding source will be used to generate revenues that underwrite the operation of the project and offset general fund operations. A second funding source enables local businesses and organizations to buy banner advertising at the District's tennis courts and athletics fields in a manner similar to professional sports venues. Participating businesses have the option to sign contracts for multi-year packages. A third alternative funding source included implementing student participation fees to offset the costs of extracurricular activities such as sports, music and the arts.

In conclusion, the Warwick School District has committed itself to financial excellence for many years. In addition, the School District's system of financial planning, budget development through the committee review structure and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Nathan Wertsch, Business Manager, at Warwick School District, 301 West Orange Street, Lititz, PA 17543 or via the web at www.warwicksd.org.

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

	Governmental activities	Business-type activities	Total
Current liabilities:			
Internal balances	\$ (397,836)	\$ 397,836	\$ -
Accounts payable	728,572		728,572
Accrued:			
Salaries and benefits	6,962,509		6,962,509
Payroll withholdings	242,431		242,431
Interest	801,798		801,798
Current portion of:			
Bonds payable	6,775,000		6,775,000
Capital lease payable	352,649		352,649
Compensated absences	258,203		258,203
Unearned revenue	15,190	41,831	57,021
Other current liabilities		48,472	48,472
Total current liabilities	15,738,516	488,139	16,226,655
Noncurrent liabilities:			
Bonds payable	65,690,623		65,690,623
Capital lease payable	209,777		209,777
Net pension liability	108,926,000		108,926,000
Compensated absences	173,849		173,849
Other postemployment benefits	3,575,337		3,575,337
Total noncurrent liabilities	178,575,586		178,575,586
Total liabilities	194,314,102	488,139	194,802,241
Deferred inflows of resources, pension	907,000		907,000
Net position (deficit):			
Net investment in capital assets	21,346,299	129,799	21,476,098
Restricted for permanent endowments	26,253		26,253
Unrestricted	(77,807,187)	1,349,263	(76,457,924)
Total net position (deficit)	(56,434,635)	1,479,062	(54,955,573)
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 138,786,467	\$ 1,967,201	\$ 140,753,668

WARWICK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

Functions/programs	Expenses	Program revenues		Net (expense) revenue and changes in net position		Total
		Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	
Governmental activities:						
Instruction	\$ 43,476,066	\$ 131,421	\$ 8,171,809	\$ (35,172,836)		\$ (35,172,836)
Support services	18,957,296	56,646	2,215,026	(16,685,624)		(16,685,624)
Student activities	1,664,488		309,860	(1,354,628)		(1,354,628)
Community services	110,346			(110,346)		(110,346)
Other	35,543			(35,543)		(35,543)
Debt service	3,448,816		1,381,174	(2,067,642)		(2,067,642)
Total governmental activities	<u>67,692,555</u>	<u>188,067</u>	<u>12,077,869</u>	<u>(55,426,619)</u>		<u>(55,426,619)</u>
Business-type activities, Food Service	1,898,862	997,137	945,867		\$ 44,142	44,142
Intellectual property	<u>154,195</u>	<u>189,136</u>			<u>34,941</u>	<u>34,941</u>
Total business-type activities	<u>2,053,057</u>	<u>1,186,273</u>	<u>945,867</u>		<u>79,083</u>	<u>79,083</u>
Total primary government	<u>\$ 69,745,612</u>	<u>\$ 1,374,340</u>	<u>\$ 13,023,736</u>	<u>(55,426,619)</u>	<u>79,083</u>	<u>(55,347,536)</u>

(continued)

WARWICK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2017

Functions/programs	Expenses	Program revenues		Net (expense) revenue and changes in net position		Total
		Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	
General revenues:						
Taxes:						
Property taxes, etc.				\$ 40,182,574		\$ 40,182,574
Other				6,296,972		6,296,972
Grants, subsidies and contributions not restricted				10,645,029		10,645,029
Investment earnings				252,958	\$ 4,048	257,006
Contributions				4,265		4,265
Loss on disposal of assets				(32,779)		(32,779)
Refund of prior years' receipts				(8,025)		(8,025)
Miscellaneous income				32,622		32,622
Total general revenues				<u>57,373,616</u>	<u>4,048</u>	<u>57,377,664</u>
Change in net position				1,946,997	83,131	2,030,128
Net position (deficit):						
July 1, 2016				<u>(58,381,632)</u>	<u>1,395,931</u>	<u>(56,985,701)</u>
June 30, 2017				<u>\$ (56,434,635)</u>	<u>\$ 1,479,062</u>	<u>\$ (54,955,573)</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2017

ASSETS

	<u>Major fund</u> General	<u>Nonmajor</u> funds	<u>Total</u> governmental funds
Cash and investments	\$ 20,081,529	\$ 47,651	\$ 20,129,180
Interfund receivable	490,814		490,814
Taxes receivable, net	1,772,212		1,772,212
Due from other governments	1,998,618		1,998,618
Other receivables	<u>424,133</u>		<u>424,133</u>
Total assets	<u><u>\$ 24,767,306</u></u>	<u><u>\$ 47,651</u></u>	<u><u>\$ 24,814,957</u></u>

(continued)

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

	<u>Major fund General</u>	Nonmajor funds	<u>Total governmental funds</u>
Liabilities:			
Accounts payable	\$ 728,572		\$ 728,572
Interfund payable	92,978		92,978
Accrued:			
Salaries and benefits	6,962,509		6,962,509
Payroll withholdings	242,431		242,431
Unearned revenue	<u>15,190</u>		<u>15,190</u>
Total liabilities	<u>8,041,680</u>		<u>8,041,680</u>
Deferred inflows of resources, deferred real estate taxes	<u>434,932</u>		<u>434,932</u>

(continued)

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2017

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

	<u>Major fund General</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
Fund balances:			
Nonspendable, permanent fund principal		\$ 26,253	\$ 26,253
Committed for:			
PSERS rate stabilization	\$ 2,943,982		2,943,982
Projected operating deficit	2,255,979		2,255,979
Capital projects funding	4,516,136		4,516,136
Assigned for payment of scholarships		21,398	21,398
Unassigned	<u>6,574,597</u>		<u>6,574,597</u>
Total fund balances	<u>16,290,694</u>	<u>47,651</u>	<u>16,338,345</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 24,767,306</u>	<u>\$ 47,651</u>	<u>\$ 24,814,957</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2017

Total fund balances, governmental funds	\$ 16,338,345
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$166,641,317, and the accumulated depreciation is \$73,228,705.	93,412,612
Certain property taxes receivable will be collected in the subsequent year, but are not available soon enough to pay for the current period's expenditure and, therefore, are deferred in the funds.	434,932
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds, net pension liability.	(108,926,000)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources, pensions	20,087,975
Deferred inflows of resources, pensions	(907,000)
Long-term liabilities, including bonds and leases payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bonds payable	(68,390,000)
Capital leases payable	(562,426)
Unamortized:	
Bond discount	41,977
Bond premium	(4,117,600)
Deferred amounts from refunding of debt	961,737
Accrued interest on the bonds	(801,798)
Compensated absences	(432,052)
Other postemployment benefits	<u>(3,575,337)</u>
Total net position (deficit), governmental activities	<u>\$ (56,434,635)</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2017

	Major funds		Nonmajor funds	Total governmental funds
	General	Debt service		
Revenues:				
Sources:				
Local	\$ 47,929,207		\$ 4,460	\$ 47,933,667
State	21,244,326			21,244,326
Federal	484,058			484,058
	<u>69,657,591</u>		<u>4,460</u>	<u>69,662,051</u>
Total revenues				
Expenditures:				
Instruction	38,503,293			38,503,293
Support services	17,616,057			17,616,057
Student activities	1,402,587		3,427	1,406,014
Community services	110,346			110,346
Facility acquisition and improvements	35,543			35,543
Debt service:				
Principal		\$ 6,450,000		6,450,000
Interest	88,598	2,599,798		2,688,396
Miscellaneous	480			480
	<u>57,756,904</u>	<u>9,049,798</u>	<u>3,427</u>	<u>66,810,129</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>11,900,687</u>	<u>(9,049,798)</u>	<u>1,033</u>	<u>2,851,922</u>
Other financing sources (uses):				
Bond proceeds, refunding bonds		25,929,017		25,929,017
Bond payment to escrow Agent		(25,598,686)		(25,598,686)
Bond issuance costs		(330,331)		(330,331)
Interfund transfer, general fund to debt service fund	(9,049,798)	9,049,798		-
Refund of prior year revenues	(8,025)			(8,025)
	<u>(9,057,823)</u>	<u>9,049,798</u>		<u>(8,025)</u>
Total other financing sources (uses)				
Net change in fund balances	2,842,864	-	1,033	2,843,897
Fund balances:				
July 1, 2016	<u>13,447,830</u>	<u>-</u>	<u>46,618</u>	<u>13,494,448</u>
June 30, 2017	<u>\$ 16,290,694</u>	<u>\$ -</u>	<u>\$ 47,651</u>	<u>\$ 16,338,345</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2017

Total net change in fund balances, governmental funds		\$ 2,843,897
Amounts reported for governmental activities in the statement of activities are different because:		
<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.</p>		
Net capital outlays	\$ 672,260	
Loss on disposal	(32,779)	
Depreciation expense	<u>(4,328,307)</u>	(3,688,826)
<p>Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues for the governmental funds. Unavailable tax revenue increased by this amount this year.</p>		
		18,304
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position (deficit)</p>		
		6,450,000
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal long-term debt consumes the current financial resources in the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items</p>		
		(1,234,017)
<p>Repayment of a capital lease is an expenditure in the governmental funds, but the repayment reduces capital leases payable on the statement of net position (deficit).</p>		
		553,190
<p>In the governmental funds, certain bond related accounts are reported as financing sources and uses. However, in the statement of activities the cost of these items are allocated over the life of the bond as amortization expense.</p>		
Bond discount amortization	(9,808)	
Bond premium amortization	399,167	
Bond insurance	(7,170)	
Deferred amounts from refunding of debt	<u>(146,555)</u>	235,634

(continued)

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2017

Governmental funds report District pension contributions as expenditures.
However, in the statement of activities, the cost of pension benefits earned
is reported as pension expense.

District pension contributions	\$ 8,481,845	
Cost of benefits earned	<u>(11,600,290)</u>	\$ (3,118,445)

In the statement of activities, certain operating expenses (compensated
absences, other postemployment benefits and accrued interest expenses)
are measured by the amounts incurred during the year. In the governmental
funds, however, expenditures for these items are measured by the amount
of financial resources used. This amount represents the differences
between the amount incurred versus the amount used for the following items:

Compensated absences	(7,794)	
Postemployment benefits	(349,182)	
Accrued interest expense	<u>244,236</u>	

Change in net position (deficit) of governmental activities		<u>\$ 1,946,997</u>
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See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

JUNE 30, 2017

	<u>Major fund, Food service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 642,689	\$ 860,291	\$ 1,502,980
Interfund receivable	92,978		92,978
Accounts receivable		22,459	22,459
Inventories	86,000		86,000
	<u>821,667</u>	<u>882,750</u>	<u>1,704,417</u>
Total current assets			
Noncurrent assets:			
Equipment	608,983		608,983
Accumulated depreciation on equipment	(479,184)		(479,184)
Intellectual property		330,760	330,760
Accumulated amortization on intellectual property		(104,797)	(104,797)
	<u>129,799</u>	<u>225,963</u>	<u>355,762</u>
Total noncurrent assets			
Total assets	<u>\$ 951,466</u>	<u>\$ 1,108,713</u>	<u>\$ 2,060,179</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Interfund payable	\$ 76,091	\$ 414,723	\$ 490,814
Unearned revenue	41,831		41,831
Other current liabilities	48,472		48,472
	<u>166,394</u>	<u>414,723</u>	<u>581,117</u>
Total current liabilities			
Net position:			
Net investment in capital assets	129,799		129,799
Unrestricted	655,273	693,990	1,349,263
	<u>785,072</u>	<u>693,990</u>	<u>1,479,062</u>
Total net position			
Total liabilities and net position	<u>\$ 951,466</u>	<u>\$ 1,108,713</u>	<u>\$ 2,060,179</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2017

	<u>Major fund, Food service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
Operating revenues:			
Sales:			
Pupils	\$ 692,182		\$ 692,182
Adults	5,072		5,072
A la carte	256,307		256,307
Banquets and miscellaneous	43,576		43,576
Software		\$ 189,136	189,136
	<hr/>	<hr/>	<hr/>
Total operating revenues	997,137	189,136	1,186,273
	<hr/>	<hr/>	<hr/>
Operating expenses:			
Food	604,470		604,470
Milk	107,770		107,770
Donated commodities	149,058		149,058
Nonfood supplies	16,815		16,815
Payroll	565,496	34,009	599,505
Payroll benefits	186,327	15,094	201,421
Professional services	9,832		9,832
Retirement	167,894		167,894
Maintenance contracts	23,498		23,498
Disposal services	13,000		13,000
Equipment repairs and maintenance	5,482		5,482
Travel	827		827
Conferences	1,151	295	1,446
Depreciation/amortization	19,001	104,797	123,798
Uniforms	1,621		1,621
Utilities	15,950		15,950
Equipment rental	1,300		1,300
Replacement equipment	9,370		9,370
	<hr/>	<hr/>	<hr/>
Total operating expenses	1,898,862	154,195	2,053,057
	<hr/>	<hr/>	<hr/>
Net income (loss) from operations	(901,725)	34,941	(866,784)

(continued)

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2017

	<u>Major fund, Food service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
Nonoperating revenue:			
Reimbursements:			
State	\$ 157,353		\$ 157,353
Federal	639,456		639,456
Value of donated commodities	149,058		149,058
Interest	<u>3,993</u>	<u>\$ 55</u>	<u>4,048</u>
Total nonoperating revenue	<u>949,860</u>	<u>55</u>	<u>949,915</u>
Change in net position	48,135	34,996	83,131
Total net position:			
July 1, 2016	<u>736,937</u>	<u>658,994</u>	<u>1,395,931</u>
June 30, 2017	<u>\$ 785,072</u>	<u>\$ 693,990</u>	<u>\$ 1,479,062</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2017

	Major fund, Food service	Nonmajor fund, WarwickWARE	Total
Cash flows from operating activities:			
Cash received from users	\$ 1,003,994	\$ 183,393	\$ 1,187,387
Cash payments to:			
Employees for services	(926,443)		(926,443)
Suppliers for goods and services	(641,100)		(641,100)
Other operating expenses	(82,031)		(82,031)
	(645,580)	183,393	(462,187)
Net cash provided by (used in) operating activities			
Cash flows from noncapital financing activities:			
Sources:			
State	151,138		151,138
Federal	562,372		562,372
	713,510		713,510
Net cash provided by noncapital financing activities			
Cash flows provided by investing activities, earnings on investments	3,993	55	4,048
Net increase in cash and cash equivalents	71,923	183,448	255,371
Cash and cash equivalents:			
Beginning of year	570,766	676,843	1,247,609
End of year	\$ 642,689	\$ 860,291	\$ 1,502,980

(continued)

WARWICK SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2017

	Major fund, Food service	Nonmajor fund, WarwickWARE	Total
Reconciliation of net income (loss) from operations to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (901,725)	\$ 34,941	\$ (866,784)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Depreciation/amortization	19,001	104,797	123,798
Donated commodities	149,058		149,058
Changes in operating assets and liabilities:			
Inventory	(3,601)		(3,601)
Accounts receivable and due from other funds		(5,744)	(5,744)
Accounts payable and due to other funds	76,091	49,399	125,490
Accrued wages and benefits	(6,726)		(6,726)
Other liabilities and unearned revenue	22,322		22,322
	<u>\$ (645,580)</u>	<u>\$ 183,393</u>	<u>\$ (462,187)</u>
Net cash provided by (used in) operating activities			
Noncash investing and financing activities:			
Capital asset additions offset by amounts due to other funds		<u>\$ 32,737</u>	

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF ASSETS AND LIABILITIES – AGENCY FUNDS

JUNE 30, 2017

	<u>Student activities</u>
ASSETS	
Current assets, cash and investments	<u>\$ 146,528</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 11,646
Due to student groups	<u>134,882</u>
Total liabilities	<u>\$ 146,528</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies:

The Warwick School District (the District or School District) is a public school district composed of Lititz Borough and Warwick and Elizabeth Townships, Lancaster County, Pennsylvania. The District had a 2016-17 enrollment in grades kindergarten through 12 of approximately 4,150 students. The District operates a high school and middle school in Lititz and four elementary schools: Lititz, Kissel Hill, John Beck and John R. Bonfield. The District belongs to Lancaster-Lebanon Intermediate Unit #13, which provides special administrative and educational support.

The District is a School District of the Third Class, organized and existing under the laws of the Commonwealth of Pennsylvania. The governing body of the District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the District is carried out by an administrative staff, headed by the superintendent of schools who is appointed by the board. The board is required to submit an annual budget to the Pennsylvania Department of Education and is prohibited from spending or obligating funds in excess of the maximum amount approved. The board also has the authority to borrow funds and issue bonded indebtedness. Real estate and other taxes are levied by the board and collected by representatives of the District. The District also receives funds from the federal, state and local governments.

The financial statements of Warwick School District have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Reporting entity:

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 61, *The Financial Reporting Entity*. Based upon the application of this criteria, the District has no component units.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Fund accounting:

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows and outflows of resources, fund equity, revenues and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent. There are three fund types presented in this report as follows:

Governmental funds

Major funds:

General fund – The principal operating fund of the School District used to account for all financial resources except those required to be in another fund.

Debt service fund – Used to account for the accumulation of resources for payment of principal and interest on general long-term debt and related costs.

Nonmajor funds:

Capital projects fund – Used to account for all resources for the acquisition or construction of major capital facilities by the District.

Special revenue funds – Used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. This fund type includes the Shirley Bell Scholarship Fund, Michael Clouser Scholarship Fund, John R. Bonfield Scholarship Fund and Christopher Mitchell Scholarship Fund. All of these special revenue funds are to be used for funding student scholarships.

Permanent funds – Used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the District's programs. This fund type includes the Eric Zimmerman Memorial Fund and the Berlin Airlift Memorial Scholarship Fund. The principal amount for each of these funds is \$10,000. The income portion of the Eric Zimmerman Memorial Fund is to be used for drug and alcohol education. The income portion of the Berlin Airlift Memorial Scholarship Fund is to be used for student transportation costs to Germany.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Fund accounting (continued):

Proprietary funds – These are the funds that account for the operations of the School District that are financed and operated in a manner similar to those found in the private sector.

Food Service Fund – used to account for all school cafeteria operations within the District.

WarwickWARE Fund – used to account for intellectual property (software) developed and marketed by the District.

Fiduciary funds – These are the funds that account for assets held by the School District as a trustee or agent for individuals, organizations and other government units and are, therefore, not available to support the District's own programs. The funds are not included in the government-wide financial statements. The funds included in this category are:

Agency funds – These funds are custodial in nature (assets equal liabilities) and do not involve revenues and expenditures. The District maintains agency funds for high school activities and middle school activities.

Basis of presentation:

Government-wide financial statements:

The government-wide financial statements (i.e., the statement of net position (deficit) and the statement of activities) report information on all of the non-fiduciary activities of the government and present information about the District as a whole. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to outside parties for goods and services.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Government-wide financial statements (continued):

The statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for both the business-type activities of the District and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund financial statements:

Fund financial statements report detailed information about the governmental funds, proprietary funds and fiduciary funds of the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Fiduciary funds are reported by fund type. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding element total (assets, liabilities and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds) and
- b. The same element that met the 10% criterion in a. is at least 5% of the corresponding element total for all governmental and enterprise funds combined.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School District's proprietary funds are food service charges and the sale of software. Operating expenses for the School District's proprietary funds include food production costs, supplies, software licenses, administrative costs and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Measurement focus and basis of accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The proprietary fund financial statements and the fiduciary fund financial statements also utilize these methods. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows less total liabilities and deferred inflows) is used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations, and cost and accumulated depreciation are reported on the statement of net position (deficit). The proprietary fund financial statements record the equivalent cost of donated commodities as revenue and as a cost at the time such commodities are utilized.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Measurement focus and basis of accounting (continued):

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific School District expenditures is recognized when the related expenditures are incurred. Unearned revenues arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized. Deferred revenues also arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pensions, other postemployment benefits and claims and judgments, are recorded only when payment is due.

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

Cash and cash equivalents:

For the purposes of the statement of cash flows, the District considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Investments:

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

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Short-term interfund receivables/payables:

During the course of operations, various transactions occur between individual funds. Short-term interfund loans are classified as interfund receivables/payables.

Real estate taxes:

Property taxes are levied and billed as of July 1 on property values assessed as of the same date. The billings are considered due upon receipt by the taxpayer, with a 2% discount allowed for payments made in July and August. After October 31, a 10% penalty tax is added to the original levy for any unpaid balances. On the first Monday of the following January, remaining outstanding taxes are liened and turned over to the Lancaster County Tax Collection Bureau for collection. The Bureau has the authority to charge additional fines and assessments and to pursue appropriate legal remedies.

Inventory:

The food service fund inventory consists of purchased food and paper materials priced at cost calculated on the first-in, first-out (FIFO) basis and donated food priced at its equivalent cost value.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Deferred outflows and inflows of resources:

The statement of net position (deficit) reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources are a separate financial statement element and represent consumption of net position or fund balance that applies to future periods, and thus, will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources are a separate financial statement element and represent the acquisition of net position or fund balance that applies to future periods and will not be recognized as an inflow of resources (revenue) until a future period. The School District has two items that qualify for reporting as a deferred outflow of resources and a deferred inflow of resources. One item relates to the net pension liability, and these deferrals are only reported in the government-wide statement of net position (deficit). Deferred outflows and deferred inflows of resources result from changes in the School's proportion of the total pension liability and the pension plan's fiduciary net position; for contributions made to the plan between the measurement date of the net pension liability and the end of the School's fiscal year; for differences between projected and actual experience; and for actual pension plan investment earnings in excess of or less than the expected amount included in determining pension expense. The deferred outflows related to the contribution are included in pension expense in the next year, whereas other deferrals are attributed to pension expense over a total of five years, including the current year. The second item, deferred charge on refunding, results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In the fund financial statements, governmental fund types recognize the deferred charge on refunding as an expense during the current year. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the new debt or the refunded debt. In the fund financial statements, governmental fund types recognize deferred charge on refunding as an expense during the current period.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Capital assets and depreciation:

The accounting treatment over property, plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide financial statements:

The government-wide financial statements account for fixed assets as capital assets. Capital assets include property, plant, equipment and infrastructure assets and are defined by the School District as assets with an initial individual cost of more than \$4,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable. Donated assets are recorded at acquisition value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002.

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

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

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Building improvements	20 - 30 years
Land improvements	15 - 20 years
Equipment, furniture and fixtures	5 - 15 years
Vehicles	5 - 15 years
Intellectual property	3 years

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over lives ranging from five to 15 years.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Capital assets and depreciation (continued):

Fund financial statements:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

Long-term obligations:

In the government-wide financial statements, all long-term debt and other long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the applicable statement of net position (deficit). Bond premiums and discounts, as well as advanced refunding losses, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, long-term debt for governmental funds is not reported as a liability. The debt proceeds are reported as other financing sources, and payments of principal and interest are reported as expenditures or financing uses. Bond premiums, discounts and issuance costs are recognized as other financing sources and uses during the current period for the fund financial statements.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Pension plan:

Substantially all full-time and part-time employees of the District participate in a cost-sharing multiple-employer defined benefit pension plan through Public School Employee's Retirement System (PSERS or the System). On the governmental fund financial statements, the District recognizes annual pension expenditures or expenses equal to its contractually required contributions. For the fiscal year ended June 30, 2017, the rate of employer contribution was 30.03%. The 30.03% rate is composed of a contribution rate of 29.20% for pension benefits and 0.83% for healthcare insurance premium assistance. The District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. Such payments are recorded in the general fund and proprietary funds as state source revenues. In the government-wide financial statements payments are allocated based on function. The District made all required contributions for the year ended June 30, 2017 and has recognized them as expenditures or expenses.

Other post-employment benefits:

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

Compensated absences:

Employees are allowed to accrue ten days sick leave each year, without limit. The District's sick leave policy is such that sick days do not vest, and accordingly, employees can be paid sick leave only when sick. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses, and outside the control of the District and the employee, a liability for unused sick leave is not recorded in the financial statements.

Teachers do not receive paid vacations, but are paid only for the number of days they are required to work.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Compensated absences (continued):

Non-instructional employees are granted vacation leave in varying amounts. Vacation leave is earned ratably and required to be used in the following fiscal year. The District's policy is to pay unused vacation leave upon termination or retirement.

Additionally, all employees are permitted two personal days per fiscal year. A maximum of three personal days may be carried over to subsequent years. The compensated absences calculation includes the dollar amount assigned to days carried over.

Equity classifications:

Government-wide financial statements:

Equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets, including cash and investments restricted for capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of these assets.

Restricted - consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Constraints are placed on the use of the assets either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.

Unrestricted – the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Equity classifications (continued):

Fund financial statements:

The District follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a district's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that must be maintained intact legally or contractually (corpus or principal of a permanent fund).

Restricted fund balance – amounts limited by external parties or legislation (e.g., debt covenants and grants). The District had no amounts restricted for debt service as of June 30, 2017.

Committed fund balance – amounts limited by Board policy or Board action (e.g., future anticipated costs). Action must be taken by the Board to commit fund balance for the designated purpose prior to the end of the fiscal year. Fund balance commitments for the general fund as of June 30, 2017 included \$2,255,979 for a projected operating deficit, \$2,943,982 for pension rate stabilization and \$4,516,136 for capital projects.

Assigned fund balance – amounts that are intended for a particular purpose. Generally, balances in special revenue funds or capital project funds will be designated as assigned. The District's policy also permits the Superintendent and the Business Manager to assign amounts as they deem appropriate.

Unassigned fund balance – amounts available for consumption or not restricted in any manner.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Use of fund balance:

The District's policy states that the restricted fund balance is to be reduced to the extent that the underlying reason for the restriction has been eliminated.

If the District experiences an excess of expenditures over revenues for a given fiscal year, the fund balance is to be consumed in the following order:

- Restricted fund balance to the extent that expenditures related to the restriction contributed to the excess of expenditures over revenues.
- Committed fund balance to the extent that expenditures related to the commitment contributed to the excess of expenditures over revenues. If a plan for periodic use of committed fund balance is reviewed and approved by the Board, the committed fund balance will not be reduced by more than the amount designated in the plan.
- Assigned fund balance to the extent that expenditures related to the assignment contributed to the excess of expenditures and revenues.
- Unassigned fund balance for any remaining excess of expenditures over revenues.

Minimum fund balance:

The District's goal is to strive to maintain an unassigned general fund balance of not less than 3% and not more than 8% of the budgeted expenditures for the fiscal year. If the unassigned portion of the fund balance falls below the threshold of 3% of budgeted expenditures, the Board will pursue options for increasing revenues and decreasing expenditures, or a combination of both until 3% is attained. If the unassigned portion of the fund balance exceeds 8% of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for expenditures. The goal shall be to use any excess fund balance for nonrecurring expenditures and not for normal operating costs.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Summary of significant accounting policies (continued):

Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and deferrals and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. A significant assumption in these financial statements is the PSERS pension liability. Actual results could differ from those estimates.

2. Deposits and investments:

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest its monies in the following:

1. Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
2. Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

Custodial credit risk, deposits and investments:

Custodial credit risk is the risk that in the event of a counterparty failure, the School District's deposits may not be returned to it. As of June 30, 2017, the District does not have a policy for custodial credit risk. The School District's book balance was \$21,778,688 and the bank balance of \$22,232,854, consisted of \$500,000 insured by FDIC and \$21,616,637 collateralized and held by the pledging bank's trust department in accordance with Act 72. The remaining balance consisted of \$116,217 on deposit with the Pennsylvania School District Liquid Asset Fund (PSDLAF).

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

2. Deposits and investments (continued):

Custodial credit risk, deposits and investments (continued):

PSDLAF is not registered with the Securities and Exchange Commission; however, it follows investment procedures similar to the investment procedures followed by SEC registered money market funds. Securities purchased under agreements to resell and entered into with broker-dealers are secured by U.S. government agency obligations. As of June 30, 2017, the District's investment in PSDLAF was rated AAAM by Standards & Poor's.

Financial statement amounts, cash and investments:

Governmental activities	\$ 20,129,180
Business-type activities	1,502,980
Fiduciary funds, agency	<u>146,528</u>
Total	<u>\$ 21,778,688</u>

<u>Investment</u>	<u>Maturities</u>	<u>Fair value</u>
PA School District MAX (PSDLAF)	Less than one year	<u>\$ 116,217</u>

Interest rate risk:

The District does not have a formal investment policy that limits the investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates for its nonmoney market type of investments.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

2. Deposits and investments (continued):

Custodial credit risk, deposits and investments (continued):

Credit risk:

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

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

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

The District is invested in PSDLAF Max Series which uses a principal investment strategy of investing in short-term money-market instruments and maintaining a constant net asset value (NAV) of \$1.00 per share. Investments (other than direct deposits of state aid payments) are to be deposited for a minimum of fourteen (14) days. At June 30, 2017, PSDLAF carried an AAAM rating.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

3. Taxes receivable and related accounts:

The balances at June 30, 2017 are as follows:

	<u>Net estimated to be collected</u>	<u>Tax revenue recognized</u>	<u>Deferred taxes</u>
Real estate taxes:			
Current	\$ 607,953	\$ 174,582	\$ 433,371
Interim	1,561		1,561
Transfer taxes	83,412	83,412	-
Earned income taxes	<u>1,079,286</u>	<u>1,079,286</u>	<u>-</u>
	<u>\$ 1,772,212</u>	<u>\$ 1,337,280</u>	<u>\$ 434,932</u>

The unearned revenue balances as of June 30, 2017 are as follows:

	<u>General fund</u>	<u>Food service fund</u>
Unearned revenue, special projects	\$ 13,099	
Due to student groups	2,091	
Unused donated commodities		<u>\$ 41,831</u>
Total unearned revenue	<u>\$ 15,190</u>	<u>\$ 41,831</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

4. Interfund activity:

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds.

Interfund receivable and payable balances as of June 30, 2017 are as follows:

	<u>Interfund receivable</u>	<u>Interfund payable</u>
General fund	\$ 490,814	\$ 92,978
WarwickWARE fund		414,723
Food service fund	<u>92,978</u>	<u>76,091</u>
Total	<u>\$ 583,792</u>	<u>\$ 583,792</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system and (3) payments between funds were made.

Interfund transfers during the fiscal year June 30, 2017 were for debt service as follows:

	<u>Transfers to other funds</u>	<u>Transfers from other funds</u>
General fund	\$ 9,049,798	
Debt service fund		<u>\$ 9,049,798</u>
Total	<u>\$ 9,049,798</u>	<u>\$ 9,049,798</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

5. Due from other governments:

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2017, the following amounts were due from other governmental units:

	<u>General fund</u>
Federal programs	\$ 154,841
State programs/grants, school lunch/school breakfast	8,282
State subsidies:	
Social Security	362,221
Retirement	<u>1,473,274</u>
Total	<u><u>\$ 1,998,618</u></u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

6. Capital assets:

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated, land	<u>\$ 2,672,598</u>			<u>\$ 2,672,598</u>
Capital assets being depreciated:				
Buildings and improvements	144,337,294			144,337,294
Land improvements	7,371,426			7,371,426
Equipment, furniture and fixtures	11,007,245	\$ 1,281,528	\$ 380,205	11,908,568
Vehicles	<u>331,315</u>	<u>20,116</u>		<u>351,431</u>
Total capital assets being depreciated	<u>163,047,280</u>	<u>1,301,644</u>	<u>380,205</u>	<u>163,968,719</u>
Less accumulated depreciation for:				
Buildings and improvements	57,394,435	3,306,794		60,701,229
Land improvements	3,695,138	262,103		3,957,241
Equipment, furniture and fixtures	7,938,633	730,421	347,426	8,321,628
Vehicles	<u>219,618</u>	<u>28,989</u>		<u>248,607</u>
Total accumulated depreciation	<u>69,247,824</u>	<u>4,328,307</u>	<u>347,426</u>	<u>73,228,705</u>
Total capital assets being depreciated, net	<u>93,799,456</u>	<u>(3,026,663)</u>	<u>32,779</u>	<u>90,740,014</u>
Governmental activities, capital assets, net	<u>\$ 96,472,054</u>	<u>\$ (3,026,663)</u>	<u>\$ 32,779</u>	<u>\$ 93,412,612</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

6. Capital assets (continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities, capital assets being depreciated:				
Equipment, furniture and fixtures	\$ 608,983			\$ 608,983
Intellectual property	<u>298,023</u>	<u>\$ 32,737</u>		<u>330,760</u>
Total capital assets being depreciated	<u>907,006</u>	<u>32,737</u>		<u>939,743</u>
Less accumulated depreciation and: amortization for:				
Equipment, furniture and fixtures	(460,183)	(19,001)		(479,184)
Intellectual property	<u>(460,183)</u>	<u>(104,797)</u>		<u>(104,797)</u>
Total accumulated depreciation and amortization	<u>(460,183)</u>	<u>(123,798)</u>		<u>(583,981)</u>
Business-type activities, capital assets, net	<u>\$ 446,823</u>	<u>\$ (91,061)</u>		<u>\$ 355,762</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

6. Capital assets (continued):

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

Government activities:

Instructional:

Regular	\$ 2,223,164
Special	239,988

Support services:

Pupil personnel	164,812
Instructional staff	630,579
Administration	275,994
Pupil health	40,867
Business	67,025
Operation and maintenance of plant services	507,324
Noninstructional services, student activities	<u>178,554</u>

Total depreciation expense, governmental activities \$ 4,328,307

Business-type activities:

Food service	\$ 19,001
WarwickWARE	<u>104,797</u>

Total depreciation expense, business-type activities \$ 123,798

7. Accrued salary and benefits:

Accrued salary and benefits consist of the following items at June 30, 2017:

Salaries	\$ 3,256,259
Social Security tax	227,694
Retirement	2,931,754
Medical	<u>546,802</u>
Total	<u>\$ 6,962,509</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

8. Compensated absences:

Activity for compensated absences for the year ended June 30, 2017 is summarized below:

	<u>Beginning balance</u>	<u>Increase (decrease)</u>	<u>Ending balance</u>
Vacation	\$ 245,810	\$ 12,393	\$ 258,203
Personal	<u>178,448</u>	<u>(4,599)</u>	<u>173,849</u>
	<u>\$ 424,258</u>	<u>\$ 7,794</u>	<u>\$ 432,052</u>

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

9. Bonds payable:

In April 2017, the District issued the General Obligation Bonds, Series of 2017, in the amount of \$14,875,000 to currently refund the remaining outstanding General Obligation Bonds, Series of 2009 and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through February 2025, and interest rates range from 2.0% to 5.0%. The principal balance outstanding at June 30, 2017 was \$14,875,000.

In August 2016, the District issued the General Obligation Bonds, Series of 2016, in the amount of \$9,375,000 to currently refund a portion of the outstanding General Obligation Bonds, Series of 2009 and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through February 2025, and interest rates range from 0.8% to 2.0%. The principal balance outstanding at June 30, 2017 was \$9,375,000.

In January 2015, the District issued the General Obligation Bonds, Series of 2015, in the amount of \$28,610,000 to currently refund the remaining outstanding General Obligation Bonds, Series of 2005; currently refund the outstanding General Obligation Bonds, Series A of 2009; finance various capital projects and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through February 2025, and interest rates range from 0.77 % to 5.0%. The net present value savings of the refunding totaled \$2,162,717. The principal balance outstanding at June 30, 2017 was \$22,515,000.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

9. Bonds payable (continued):

On March 19, 2014, the District issued the General Obligation Bonds, Series of 2014A, in the amount of \$8,905,000 to advance refund the remaining outstanding General Obligation Bonds, Series of 2006; advance refund the outstanding General Obligation Bonds, Series B of 2009 and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through March 2023, and future interest rates range from 1.5 % to 4.0%. The net present value savings of the advance refunding was \$460,000. The difference between the cash flows required to service the old debt and those required to service the new debt was \$419,201. The principal balance outstanding at June 30, 2017 was \$5,175,000.

On January 9, 2014, the District issued the General Obligation Bonds, Series of 2014, in the amount of \$9,340,000 to currently refund the outstanding General Obligation Bonds, Series of 2007 and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through March 2024, and future interest rates range from 1.40 % to 3.25%. The net present value savings of the current refunding was \$586,000. The principal balance outstanding at June 30, 2017 was \$7,555,000.

On October 17, 2013, the District issued the General Obligation Bonds, Series of 2013, in the amount of \$9,270,000 to advance refund a portion of the General Obligation Bonds, Series of 2006 and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through March 2027, and future interest rates range from 1.25 % to 3.5%. The net present value savings of the advance refunding was \$706,000. The difference between the cash flows required to service the old debt and those required to service the new debt was \$678,961. The principal balance outstanding at June 30, 2017 was \$8,895,000.

On March 17, 2009, the District issued General Obligation Bonds, Series of 2009, in the amount of \$28,000,000. The proceeds were used to finance various capital projects of the District and pay for the costs of issuing the bonds. Principal payments are due in varying amounts through February 2025. These bonds were refunded with the General Obligation Bonds, Series of 2017 and 2016 during the year ended June 30, 2017.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

9. Bonds payable (continued):

Long-term debt balances and activity for the year ended June 30, 2017 were as follows:

	Bonds payable	Bond discount	Bond premium	Total bonds payable
Beginning of year	\$ 75,285,000	\$ (108,876)	\$ 2,837,750	\$ 78,013,874
Principal retirement	(6,450,000)			(6,450,000)
Proceeds	24,250,000		1,679,017	25,929,017
Refunding	(24,695,000)	57,091		(24,637,909)
Amortization		9,808	(399,167)	(389,359)
End of year	<u>\$ 68,390,000</u>	<u>\$ (41,977)</u>	<u>\$ 4,117,600</u>	<u>\$ 72,465,623</u>

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

Year ended June 30,	Series of 2017	Series of 2016	Series of 2015	Series of 2014A	Series of 2014	Series of 2013	Total principal	Total interest	Total long-term debt service
2018		\$ 35,000	\$ 4,185,000	\$ 1,420,000	\$ 1,005,000	\$ 130,000	\$ 6,775,000	\$ 2,211,633	\$ 8,986,633
2019	\$ 945,000	165,000	4,185,000	875,000	1,015,000	695,000	7,880,000	2,124,564	10,004,564
2020	1,065,000	165,000	4,355,000	700,000	1,055,000	925,000	8,265,000	1,844,464	10,109,464
2021	1,085,000	170,000	4,530,000	705,000	1,075,000	940,000	8,505,000	1,577,850	10,082,850
2022	4,755,000	175,000	995,000	725,000	1,100,000	960,000	8,710,000	1,247,015	9,957,015
2023-2027	7,025,000	8,665,000	4,265,000	750,000	2,305,000	5,245,000	28,255,000	1,926,032	30,181,032
	<u>\$ 14,875,000</u>	<u>\$ 9,375,000</u>	<u>\$ 22,515,000</u>	<u>\$ 5,175,000</u>	<u>\$ 7,555,000</u>	<u>\$ 8,895,000</u>	<u>\$ 68,390,000</u>	<u>\$ 10,931,558</u>	<u>\$ 79,321,558</u>

The payments of long-term debt are to be funded by the general fund and the debt service fund. During the year ended June 30, 2017, debt service payments included \$6,450,000 for principal and \$2,599,798 for interest.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

10. Capital leases:

The District has entered into capital lease agreements for computer and other equipment. Capital leases transfer the benefits and risks of ownership to the lessee, and are accounted for in the governmental activities' capital assets. The related liabilities are recorded in the governmental activities' current and long-term obligations. Accumulated depreciation for the District's capital leases as of June 30, 2017 totaled \$150,266, leaving a current book value of \$915,754. The following list provides detail about the capital leases in effect during the year ended June 30, 2017.

- In June 2014, the District entered into a capital lease for computer equipment. The present value cost of the lease is \$591,081. The first payment of \$199,558 was paid in July 2014. The second minimum lease payment of \$199,558, including \$5,051 in interest, was paid in July 2015. The third minimum lease payment of \$199,558, including \$2,542 in interest, was paid in July 2016.
- In July 2015, the District entered into a capital lease for computer equipment. The present value cost of the lease is \$436,636. The first payment of \$147,415 was paid in July 2015. The second minimum lease payment of \$147,415, including \$3,731 in interest, was paid in July 2016. The third minimum lease payment of \$147,414, including \$1,877 in interest, is due July 2017.
- In July 2016, the District entered into a capital lease for computer equipment. The present value cost of the lease is \$629,384. The first payment of \$212,490 was paid in July 2016. The second minimum lease payment of \$212,490, including \$5,377 in interest, is due July 2017. The third minimum lease payment of \$212,490, including \$2,706 in interest, is due July 2018.

11. Pension plan:

Plan description:

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

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

11. Pension plan (continued):

Benefits provided:

Benefits are provided by PSERS by statute; therefore, financial statement amounts are affected by PSERS activity. The District's reported amounts will vary over time depending on the pension results of PSERS.

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

To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Retirement Code (Code)) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a members' right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F member, the right to benefits is vested after ten years of service.

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

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

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

11. Pension plan (continued):

Member contributions:

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

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

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

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

Employer contributions:

The School District's contractually required contribution rate for fiscal year ended June 30, 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 for the pension plan from the District were \$8,481,845 for the year ended June 30, 2017.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

11. Pension plan (continued):

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

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

At June 30, 2017, the District reported a liability of \$108,926,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was .2198%, which was an increase of .0024% from its proportion measured as of June 30, 2015.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

11. Pension plan (continued):

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

For the year ended June 30, 2017, the District recognized pension expense of \$11,600,290. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Difference between expected and actual experience		\$ 907,000
Changes of assumptions	\$ 3,932,000	
Net difference between projected and actual earnings on pension plan investment	6,071,000	
Changes in proportion	1,512,000	
Difference between employer contributions and proportionate share of total contributions	91,130	
District contributions subsequent to the measurement date	<u>8,481,845</u>	
	<u>\$ 20,087,975</u>	<u>\$ 907,000</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

11. Pension plan (continued):

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

For the year ended June 30, 2017, \$8,481,845 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in 2018. Other amounts report as deferred outflows of resources and deferred inflows of resource related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	
2018	\$ 2,294,000
2019	2,294,000
2020	3,594,000
2021	2,517,130

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

11. Pension plan (continued):

Actuarial assumptions:

The total pension liability as of June 30, 2016 was determined by rolling forward the System's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement with changes in the 2016 assumptions from the 2015 assumptions identified):

Actuarial cost method:	Entry age normal - level % of pay
Investment return:	7.25% includes inflation of 2.75% (changed from 7.5% and 3%, respectively)
Salary increases:	Effective average of 5% (changed from 5.5%) which reflects an allowance for inflation of 2.75% (was 3.0%), real wage growth and merit or seniority increases of 2.25% (was 2.5%).
Mortality rates:	Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projection using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS board at its June 10, 2016 board meeting and were effective beginning with the June 30, 2016 actuarial valuation.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

11. Pension plan (continued):

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

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

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

The PSERS board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Global public equity	22.5 %	5.3 %
Fixed income	28.5	2.1
Commodities	8.0	2.5
Absolute return	10.0	3.3
Risk parity	10.0	3.9
Infrastructure/MLPs	5.0	4.8
Real estate	12.0	4.0
Alternative investments	15.0	6.6
Cash	3.0	0.2
Financing (LIBOR)	<u>(14.0)</u>	(0.5)
	<u>100.0 %</u>	

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

11. Pension plan (continued):

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

Discount rate:

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

Sensitivity of the District's proportionate share:

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

	<u>1% Decrease</u> 6.25%	<u>Current Discount Rate</u> 7.25%	<u>1% Increase</u> 8.25%
District's proportionate share of the net pension liability	\$ 133,246,000	\$ 108,926,000	\$ 88,490,000

Pension plan fiduciary net position:

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

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

12. Postemployment benefits:

The cost of postemployment benefits (OPEB) other than pensions is recognized in the government-wide statements when the employee-related services are received by the employer rather than when the benefits are paid. The additional required financial note disclosures detailed below include information about actuarial accrued liabilities for these promised benefits associated with past employee services, and whether and to what extent those benefits have been funded.

Plan description:

The District permits employees who participate in the medical and/or dental benefit plan at the time of their retirement and who meet one of the following criteria to continue their group medical and/or dental coverage to age 65 by remitting the monthly premiums to the School District.

- Full-time employee for ten or more years of service with the District and who is at least 55 years of age or older, or
- Employee has been granted a disability retirement benefit by the Public School Employees' Retirement System, or
- Employee has retired with at least 30 years of credited service, or
- Employee has retired under superannuation status (age 62, or age 60 with 30 years of service or 35 years of service regardless of age).

The retirees' cost of group insurance is calculated by the plan administrator.

Administrators may continue their medical and/or dental coverage upon retirement until they are eligible for Medicare. The administrator's coverage is paid by the District, and the District contributes \$1,000 toward any dependent's medical coverage. The District also provides life insurance benefits for retired administrators until they reach 70 years of age.

The plan does not issue a publicly available financial report. As of July 1, 2016, there were 399 active participants and 45 retired participants.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

12. Postemployment benefits (continued):

Funding policy:

The District has elected to fund postemployment benefits on a pay-as-you-go basis. Expenditures for postemployment group insurance are recognized when claims are filed with the plan administrator. The District is responsible for all claims in excess of the premiums received from the qualified retirees up to a stop loss limit. Currently there are 76 retirees and dependents receiving benefits.

Annual OPEB cost and net OPEB obligation:

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount contributed to the plan and changes in the District's OPEB obligation to the plan.

Normal cost as of July 1, 2016	\$ 495,847
Interest on net OPEB obligation	129,046
ARC adjustment	<u>(228,256)</u>
Total normal cost	396,637
20-year amortization of unfunded actuarial accrued liability	<u>635,201</u>
Annual OPEB cost	1,031,838
Contributions made	<u>(682,656)</u>
Increase in OPEB obligation	349,182
Net OPEB obligation:	
Beginning of year	<u>3,226,155</u>
End of year	<u><u>\$ 3,575,337</u></u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

12. Postemployment benefits (continued):

Annual OPEB cost and net OPEB obligation (continued):

The District's annual OPEB costs, the percentage of annual OPEB cost contributions to the plan and the net OPEB obligation for the current and two preceding years are as follows:

<u>Year ended June 30,</u>	<u>Annual OPEB cost (AOC)</u>	<u>Percentage of AOC contributed</u>	<u>Net OPEB obligation</u>
2017	\$ 1,031,838	66.2%	\$ 3,575,337
2016	826,808	67.1%	3,226,155
2015	842,600	57.6%	2,954,138

Funding status and funding progress:

According to the District's most recent valuation, as of July 1, 2016, the funded status of the plan was as follows:

Unfunded actuarial accrued liability	\$ 8,977,872
Funded ratio	0.00%
Covered payroll	\$ 24,819,956
Unfunded actuarial accrued liability as a percentage of covered payroll	36.17%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

12. Postemployment benefits (continued):

Actuarial methods and assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of the valuation.

In the July 1, 2016 actuarial valuation, the initial liability was amortized under the level dollar method over a weighted average of the average future service of active employees for similar plans, which is estimated to be 20 years. An annual discount rate of 4.00% is used and 100% of the District's employees are assumed to retire at the earlier of (1) age 60 with 30 years of service at the District, (2) at least 35 years of service at the District or (3) age 62 with at least one year of service. Eighty percent of the employees are assumed to be married, and spouses are assumed to be the same age as the retiree. Healthcare cost trend rate assumptions (9% for 2015-2016 with 1% decreases until 2019) used in the July 1, 2016 valuation recognize increases due to healthcare inflation, utilization and intensity, technology and quality of care changes and regulatory requirements.

13. Termination benefits:

According to the District's negotiated agreements with its employees, the District will make 403(b) tax deferred contributions for any eligible employee in a maximum of four annual installments no later than September 30 of the fiscal year after the employee becomes eligible. To become eligible, an employee must have 15 years of consecutive full-time service at the District and 30 years of recognized service with the Public School Employees' Retirement System. The maximum total payment equals \$27,500 per person. Because an employee can retire at any time prior to receiving their final payment, amounts are accrued when the employees agree to continue employment at the District. For the year ended June 30, 2017, the District accrued \$166,000 in termination benefits.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

14. Risk management:

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. In 1995, the District joined together with other school districts in the Commonwealth to form Lancaster-Lebanon Public School Insurance Pool (LLPSIP), a public entity risk pool currently operating as a risk-sharing and risk-purchasing pool for member school districts. The District pays an annual premium to LLPSIP for its workers' compensation and property/liability insurance coverage. The agreement of the LLPSIP provides that LLPSIP will be self-sustaining through member premiums and dividends and will reinsure through commercial companies for claims in excess of a certain dollar amount for each insured entity.

The District maintains a self-insured medical and dental benefit plan. The schedule of benefits provides for varying amounts of reasonable and customary healthcare benefits. The District is protected from unlimited liability by stop-loss insurance protection covering both individual and aggregate claims. For the year ended June 30, 2017, the maximum potential claim liability was \$175,000 per individual and \$5,261,154 in the aggregate. Actual claims and fees for the year ended June 30, 2016 were \$6,613,926. Reductions to this total included retiree contributions of \$337,826 and employee contributions of \$944,790. Claims for medical expenses incurred from July 1, 2015 to June 30, 2016, which were processed after June 30, 2017, totaled \$546,802 and have been reflected in accrued salary and benefits.

Changes in the District's medical and dental claims liability in fiscal years 2017 and 2016 were:

	<u>Beginning of fiscal year liability</u>	<u>Current year claims and changes in estimates</u>	<u>Claims payments</u>	<u>End of fiscal year liability</u>
2016-2017	\$ 740,320	\$ 6,082,999	\$ 6,276,517	\$ 546,802
2015-2016	562,053	5,421,500	5,243,233	740,320

The District continues to carry commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

15. Joint ventures:

Lancaster-Lebanon Intermediate Unit (LLIU):

The LLIU Board of Directors consists of 22 members from the LLIU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' Board of Directors. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Warwick School District contracts with the LLIU for special education services for School District students. Warwick School District participates in joint purchasing arrangements with the LLIU and other districts in the areas of supplies and equipment, healthcare initiatives, workers' compensation, property casualty and consulting services. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau):

The School District participates with 16 other school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee. The Bureau's operating expenditures are deducted from the distributions, which are made quarterly. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

Lancaster County Area Vocational-Technical School:

Warwick School District, together with the 16 other Lancaster County school districts, is party to the 1971 Lancaster County Area Vocational-Technical School Agreement, providing for the establishment of area vocational-technical schools and for the establishment of the area vocational-technical board. Each participating school district has one seat on the board. These member districts provided total funding of approximately \$13.0 million to the Lancaster County Career and Technology Center (LCCTC) for capital and operating expenses for the year ended June 30, 2017. The District provided approximately \$938,000 as its share of the vocational-technical budget, or 6.9% of total member district contributions.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

15. Joint ventures (continued):

Lancaster County Career and Technology Center Authority:

Lancaster County Career and Technology Center Authority (the Authority) was created and is empowered to acquire, hold, construct, improve, maintain, operate and lease public school buildings and other school projects for public school purposes. In October 2011, the District, together with the 15 other member districts, approved a project for improvements, renovations and equipment for the LCCTC. The project is being financed by lease revenue bonds of the Authority totaling \$23,890,000. On June 29, 2012, the Authority completed issuance of the Guaranteed Lease Revenue Bonds, Series of 2012 in the aggregate principal amount of \$9,995,000. On September 20, 2013, the Authority completed issuance of the Guaranteed Lease Revenue Bonds, Series of 2013 in the aggregate principal amount of \$9,995,000. On February 1, 2017, the bonds were refunded with Guaranteed Lease Revenue Notes, Series of 2017. In July 2014, the Guaranteed Lease Revenue Bonds, Series of 2014 were issued in the aggregate principal amount of \$3,900,000 in order to complete the project. On February 1, 2017, the Authority completed issuance of Guaranteed Lease Revenue Notes, Series of 2017, for the purpose of advance refunding the Guaranteed Lease Revenue Bonds, Series of 2013, and to pay the costs of issuing the notes in the amount of \$9,380,000.

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

In connection with these bond issues of the Authority, Warwick School District, along with the other member school districts party to the 1971 Lancaster County Area Vocational-Technical School Agreement (collectively, the lessees), entered into operating lease agreements with the Authority (the lessor). Each district will pay its proportionate share of the lease rentals in order to fund the debt. The District's lease payments are scheduled to be made in varying principal amounts beginning February 2013 until February 2037. Interest is payable semi-annually at an annual rate of 6.5%.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

15. Joint ventures (continued):

Lancaster County Career and Technology Center Authority (continued):

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

Fiscal year ending June 30,	Total
2018	\$ 91,721
2019	91,693
2020	91,790
2021	91,799
2022	91,688
2023-2027	458,900
2028-2032	458,216
2033-2037	<u>458,192</u>
Total minimum future rental payments	<u>\$ 1,833,999</u>

During the 2016-17 school year, the District paid \$84,598 to the LCCTC for its bond issue lease agreement obligation.

16. Contingent liabilities:

The School District participates in federally assisted grant programs. These grant programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

17. Subsequent events:

The District has evaluated subsequent events through November 29, 2017, the date which the financial statement were available to be issued.

WARWICK SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(Required Supplementary Information)
(unaudited)

YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.2198 %	0.2174 %	0.2137 %
District's proportionate share of the net pension liability	\$ 108,926,000	\$ 94,167,000	\$ 86,009,000
District's covered-employee payroll	\$ 28,465,520	\$ 27,970,596	\$ 27,730,936
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382.66 %	336.66 %	310.16 %
Plan fiduciary net position as a percentage of the total pension liability	50.14 %	54.36 %	57.24 %

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 8,481,845	\$ 7,084,130	\$ 5,591,661
Contributions in relation to the contractually required contribution	<u>8,481,845</u>	<u>7,084,130</u>	<u>5,591,661</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 28,259,397	\$ 28,233,484	\$ 27,870,580
Contributions as a percentage of covered employee payroll	30.01%	25.09%	20.06%

WARWICK SCHOOL DISTRICT

OTHER POSTEMPLOYMENT BENEFITS
(Required supplementary information)
(unaudited)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2017

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
7/1/2012	\$ -	\$ 6,723,787	\$ 6,723,787	0.00%	\$ 24,174,340	27.81%
7/1/2014	\$ -	\$ 7,186,953	\$ 7,186,953	0.00%	\$ 24,593,781	29.22%
7/1/2016	\$ -	\$ 8,977,872	\$ 8,977,872	0.00%	\$ 24,819,956	36.17%

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2017

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance, favorable (unfavorable)
Revenues:				
Sources:				
Local	\$ 46,919,972	\$ 46,919,972	\$ 47,929,207	\$ 1,009,235
State	20,632,294	20,632,294	21,244,326	612,032
Federal	<u>598,976</u>	<u>598,976</u>	<u>484,058</u>	<u>(114,918)</u>
Total revenues	<u>68,151,242</u>	<u>68,151,242</u>	<u>69,657,591</u>	<u>1,506,349</u>
Expenditures:				
Instruction	41,046,132	40,331,972	38,503,293	1,828,679
Support services	17,618,595	18,367,635	17,616,057	751,578
Student activities	1,542,637	1,542,757	1,402,587	140,170
Community services	94,550	94,550	110,346	(15,796)
Facility acquisition and improvements		37,000	35,543	1,457
Debt service	95,000	90,000	88,598	1,402
Miscellaneous			<u>480</u>	<u>(480)</u>
Total expenditures	<u>60,396,914</u>	<u>60,463,914</u>	<u>57,756,904</u>	<u>2,707,010</u>
Excess of revenues over expenditures	<u>7,754,328</u>	<u>7,687,328</u>	<u>11,900,687</u>	<u>4,213,359</u>
Other financing uses:				
Fund transfers, net	(8,992,064)	(8,992,064)	(9,049,798)	(57,734)
Refund of prior year revenues		(5,000)	(8,025)	(3,025)
Budgetary reserve	<u>(250,000)</u>	<u>(178,000)</u>		<u>178,000</u>
Total other financing uses	<u>(9,242,064)</u>	<u>(9,175,064)</u>	<u>(9,057,823)</u>	<u>117,241</u>
Net change in fund balances	<u>\$ (1,487,736)</u>	<u>\$ (1,487,736)</u>	2,842,864	<u>\$ 4,330,600</u>
Fund balances:				
July 1, 2016			<u>13,447,830</u>	
June 30, 2017			<u>\$ 16,290,694</u>	

WARWICK SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2017

Budgets and budgetary accounting:

An operating budget is adopted prior to the beginning of each fiscal year for the general fund on a basis consistent with the modified accrual basis of accounting except that a budgetary reserve is provided. The general fund is the only fund for which a budget is required.

The Pennsylvania School Code dictates specific procedures for the adoption of the District's budget and reporting of its financial statements, specifically:

The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The School District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within 15 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the School District.

Notice that public hearings will be held on the proposed operating budget must be included in the advertisement and such hearings are required to be scheduled at least ten days prior to when the School Board adoption is taken.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary related information in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments. The School Board made several supplemental budgetary appropriations throughout the year which resulted in no increase in the general fund budget. The entire supplemental budgetary appropriation was a result of program budgets prescribed by federal and state agencies.

Included in the general fund budget are program budgets as prescribed by the federal and state agencies funding program. These budgets are approved on a program-by-program basis by the federal and state funding agencies.

WARWICK SCHOOL DISTRICT

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2017

	<u>Capital projects</u>	<u>Scholarship funds</u>	<u>Totals</u>
ASSETS			
Current assets, cash and investments	<u>\$ -</u>	<u>\$ 47,651</u>	<u>\$ 47,651</u>
FUND BALANCES			
Fund balances:			
Nonspendable, permanent fund principal		\$ 26,253	\$ 26,253
Assigned for payment of scholarships		<u>21,398</u>	<u>21,398</u>
Total fund balances	<u>\$ -</u>	<u>\$ 47,651</u>	<u>\$ 47,651</u>

WARWICK SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2017

	Capital projects	Scholarship funds	Totals
Revenues, local sources	\$ -	\$ 4,460	\$ 4,460
Expenditures:			
Student activities		3,425	3,425
Construction	2		2
Total expenditures	2	3,425	3,427
Excess (deficiency) of revenues over expenses	(2)	1,035	1,033
Other financing sources, fund transfers	-		-
Net change in fund balances	(2)	1,035	1,033
Fund balances:			
July 1, 2016	2	46,616	46,618
June 30, 2017	\$ -	\$ 47,651	\$ 47,651

WARWICK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at July 1, 2016	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2017
<u>U.S. Department of Education</u>										
Passed through the Pennsylvania Department of Education:										
Title I Cluster:										
Title I Improving Basic Programs 2015-2016	I	84.010	013-160461	07/01/15-09/30/16	\$ 388,821	\$ 51,469	\$ 51,469			
Title I Improving Basic Programs 2016-2017	I	84.010	013-170461	07/01/16-09/30/17	433,616	314,380		\$ 362,487	\$ 362,487	\$ 48,107
Title II Cluster:										
Title II Improving Teacher Quality 2016-2017	I	84.367	020-170461	07/01/16-09/30/17	103,877	104,508		103,877	103,877	(631)
Passed through Lancaster-Lebanon IU13:										
Special Education Cluster:										
IDEA, Part B 2015-2016	I	84.027	062-16-0-013	07/01/15-09/30/16	554,510	420,968	420,968			
IDEA, Part B 2016-2017	I	84.027	062-17-0-013	07/01/16-09/30/17	425,687	425,687		425,687	425,687	-
IDEA, On-Behalf Services	I	84.027	062-17-0013	07/01/16-09/30/17	142,109	142,109		142,109	142,109	-
Early Intervention IDEA	I	84.173	131-15-0-013	07/01/15-06/30/16	2,784	2,784	2,784			
Early Intervention IDEA	I	84.173	131-16-0-013	07/01/16-06/30/17	3,171			3,171	3,171	3,171
PaTTAN	I	84.027	062-16-0-033	07/01/15-06/30/16	10,000	9,962	9,962			
Total of U.S. Department of Education						<u>1,471,867</u>	<u>485,183</u>	<u>1,037,331</u>	<u>1,037,331</u>	<u>50,647</u>
<u>U.S. Department of Health and Human Services</u>										
Passed through the Commonwealth of Pennsylvania:										
ACCESS Medical Assistance	I	93.778	N/A	07/01/15-06/30/16	5,202	2,812	2,812			
Total of U.S. Department of Health and Human Services						<u>2,812</u>	<u>2,812</u>			

(continued)

WARWICK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2017

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (deferred) revenue at July 1, 2016	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2017
<u>U.S. Department of Agriculture</u>										
Passed through the Pennsylvania Department of Education:										
Child Nutrition Cluster:										
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	\$ 21,751	\$ 21,751			
School Breakfast Program	I	10.553	N/A	07/01/15-06/30/16	N/A	3,023	3,023			
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	466,753		\$ 554,605	\$ 554,605	\$ 87,852
School Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	70,845		84,851	84,851	14,006
Passed through the Pennsylvania Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	<u>155,915</u> (a)	<u>(34,974)</u> (b)	<u>149,058</u> (c)	<u>149,058</u> (c)	<u>(41,831)</u> (d)
Total of Child Nutrition Cluster						<u>718,287</u>	<u>(10,200)</u>	<u>788,514</u>	<u>788,514</u>	<u>60,027</u>
Total federal assistance						<u>\$ 2,192,966</u>	<u>\$ 477,795</u>	<u>\$ 1,825,845</u>	<u>\$ 1,825,845</u>	<u>\$ 110,674</u>

(continued)

WARWICK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2017

Source Codes:

I = Indirect funding

D = Direct funding

Calculation of 40% rule (20% for low risk auditee):

Total expenditures per above	<u>\$ 1,825,845</u>		
10.553 School Breakfast Program	\$ 84,851		
10.555 National School Lunch Program	<u>703,663</u>		
	<u>\$ 788,514</u>	=	43.2%
	\$ 1,825,845		Programs meet the 20% requirement

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant accounting policies:
 The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.
 The District has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

Note B - Food distribution:
 (a) Total amount of commodities recorded from the Department of Agriculture
 (b) Beginning inventory at July 1, 2016
 (c) Total amount of commodities used
 (d) Ending inventory at June 30, 2017



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

Board of School Directors
Warwick School District
Lititz, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the nonmajor proprietary fund and the aggregate remaining fund information of Warwick School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Warwick School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Warwick School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Warwick School District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Brown Schultz Steidman & Frite

Lancaster, Pennsylvania
November 29, 2017



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

Board of School Directors
Warwick School District
Lititz, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Warwick School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Warwick School District's major federal programs for the year ended June 30, 2017. Warwick School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Warwick School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Warwick School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Warwick School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of its major federal programs and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Warwick School District's internal control over compliance.

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

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

Purpose of this Report

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

Brown Schultz Steidan & Fritz

Lancaster, Pennsylvania
November 29, 2017

WARWICK SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF AUDITORS' RESULTS:

Financial statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal awards

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

(continued)

WARWICK SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED):

Identification of major programs:

CFDA numbers

Name of federal program or cluster

10.553
10.555

Child Nutrition Cluster:
School Breakfast Program
National School Lunch Program

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

\$ 750,000

Auditee qualified as low-risk auditee?

X yes no

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

WARWICK SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2017

There were no prior year audit findings.