

NORTH PENN SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2018



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

NORTH PENN SCHOOL DISTRICT

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of School Directors
North Penn School District
Lansdale, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the North Penn School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the North Penn School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

To the Board of School Directors
North Penn School District
Lansdale, Pennsylvania

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the North Penn School District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

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

To the Board of School Directors
North Penn School District
Lansdale, Pennsylvania

The supplementary information and the schedule of expenditures of federal and certain state 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal and certain state 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 December 10, 2018, on our consideration of the North Penn School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Penn School District's internal control over financial reporting and compliance.

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

Oaks, Pennsylvania
December 10, 2018

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

This section of the North Penn School District's annual financial report presents its discussion and analysis of the School District's financial performance during the fiscal year ending June 30, 2018.

FINANCIAL HIGHLIGHTS

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The School District uses site-based budgeting and the budgeting system is designed to tightly control site budgets but provide flexibility for site management.

For the General Fund, actual revenues were \$252.3 million or \$4.4 million above the original budget revenues. The strong revenues are a reflection of an improving economy, real estate tax assessment appeal settlements, and conservative budgeting. Actual expenditures totaled \$252.4 million and included expenditures for transfers to other funds. Actual expenditures exceeded actual revenues by \$99,664.

OVERVIEW OF THE FINANCIAL STATEMENTS

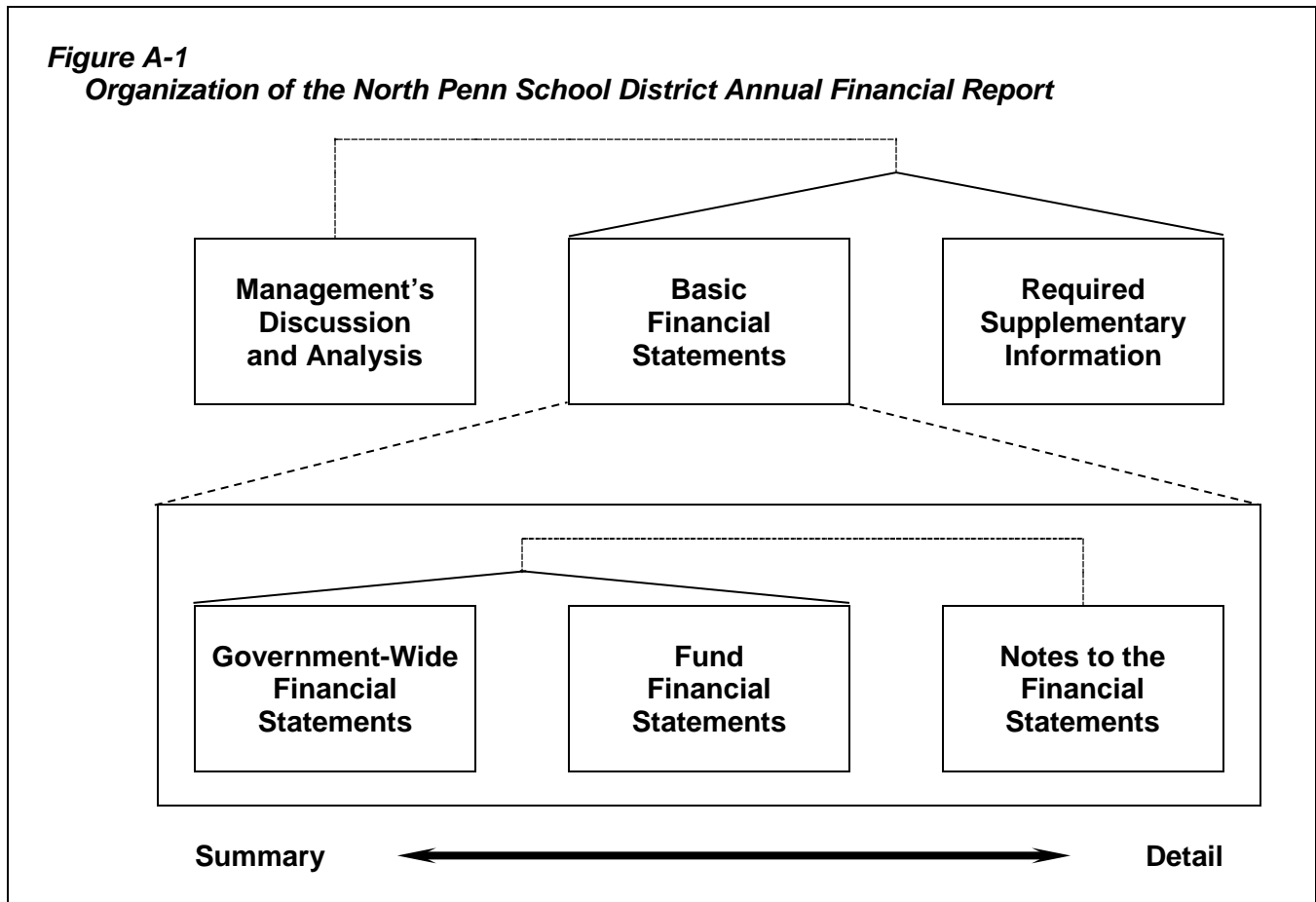
The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

This annual report consists of three parts: management's discussion and analysis (this section), basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
 - ✓ **Governmental Funds** statements tell how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
 - ✓ **Proprietary Funds** statements offer short- and long-term financial information about the activities the District operates like businesses, such as School Nutrition Services.
 - ✓ **Fiduciary Funds** statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



NORTH PENN SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except Fiduciary Funds)	The activities of the School District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the School District operates similar to private businesses: school nutrition services and community education	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indication of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one needs to consider additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business-Type Activities:** The District's community education, extended child care and school nutrition service programs are included here. The District charges fees to cover the costs of the services provided.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not on the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has three kinds of funds:

- **Governmental Funds:** Most of the District's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that help one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the long-term focus of the District-wide statements, additional information accompanying the Governmental Funds statements explains the relationship (or differences) between them.

NORTH PENN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED JUNE 30, 2018

- **Proprietary Funds:** Services for which the District charges a fee are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way as the District-wide statements. The District's Enterprise Funds (one type of Proprietary Fund) report its business-type activities, providing more detail and additional information such as cash flows.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as the Scholarship Fund and the Student Activities Funds. The District is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

- Total assets and deferred outflows of resources increased by \$127.3 million in the School District's governmental activities, mainly due to the current year implementation of GASB Statement No. 75. Net assets of the governmental activities decreased by \$44.6 million including the implementation of GASB Statement No. 75 (See Note U). Net assets of the business-type activities increased by \$1.9 million including the implementation of GASB Statement No. 75 (See Note U).
- Program specific revenues in the form of charges for services and grants and contributions accounted for \$48.9 million or 19% of total revenues. General revenues accounted for \$211.4 million or 81% of total revenues (Figure A-4).
- Governmental fund expenses totaled \$258.6 million of which \$159.8 million was spent on instructional services, \$67.7 million was spent on support services, \$3.1 million was spent on non-instructional services, \$17.6 million was spent for debt service payments and \$10 million was spent on facilities acquisition, construction, and improvement services (Page 20).
- The North Penn Education Association (NPEA), an affiliation of the Pennsylvania State Education Teachers Association, represents the professional staff of the District. The District and NPEA have a four-year agreement that expires June 30, 2021.
- The North Penn Educational Support Personnel Association (NPESPA), an affiliation of the Pennsylvania State Education Teachers Association, represents part of the support staff of the District. The District and NPESPA have a three-year agreement that expires June 30, 2020.
- The District administrators have a one-year agreement with the Board of School Directors that expires June 30, 2018.

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

Figure A-3
Condensed Statements of Net Position (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2017-2018
	0	2018	0	2018	0	2018	
Current and other assets	\$ 107.6	\$ 105.7	\$ 1.9	\$ 1.9	\$ 109.5	\$ 107.6	
Capital assets, net	193.1	194.6	0.3	0.4	193.4	195.0	
TOTAL ASSETS	<u>300.7</u>	<u>300.3</u>	<u>2.2</u>	<u>2.3</u>	<u>302.9</u>	<u>302.6</u>	-0.1%
Deferred outflow s of resources	83.5	211.2	2.3	6.0	85.8	217.2	153.1%
Current and other liabilities	35.8	35.7	0.6	0.7	36.4	36.4	
Long-term liabilities	486.9	664.3	10.2	15.9	497.1	680.2	
TOTAL LIABILITIES	<u>522.7</u>	<u>700.0</u>	<u>10.8</u>	<u>16.6</u>	<u>533.5</u>	<u>716.6</u>	34.3%
Deferred inflow s of resources	54.0	48.6	1.5	1.4	55.5	50.0	-9.9%
Net investment in capital assets	80.1	97.3	0.3	0.4	80.4	97.7	
Restricted	14.4	3.8	-	-	14.4	3.8	
Unrestricted	(287.0)	(338.2)	(8.1)	(10.1)	(295.1)	(348.3)	
TOTAL NET POSITION	<u>\$ (192.5)</u>	<u>\$ (237.1)</u>	<u>\$ (7.8)</u>	<u>\$ (9.7)</u>	<u>\$ (200.3)</u>	<u>\$ (246.8)</u>	23.2%

Figure A-4
Changes in Net Position from Operating Results (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2017-2018
	0	2018	0	2018	0	2018	
REVENUES							
Program revenues	\$ 41.2	\$ 40.7	\$ 8.2	\$ 8.2	\$ 49.4	\$ 48.9	
General revenues	207.6	211.4	-	-	207.6	211.4	
TOTAL REVENUES	<u>248.8</u>	<u>252.1</u>	<u>8.2</u>	<u>8.2</u>	<u>257.0</u>	<u>260.3</u>	1.3%
EXPENSES	<u>235.5</u>	<u>278.9</u>	<u>7.9</u>	<u>9.3</u>	<u>243.4</u>	<u>288.2</u>	18.4%
CHANGE IN NET POSITION	<u>\$ 13.3</u>	<u>\$ (26.8)</u>	<u>\$ 0.3</u>	<u>\$ (1.2)</u>	<u>\$ 13.6</u>	<u>\$ (28.0)</u>	-305.9%

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

Governmental Activities

Governmental activities consist of the General Fund and Bond Funds. Total governmental assets decreased by \$0.4 million and total liabilities increased by \$177.4 million due to an increase in the net pension liability and the implementation of GASB Statement No. 75 in the current year. Governmental Net Assets decreased by \$44.6 million (Figure A-3).

The District depends heavily on local taxes to fund the District's programs. For 2017-2018, local sources comprised 78.9% of total revenue, of which current real estate taxes, including interim taxes, were \$170.3 million, delinquent real estate taxes were \$2.1 million, transfer taxes were \$3.7 million and earned income taxes were \$16.8 million. Other revenue comes from state subsidies (19.9%) and federal grants and other sources (1.2%).

Business-Type Activities

Business-type activities include the School Nutrition Services Program, the Extended School Care Program and the Community Education Program. Each Enterprise Fund is operated separately. These programs had operating and non-operating revenues of \$8.2 million and expenses of approximately \$9.3 million, resulting in a \$1.2 million decrease in net position for the year due to the implementation of GASB Statement No. 75. The programs are designed to operate at or near break-even so that the cost for the services offered will benefit the District residents. Business-type activities received no support from tax revenues (Figure A-4).

The School Nutrition Services Program provides school lunches and operates a breakfast program as well as catering services. The School Nutrition Services Program receives both federal and state subsidies for lunch and breakfast programs. It also receives some government commodities on a routine basis. The majority of revenue comes from federal subsidies.

The Extended School Care Program provides before and after school care and summer camps for the resident children of the District. Revenues are generated by those utilizing the services.

The Community Education Program provides trips, tours and classes for the residents of the North Penn area. Evening classes are held at several of the District's schools. These programs cater to the improvement of the quality of life for the residents of the North Penn area.

General Fund Budgetary Highlights

The economic environment continued to stabilize and improve over the past year. Real estate tax collections remained strong, as did the realty transfer tax and earned income tax. In fact, earned income collections exceeded budget by \$800 thousand and realty transfer tax exceeded budget by \$650 thousand. Interest income exceeded budget by \$1.1 million as a result of proactive investments, despite low interest rates. On the expenditure side, actual expenditures for the year were greater than budgeted expenditures.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

For the North Penn School District, capital assets include land, buildings, furniture and equipment, vehicles and other items that meet the following criteria:

- a. The individual asset must have a useful life greater than one year.
- b. The individual asset cost is equal to or greater than \$5,000 or was purchased with debt proceeds.

The District maintains fixed asset records for the above capital assets as well as for any item costing over \$1,000 with a life extending at least one year. Each department or school is responsible for the protection of these assets.

The District maintains more than 12,000 computers for students and staff. Technology equipment is replaced when the functionality requires it, not based on a set time period. The District embarked on a 1:1 student computer initiative in the summer of 2016. The District maintains approximately 145 buses and 18 vans that transport the District's students over 2 million miles per year. The District also transports approximately 1,800 non-public students each year.

Regular improvements to the buildings of the District are ongoing.

Figure A-5
Capital Assets (Net of Depreciation, In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2017-2018
	0	2018	0	2018	0	2018	
Land and site improvements	\$ 8.9	\$ 8.8	\$ -	\$ -	\$ 8.9	\$ 8.8	
Construction in progress	17.9	24.2	-	-	17.9	24.2	
Buildings	156.8	153.3	-	-	156.8	153.3	
Furniture and equipment	9.5	8.3	0.3	0.4	9.8	8.7	
	<u>\$ 193.1</u>	<u>\$ 194.6</u>	<u>\$ 0.3</u>	<u>\$ 0.4</u>	<u>\$ 193.4</u>	<u>\$ 195.0</u>	<u>0.8%</u>

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

Long-Term Obligations

Long-term obligations increased by \$183.7 million, primarily due to an increase in the net pension liability and the implementation of GASB Statement No. 75 in the current year. The short-term debt decreased by \$0.7 million due to the schedule of bond, note, and lease obligations (Figure A-6).

Figure A-6
Outstanding Long-Term Obligations (In Millions of Dollars)

	-	2018	Total Percentage Change <u>2017-2018</u>
LONG-TERM OBLIGATIONS			
General obligation bonds and notes	\$ 98.1	\$ 84.7	
Other general obligations	385.1	582.2	
TOTAL LONG-TERM OBLIGATIONS	<u>483.2</u>	<u>666.9</u>	
SHORT-TERM OBLIGATIONS			
General obligation bonds and notes	11.5	12.1	
Other general obligations	2.5	1.2	
TOTAL SHORT-TERM OBLIGATIONS	<u>14.0</u>	<u>13.3</u>	
 TOTAL	 <u>\$ 497.2</u>	 <u>\$ 680.2</u>	 <u>36.8%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

As the preceding information shows, the School District maintains a healthy investment in fixed assets to support and provide comprehensive educational services, considers future implications of current and ongoing financial obligations and prudently manages its financial assets. Academic performance is supported by regionally competitive per pupil spending. Balanced payment schedules on existing debt obligations should mean steady tax implications in the future.

Financial challenges face many school districts in the state of Pennsylvania and North Penn School District is not alone in this regard. With the passage of Act 1 of 2006, school districts are faced with a cap on the money that can be funded from a property tax increase. The cap is an inflationary index annually calculated by the Pennsylvania Department of Education (PDE). Act 1 does provide for some exceptions that permit districts to increase property taxes in excess of the cap. Exceptions are approved by the PDE. Limited tax relief arrived starting in the 2008-2009 fiscal year as the state distributed a portion of gambling revenue to offset real estate tax increases. The School District was fortunate to receive \$5,175,590 in the 2017-2018 fiscal year that offset property taxes for those property owners who qualified for the homestead exemption.

The 2017-2018 school year was another strong year financially for the North Penn School District. The District was able to make a \$3.7 million transfer to the Capital Reserve Fund from the General Fund to support capital projects. Finally, the unassigned fund balance in the General Fund decreased from \$24,844,091 to \$20,727,432. Total fund balances in the general fund amounted to a fiscally healthy \$40,917,813.

NORTH PENN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED JUNE 30, 2018

North Penn School District faces the common problem of escalating costs for employee benefits, particularly the medical benefit cost and the retirement expense of the PSERS system. The Affordable Healthcare Act may increase medical benefit costs as a result of the "Cadillac" tax. Each of these costs is established by outside influences and is not, in large part, a discretionary cost that can be controlled by the District.

North Penn School District has committed itself to educational and financial excellence. The District's system of budgeting and internal controls is well regarded and consistently followed. The District was recognized by the Association of School Business Officials International with the prestigious Meritorious Budget Award for the fourth straight year. The District also received a bond rating upgrade to Aa1 from Aa2 Moody's during the prior fiscal year. Continued diligence in all financial matters will be a key component of continued successful financial performance well into the future.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

The financial report is designed to provide the citizens, taxpayers, parents, students, investors and creditors with a general overview of the School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Steve Skrocki, Chief Financial Officer, North Penn School District, 401 East Hancock Street, Lansdale, PA 19446, 215-853-1010, skrocksb@npenn.org or visit the School District's website at www.npenn.org.

NORTH PENN SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 57,187,608	\$ 1,825,761	\$ 59,013,369
Investments	24,319,370	285,655	24,605,025
Taxes receivable	1,936,567	-	1,936,567
Internal balances	502,502	(502,502)	-
Due from other governments	9,990,619	126,853	10,117,472
Other receivables	773,660	31,244	804,904
Inventories	212,556	95,469	308,025
Prepaid expenses	10,769,101	9,080	10,778,181
Capital assets, net of accumulated depreciation			
Land	8,431,732	-	8,431,732
Site improvements	399,135	-	399,135
Buildings and building improvements	153,271,480	-	153,271,480
Furniture and equipment	8,317,458	411,382	8,728,840
Construction in progress	24,176,818	-	24,176,818
TOTAL ASSETS	300,288,606	2,282,942	302,571,548
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding, net of accumulated amortization	728,652	-	728,652
Deferred outflows of resources, pension activity	203,254,000	5,818,000	209,072,000
Deferred outflows of resources, OPEB activity	7,230,284	209,045	7,439,329
TOTAL DEFERRED OUTFLOWS OF RESOURCES	211,212,936	6,027,045	217,239,981
LIABILITIES			
Accounts payable	5,484,713	165,840	5,650,553
Accrued salaries and benefits	28,835,580	104,335	28,939,915
Accrued interest	1,179,508	-	1,179,508
Due to agency funds	13,517	-	13,517
Unearned revenue	231,457	391,046	622,503
Long-term liabilities			
Portion due or payable within one year			
Bonds and note payable	12,145,000	-	12,145,000
Lease-purchase obligations	1,037,901	-	1,037,901
Compensated absences	206,364	-	206,364
Portion due or payable after one year			
Bonds and note payable	84,702,804	-	84,702,804
Lease-purchase obligations	94,727	-	94,727
Compensated absences	4,339,196	-	4,339,196
Net pension liability	530,905,000	15,084,000	545,989,000
Net OPEB liability	30,823,613	891,302	31,714,915
TOTAL LIABILITIES	699,999,380	16,636,523	716,635,903
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources, pension activity	46,531,000	1,305,000	47,836,000
Deferred inflows of resources, OPEB activity	2,042,974	59,068	2,102,042
TOTAL DEFERRED INFLOWS OF RESOURCES	48,573,974	1,364,068	49,938,042
NET POSITION			
Net investment in capital assets	97,344,843	411,382	97,756,225
Restricted	3,847,867	-	3,847,867
Unrestricted	(338,264,522)	(10,101,986)	(348,366,508)
TOTAL NET POSITION	\$ (237,071,812)	\$ (9,690,604)	\$ (246,762,416)

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction				
Regular programs	\$ 134,222,885	\$ -	\$ 13,719,166	\$ -
Special programs	53,042,736	-	4,529,714	-
Vocational education	3,889,430	-	-	-
Other instructional programs	638,766	53,663	11,108,879	-
Nonpublic school programs	27,339	-	-	-
Pre-kindergarten	8,503	-	-	-
Support services				
Pupil personnel services	11,124,026	-	2,185,775	-
Instructional staff services	7,841,162	-	681,192	-
Administration services	15,491,823	-	1,355,924	-
Pupil health services	3,862,885	-	647,475	-
Business services	3,022,233	-	216,046	-
Operation and maintenance of plant services	18,920,256	-	1,325,531	-
Student transportation services	16,358,453	-	3,216,605	-
Central services	4,107,555	-	353,211	-
Other services	346,107	-	-	-
Operation of non-instructional services				
Student activities	3,467,446	103,658	292,377	-
Community services	70,468	-	233	-
Facilities acquisition, construction and improvement				
Interest on long-term debt	2,426,528	-	-	915,701
TOTAL GOVERNMENTAL ACTIVITIES	278,914,664	157,321	39,632,128	915,701
BUSINESS-TYPE ACTIVITIES				
School nutrition services	5,946,345	2,535,044	2,891,629	-
Extended care	2,653,900	2,220,004	6,751	-
Community education	703,957	577,575	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	9,304,202	5,332,623	2,898,380	-
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 288,218,866	\$ 5,489,944	\$ 42,530,508	\$ 915,701

GENERAL REVENUES

Taxes

Property taxes, levied for general purposes

Public utility taxes

Earned income taxes

Grants and contributions not restricted to specific programs

Investment earnings

Receipts from member districts

Gain (loss) on sale of capital assets

Miscellaneous

EXTRAORDINARY LOSS

TRANSFERS

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR, restated

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals
\$ (120,503,719)	\$ -	\$ (120,503,719)
(48,513,022)	-	(48,513,022)
(3,889,430)	-	(3,889,430)
10,523,776	-	10,523,776
(27,339)	-	(27,339)
(8,503)	-	(8,503)
(8,938,251)	-	(8,938,251)
(7,159,970)	-	(7,159,970)
(14,135,899)	-	(14,135,899)
(3,215,410)	-	(3,215,410)
(2,806,187)	-	(2,806,187)
(17,594,725)	-	(17,594,725)
(13,141,848)	-	(13,141,848)
(3,754,344)	-	(3,754,344)
(346,107)	-	(346,107)
(3,071,411)	-	(3,071,411)
(70,235)	-	(70,235)
(46,063)	-	(46,063)
(1,510,827)	-	(1,510,827)
<u>(238,209,514)</u>	<u>-</u>	<u>(238,209,514)</u>
-	(519,672)	(519,672)
-	(427,145)	(427,145)
-	(126,382)	(126,382)
<u>-</u>	<u>(1,073,199)</u>	<u>(1,073,199)</u>
<u>(238,209,514)</u>	<u>(1,073,199)</u>	<u>(239,282,713)</u>
175,782,614	-	175,782,614
187,784	-	187,784
16,752,716	-	16,752,716
15,395,605	-	15,395,605
1,869,443	14,972	1,884,415
378,086	-	378,086
(22,254)	3,386	(18,868)
997,069	12,142	1,009,211
(57,596)	-	(57,596)
129,039	(129,039)	-
<u>211,412,506</u>	<u>(98,539)</u>	<u>211,313,967</u>
(26,797,008)	(1,171,738)	(27,968,746)
<u>(210,274,804)</u>	<u>(8,518,866)</u>	<u>(218,793,670)</u>
<u>\$ (237,071,812)</u>	<u>\$ (9,690,604)</u>	<u>\$ (246,762,416)</u>

NORTH PENN SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 49,794,377	\$ 257,763	\$ 50,052,140
Investments	14,007,678	10,311,692	24,319,370
Taxes receivable	1,936,567	-	1,936,567
Due from other funds	504,235	3,687,284	4,191,519
Due from other governments	9,990,619	-	9,990,619
Other receivables	740,663	-	740,663
Inventories	212,556	-	212,556
Prepaid items	471,302	-	471,302
	<u>77,657,997</u>	<u>14,256,739</u>	<u>91,914,736</u>
TOTAL ASSETS			
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 4,399,992	\$ 1,053,865	\$ 5,453,857
Due to other funds	3,689,738	-	3,689,738
Due to agency funds	13,517	-	13,517
Unearned revenue	231,457	-	231,457
Accrued salaries and benefits	27,003,713	-	27,003,713
	<u>35,338,417</u>	<u>1,053,865</u>	<u>36,392,282</u>
TOTAL LIABILITIES			
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue, property taxes	1,401,767	-	1,401,767
FUND BALANCES			
Nonspendable for			
Inventory	212,556	-	212,556
Prepaid items	471,302	-	471,302
Restricted for capital projects	-	3,847,867	3,847,867
Committed to			
Capital projects	-	5,975,653	5,975,653
Future retirement rate increase	16,806,523	-	16,806,523
Assigned to			
Self-funded insurance	2,700,000	-	2,700,000
Unassigned	20,727,432	3,379,354	24,106,786
	<u>40,917,813</u>	<u>13,202,874</u>	<u>54,120,687</u>
TOTAL FUND BALANCES			
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
	<u>\$ 77,657,997</u>	<u>\$ 14,256,739</u>	<u>\$ 91,914,736</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 54,120,687
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist</p>	
Land	8,431,732
Site improvements	399,135
Buildings and building improvements	153,271,480
Furniture and equipment	8,317,458
Construction in progress	24,176,818
<p>Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Deferred charges	1,527,071
Accumulated amortization	(798,419)
<p>Deferred inflows and outflows of resources related to pension and OPEB activities are not financial resources and therefore, not reported in the governmental funds.</p>	
	161,910,302
<p>The assets and liabilities of certain Internal Service Funds are not included in the fund financial statements but are included in the governmental activities on the statement of net position.</p>	
	15,604,270
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(1,179,508)
Bonds and notes payable	(96,847,804)
Lease-purchase obligations	(1,132,628)
Compensated absences	(4,545,560)
Net pension liability	(530,905,000)
Net OPEB liability	(30,823,613)
<p>Some of the School District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>	
	<u>1,401,767</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (237,071,812)</u>

See accompanying notes to the basic financial statements.

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

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Local sources	\$ 198,901,177	\$ 142,788	\$ 199,043,965
State sources	50,377,168	-	50,377,168
Federal sources	2,865,162	-	2,865,162
TOTAL REVENUES	<u>252,143,507</u>	<u>142,788</u>	<u>252,286,295</u>
EXPENDITURES			
Instruction	159,812,631	-	159,812,631
Support services	67,736,418	-	67,736,418
Operation of non-instructional services	3,011,663	-	3,011,663
Facilities acquisition, construction and improvement services	18,995	9,914,778	9,933,773
Refund of prior year revenues	448,787	-	448,787
Debt service	17,628,512	-	17,628,512
TOTAL EXPENDITURES	<u>248,657,006</u>	<u>9,914,778</u>	<u>258,571,784</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,486,501</u>	<u>(9,771,990)</u>	<u>(6,285,489)</u>
OTHER FINANCING SOURCES (USES)			
Insurance recoveries	16,676	-	16,676
Proceeds from sale of capital assets	13,000	-	13,000
Transfers in	129,039	3,687,284	3,816,323
Transfers out	(3,687,284)	-	(3,687,284)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,528,569)</u>	<u>3,687,284</u>	<u>158,715</u>
EXTRAORDINARY LOSS	<u>(57,596)</u>	<u>-</u>	<u>(57,596)</u>
NET CHANGE IN FUND BALANCES	(99,664)	(6,084,706)	(6,184,370)
FUND BALANCES AT BEGINNING OF YEAR	<u>41,017,477</u>	<u>19,287,580</u>	<u>60,305,057</u>
FUND BALANCES AT END OF YEAR	<u>\$ 40,917,813</u>	<u>\$ 13,202,874</u>	<u>\$ 54,120,687</u>

See accompanying notes to the basic financial statements.

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (6,184,370)
Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$12,691,851) exceeded depreciation (\$11,124,441) in the current period.	1,567,410
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net assets.	(35,254)
Deferred charges are reported in Governmental Funds as expenditures and premiums are reported as revenues. However, in the statement of activities, the cost of those assets is allocated over the term lives of debt instruments as amortization expense. This is the amount of amortization in the current period.	1,118,562
Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Unavailable tax revenues increased by this amount this year.	(361,041)
Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	11,545,000
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds.	
Accrued interest not reflected in Governmental Funds	275,852
Repayment of capital lease principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	2,262,562
In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(449,502)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds.	(39,014,000)
The net change in the liability for the net OPEB liability is reported in the government-wide statements but not in the Governmental Funds statements.	(1,875,112)
Internal Service Funds are used by management to charge the costs of certain activities, such as health insurance, to individual funds. The net revenue (expense) of certain Internal Service Funds is reported with governmental activities.	<u>4,352,885</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (26,797,008)</u>

See accompanying notes to the basic financial statements.

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

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Enterprise Funds	Internal Service Fund Self-Insurance Fund
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 755,342	\$ 788,609	\$ 281,810	\$ 1,825,761	\$ 7,135,468
Investments	285,655	-	-	285,655	-
Due from other funds	-	-	-	-	2,454
Due from other governments	126,853	-	-	126,853	-
Other receivables	16,321	10,202	4,721	31,244	32,997
Inventories	95,469	-	-	95,469	-
Prepaid expenses	-	2,693	6,387	9,080	10,297,799
TOTAL CURRENT ASSETS	1,279,640	801,504	292,918	2,374,062	17,468,718
CAPITAL ASSETS					
Furniture and equipment	1,709,851	-	45,632	1,755,483	-
Accumulated depreciation	(1,327,803)	-	(16,298)	(1,344,101)	-
TOTAL CAPITAL ASSETS	382,048	-	29,334	411,382	-
TOTAL ASSETS	\$ 1,661,688	\$ 801,504	\$ 322,252	\$ 2,785,444	\$ 17,468,718
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources, pension activity	3,177,209	2,204,124	436,667	5,818,000	-
Deferred outflows of resources, OPEB activity	114,566	78,857	15,623	209,046	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,291,775	2,282,981	452,290	6,027,046	-
LIABILITIES AND NET POSITION					
LIABILITIES					
Current liabilities					
Due to other funds	\$ 289,190	\$ 186,786	\$ 26,526	\$ 502,502	\$ 1,733
Accounts payable	117,146	5,177	43,526	165,849	30,848
Accrued salaries and benefits	37,033	61,153	6,149	104,335	1,831,867
Unearned revenue	145,490	144,354	101,202	391,046	-
Long-term liabilities					
Net pension liability	8,154,837	5,783,394	1,145,768	15,083,999	-
Net OPEB liability	488,471	336,221	66,610	891,302	-
TOTAL LIABILITIES	9,232,167	6,517,085	1,389,781	17,139,033	1,864,448
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources, pension activity	707,206	498,947	98,848	1,305,001	-
Deferred inflows of resources, OPEB activity	32,371	22,281	4,414	59,066	-
TOTAL DEFERRED INFLOWS OF RESOURCES	739,577	521,228	103,262	1,364,067	-
NET POSITION					
Net investment in capital assets	382,048	-	29,334	411,382	-
Unrestricted	(5,400,329)	(3,953,828)	(747,835)	(10,101,992)	15,604,270
TOTAL NET POSITION	\$ (5,018,281)	\$ (3,953,828)	\$ (718,501)	\$ (9,690,610)	\$ 15,604,270

See accompanying notes to the basic financial statements.

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

	Business-Type Activities				Governmental Activities
	Enterprise Funds				
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Enterprise Funds	
OPERATING REVENUES					
Charges for services	\$ 2,535,044	\$ 2,223,888	\$ 577,575	\$ 5,336,507	\$ -
Premiums transferred from General Fund	-	-	-	-	30,916,342
Other	8,258	-	-	8,258	45,830
TOTAL OPERATING REVENUES	2,543,302	2,223,888	577,575	5,344,765	30,962,172
OPERATING EXPENSES					
Salaries	1,941,284	1,381,286	227,528	3,550,098	-
Employee benefits	1,741,288	1,161,012	199,676	3,101,976	26,690,002
Purchased professional and technical service	13,677	2,746	157,302	173,725	-
Purchased property service	26,404	-	13,765	40,169	-
Other purchased service	2,729	12,931	55,756	71,416	-
Supplies	2,174,634	95,454	10,161	2,280,249	-
Depreciation	41,984	-	5,371	47,355	-
Other operating expenses	4,345	469	34,398	39,212	11,698
TOTAL OPERATING EXPENSES	5,946,345	2,653,898	703,957	9,304,200	26,701,700
OPERATING LOSS	(3,403,043)	(430,010)	(126,382)	(3,959,435)	4,260,472
NONOPERATING REVENUES					
Investment income	8,612	5,036	1,316	14,964	92,413
Gain on sale of assets	3,386	-	-	3,386	-
State sources	149,129	6,751	-	155,880	-
Federal sources	2,742,500	-	-	2,742,500	-
TOTAL NONOPERATING REVENUES	2,903,627	11,787	1,316	2,916,730	92,413
INCOME BEFORE TRANSFERS	(499,416)	(418,223)	(125,066)	(1,042,705)	4,352,885
TRANSFERS OUT	(50,000)	(79,039)	-	(129,039)	-
CHANGE IN NET POSITION	(549,416)	(497,262)	(125,066)	(1,171,744)	4,352,885
NET POSITION AT BEGINNING OF YEAR, restated	(4,468,865)	(3,456,566)	(593,435)	(8,518,866)	11,251,385
NET POSITION AT END OF YEAR	\$ (5,018,281)	\$ (3,953,828)	\$ (718,501)	\$ (9,690,610)	\$ 15,604,270

See accompanying notes to the basic financial statements.

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

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Enterprise Funds	Internal Service Fund Self-Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,539,920	\$ 2,226,962	\$ 582,367	\$ 5,349,249	\$ -
Premiums transferred from General Fund	-	-	-	-	30,962,172
Payments to employees	(2,936,872)	(2,023,093)	(336,560)	(5,296,525)	-
Payments to suppliers	(1,846,252)	(103,973)	(261,854)	(2,212,079)	(30,568,670)
Payments to other governments	(67,998)	(49,579)	(1,802)	(119,379)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(2,311,202)</u>	<u>50,317</u>	<u>(17,849)</u>	<u>(2,278,734)</u>	<u>393,502</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Facility acquisition, construction and improvements	(176,964)	-	-	(176,964)	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(50,000)	(79,039)	-	(129,039)	-
Federal sources	2,414,633	-	-	2,414,633	-
State sources	145,240	6,751	-	151,991	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>2,509,873</u>	<u>(72,288)</u>	<u>-</u>	<u>2,437,585</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Maturities on investments	226,443	-	-	226,443	-
Earnings on investments	8,612	5,036	1,316	14,964	92,413
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>235,055</u>	<u>5,036</u>	<u>1,316</u>	<u>241,407</u>	<u>92,413</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	256,762	(16,935)	(16,533)	223,294	485,915
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>498,580</u>	<u>805,544</u>	<u>298,343</u>	<u>1,602,467</u>	<u>6,649,553</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 755,342</u>	<u>\$ 788,609</u>	<u>\$ 281,810</u>	<u>\$ 1,825,761</u>	<u>\$ 7,135,468</u>

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

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Enterprise Funds	Internal Service Fund Self-Insurance Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (3,403,043)	\$ (430,010)	\$ (126,382)	\$ (3,959,435)	\$ 4,260,472
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	41,984	-	5,371	47,355	-
Donated foods	308,888	-	-	308,888	-
Pension expense	618,740	425,888	84,376	1,129,004	-
OPEB expense	29,774	20,494	4,060	54,328	-
(Increase) decrease in					
Due from other funds	-	-	-	-	(2,454)
Other receivables	(4,730)	(1,616)	(2,854)	(9,200)	(13,084)
Inventories	10,140	-	-	10,140	-
Prepaid expenses	-	(1,650)	12,039	10,389	(3,815,315)
Increase (decrease) in					
Due to other funds	37,242	8,057	(6,839)	38,460	1,533
Accounts payable	19,267	1,220	4,328	24,815	(1,599)
Accrued salaries and benefits	29,188	23,244	406	52,838	(36,051)
Unearned revenue	1,348	4,690	7,646	13,684	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u>(2,311,202)</u>	\$ <u>50,317</u>	\$ <u>(17,849)</u>	\$ <u>(2,278,734)</u>	\$ <u>393,502</u>
SUPPLEMENTAL DISCLOSURES					
Noncash activities					
Donated foods	\$ 308,888	\$ -	\$ -	\$ 308,888	\$ -

See accompanying notes to the basic financial statements.

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

	<u>Scholarship Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 242,063	\$ 453,768
Investments	279,252	-
Due from primary government	<u>-</u>	<u>13,517</u>
TOTAL ASSETS	521,315	\$ <u><u>467,285</u></u>
LIABILITIES		
Accounts payable	<u>83,080</u>	\$ <u><u>467,285</u></u>
NET POSITION		
Held in trust for benefits and other purposes	<u><u>\$ 438,235</u></u>	

See accompanying notes to the basic financial statements.

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

	<u>Scholarship Trust Funds</u>
ADDITIONS	
Contributions	\$ -
Investment earnings	30,507
TOTAL ADDITIONS	<u>30,507</u>
DEDUCTIONS	
Scholarships awarded and fees paid	<u>4,500</u>
CHANGE IN NET POSITION	26,007
NET POSITION AT BEGINNING OF YEAR	<u>412,228</u>
NET POSITION AT END OF YEAR	<u><u>\$ 438,235</u></u>

See accompanying notes to the basic financial statements.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. In addition, component units can be organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. This report presents the activities of the North Penn School District. Based upon the application of these criteria, the School District is not a component unit of another reporting entity. Currently, the School District does not have any potential component units that should be included in the School District's reporting entity.

Basis of Presentation and Accounting

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 a Proprietary Fund's principal ongoing operations. The principal operating revenues of the School District's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Trust Funds are reported using the economic resources measurement focus.

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

Fund Accounting

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

Governmental Funds

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

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition and construction of capital equipment and improvements in accordance with the applicable general obligation bond agreements. The School District's Capital Reserve Fund is accounted for in this fund type.

Proprietary Funds

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by an activity to other departments, funds, or component units of the School District on a cost-reimbursement basis. Because the principal users of the internal services are the School District's governmental activities, the financial statements of the Internal Service Fund are consolidated into the governmental activities column when presented in the government-wide financial statements.

Self-Insurance Fund - The Self-Insurance Fund is used to account for all financial transactions related to the administration of the School District's self-insured health plans.

Fiduciary Funds

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

Cash and Cash Equivalents

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition and no restrictions on withdrawal.

Investments

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-Term Interfund Receivables/Payables

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

Inventories and Prepaid Items

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

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

Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School District defines a capital asset as an asset with an initial, individual cost equal to or greater than \$5,000 or purchased with debt proceeds and must also have an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

	<u>Years</u>
Site improvements	15-20
Buildings and building improvements	10-45
Furniture and equipment	5-20

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned Revenue

Unearned revenue arises when assets are recognized before the revenue recognition criteria have been satisfied. Such is the case when resources are received by the School 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 revenue recognition criteria are met or when the School District has a legal claim to the resources, the liability for unearned revenue is removed from the Governmental Funds balance sheet and revenue is recognized.

Long-Term Obligations

In the government-wide financial statements and Proprietary Fund Types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized during the period in which they were incurred.

In the fund financial statements, Governmental Funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

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

Fund Equity

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has three items that qualify for reporting in this category. They are the deferred charge on refunding reported in the government-wide statement of net position and the deferred outflow related to pension and OPEB activity, reported in the government-wide statement of net position and the proprietary fund statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition prices. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pension and OPEB activity are reported in the statement of net position and are deferred and recognized as an outflow of resources in the period to which the expense applies.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has three items that qualify for reporting in this category. The first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. The other items, deferred inflows related to pension and OPEB activity, are reported in the government-wide statement of net position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the School District will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and Proprietary Fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

The School District has previously implemented 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 the School District's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable** - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints. Fund balance types of this category are inventories and prepaid expenditures.
- **Restricted** - Amounts that can be spent only for specific purposes stipulated by external **resource** providers or through enabling legislation. Fund balance types in this category include amounts for capital projects.
- **Committed** - Amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and do not lapse at year-end. Fund balance of this type is for the retirement rate increase. Since the School District is required to contribute to the retirement plan, the retirement rate increase has been set up by the Board of School Directors to provide for any fluctuations to the rate increases. Additional amounts have been committed for future capital projects.
- **Assigned** - Amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School District Manager and/or School District Finance Director. Fund balance of this type includes amounts for debt service along with funds to be set aside for self-insurance funding.
- **Unassigned** - Amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. It is the policy of the School District to follow state requirements that unassigned fund balance will not exceed 8% of the subsequent year operating budget in the unassigned category.

The Board of School Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. Assigned fund balance is intended to be used by the government for specific purposes but does not meet the criteria to be classified as restricted or committed. The details of the fund balances are included in the Governmental Funds balance sheet (page 18). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of School Directors. The School District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

NOTE B - CASH AND INVESTMENTS

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. Of the bank balance, \$855,204 was covered by federal depository insurance. As of June 30, 2018, \$59,849,548 of the School District's bank balance of \$60,704,752 was exposed to custodial credit risk as follows:

Uninsured by FDIC but covered under a Letter of Credit held by the FHLB in the School District's name	\$ <u>59,849,548</u>
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Interest Rate Risk - The School District's investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments

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

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Investment Maturities Less Than One Year</u>
State investment pools	\$ 19,625,025	\$ -	\$ 19,625,025
Certificates of deposit	<u>4,980,000</u>	<u>-</u>	<u>4,980,000</u>
	<u>\$ 24,605,025</u>	<u>\$ -</u>	<u>\$ 24,605,025</u>

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

NOTE B - CASH AND INVESTMENTS (Continued)

A portion of the School District's investments is in the PSDLAF program, of which are funds similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer's investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PSDLAF cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at June 30, 2018, is \$19,625,025. These assets maintain a stable net asset value of \$1 per share. PSDLAF is not SEC-registered. All investments are monitored weekly by Standard & Poor's and are subject to an independent audit on an annual basis.

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

Certificates of deposit held by banks of \$4,980,000 are stated at cost plus interest earned.

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

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

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

Concentration of Credit Risk - The School District does not have an investment in any one issue that is in excess of 5% of the School District's total investments.

Fair Value Measurement

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

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

NOTE C - TAXES - REAL ESTATE AND OTHER

The School Board is authorized by state law to levy property taxes for School District operations, capital improvements and debt service. In addition, the School District levies a .5% earned income tax. Property taxes are based on assessed valuations of real property within the School District.

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

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

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

NOTE D - RECEIVABLES

Receivables at June 30, 2018, consisted of taxes, other revenue and intergovernmental grants and entitlements. The real estate taxes receivable account represents real estate transfer taxes and prior year uncollected tax levies. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of receivables by fund is as follows:

	General Fund	School Nutrition Services Fund	Extended Care Fund	Community Education Fund
Real estate taxes	\$ 1,910,198	\$ -	\$ -	\$ -
Earned income taxes	26,369	-	-	-
Federal subsidies	1,288,731	119,298	-	-
State subsidies	8,701,888	7,555	-	-
Other revenue	<u>740,663</u>	<u>16,321</u>	<u>10,202</u>	<u>4,721</u>
	<u>\$ 12,667,849</u>	<u>\$ 143,174</u>	<u>\$ 10,202</u>	<u>\$ 4,721</u>

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

NOTE E - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	School Nutrition Services Fund	\$ 289,190
General Fund	Community Education Fund	26,526
General Fund	Extended Care Fund	186,786
General Fund	Self-Insurance Fund	1,733
Other Governmental Funds	General Fund	<u>3,687,284</u>
		4,191,519
Agency Funds	General Fund	<u>13,157</u>
		<u>\$ 4,204,676</u>

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." The amounts between the General Fund, School Nutrition Services Fund, Extended Care Fund and Community Education Fund are for payroll. The amounts between the General Fund and Other Governmental Funds are for future capital projects. The amounts between the General Fund and the Self-Insurance Fund are for insurance premiums.

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Reserve Fund	General Fund	\$ 3,687,284
General Fund	Extended Care Fund	<u>79,039</u>
		<u>\$ 3,766,323</u>

The Board approved a transfer from the General Fund to the Capital Reserve Fund. In addition, the School District made a transfer from the General Fund to the Self-Insurance Fund to fund insurance premiums.

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

NOTE F - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2017	Additions/ Reclasses	Deletions/ Reclasses	Balance June 30, 2018
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 8,431,732	\$ -	\$ -	\$ 8,431,732
Construction in progress	17,907,684	10,738,863	(4,469,729)	24,176,818
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	26,339,416	10,738,863	(4,469,729)	32,608,550
Capital assets being depreciated				
Site improvements	661,917	-	-	661,917
Buildings and building improvements	269,770,211	4,142,837	-	273,913,048
Furniture and equipment	35,833,380	2,279,880	(1,910,565)	36,202,695
TOTAL CAPITAL ASSETS BEING DEPRECIATED	306,265,508	6,422,717	(1,910,565)	310,777,660
Accumulated depreciation				
Site improvements	(224,762)	(38,020)	-	(262,782)
Buildings and building improvements	(112,947,853)	(7,693,715)	-	(120,641,568)
Furniture and equipment	(26,367,842)	(3,392,706)	1,875,311	(27,885,237)
TOTAL ACCUMULATED DEPRECIATION	(139,540,457)	(11,124,441)	1,875,311	(148,789,587)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	166,725,051	(4,701,724)	(35,254)	161,988,073
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	193,064,467	6,037,139	(4,504,983)	194,596,623
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	1,575,133	180,351	-	1,755,484
Accumulated depreciation	(1,296,747)	(47,354)	-	(1,344,101)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	278,386	132,997	-	411,383
CAPITAL ASSETS, net	\$ 193,342,853	\$ 6,170,136	\$ (4,504,983)	\$ 195,008,006

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

NOTE F - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

INSTRUCTION	
Regular programs	\$ 6,266,897
Special programs	882,371
Other instructional programs	307,998
SUPPORT SERVICES	
Pupil personnel services	139,418
Instructional staff services	71,822
Administration services	388,054
Pupil health services	57,043
Business services	93,642
Operation and maintenance of plant services	871,688
Student transportation services	1,580,202
Central and other services	431,678
OPERATION OF NON-INSTRUCTIONAL SERVICES	
Student activities	<u>33,628</u>
	<u>\$ 11,124,441</u>

NOTE G - LEASES

Capital Leases

The School District has entered into lease agreements as lessee for financing the acquisition of computers and buses. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Computer equipment	\$ 5,829,671
Buses	<u>934,540</u>
	6,764,211
Accumulated depreciation	<u>(4,978,483)</u>
	<u>\$ 1,785,728</u>

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

NOTE G - LEASES (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, were as follows:

<u>Year Ending June 30,</u>	
2019	\$ 1,053,516
2020	<u>96,672</u>
	1,150,188
Amount representing interest	<u>(17,560)</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	<u>\$ 1,132,628</u>

NOTE H - LONG-TERM DEBT

General Obligation Bonds and Note

The School District issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. At June 30, 2018, the outstanding balance of general obligation bonds and note issued was \$92,290,000.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 12,145,000	\$ 3,259,164
2020	11,995,000	2,691,067
2021	11,410,000	2,151,887
2022	9,545,000	1,582,182
2023	9,775,000	1,352,319
2024 to 2027	<u>37,420,000</u>	<u>2,796,119</u>
	<u>\$ 92,290,000</u>	<u>\$ 13,832,738</u>

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

NOTE I - CHANGES IN LONG-TERM LIABILITIES

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

	<u>Interest Rate</u>	<u>Maturity Date</u>
GENERAL OBLIGATION BONDS AND NOTE		
Bonds		
Series of 2008	3.50% to 4.25%	3/1/2018
Series of 2010	2.00% to 5.00%	3/1/2020
Series A of 2010	.50% to 5.00%	3/1/2020
Series of 2013	1.00% to 2.25%	3/1/2023
Series of 2014	2.00% to 4.00%	3/1/2024
Series of 2015	1.50% to 4.00%	3/1/2025
Series of 2016	2.00%	2/1/2026
Series of 2017	1.75% to 5.00%	3/1/2027
Series A of 2017	1.35% to 5.00%	3/1/2021
Deferred amounts		
Issuance premiums/discounts		
TOTAL GENERAL OBLIGATION BONDS AND NOTE		
CAPITAL LEASES		
COMPENSATED ABSENCES		
NET OPEB OBLIGATION		
NET PENSION LIABILITY		
TOTAL LONG-TERM LIABILITIES		

The General Fund has been used to liquidate other long-term liabilities in prior years.

NOTE J - DEFEASED DEBT

In prior years, certain bonds were defeased in substance by placing an amount in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the in-substance defeased bonds are not included in the School District's financial statements.

As of June 30, 2018, the School District has defeased debt outstanding of \$25,240,000.

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ 4,265,000	\$ -	\$ (4,265,000)	\$ -	\$ -
14,205,000	-	(3,685,000)	10,520,000	8,275,000
10,720,000	-	(3,445,000)	7,275,000	3,560,000
9,930,000	-	(5,000)	9,925,000	5,000
9,975,000	-	(75,000)	9,900,000	165,000
9,930,000	-	(55,000)	9,875,000	125,000
9,840,000	-	(5,000)	9,835,000	5,000
17,570,000	-	(5,000)	17,565,000	5,000
17,400,000	-	(5,000)	17,395,000	5,000
<u>103,835,000</u>	<u>-</u>	<u>(11,545,000)</u>	<u>92,290,000</u>	<u>12,145,000</u>
5,804,174	-	(1,246,370)	4,557,804	-
<u>109,639,174</u>	<u>-</u>	<u>(12,791,370)</u>	<u>96,847,804</u>	<u>12,145,000</u>
3,395,190	-	(2,262,562)	1,132,628	1,037,901
4,096,058	536,675	(87,173)	4,545,560	206,364
5,998,620	31,714,915	(5,998,620)	31,714,915	-
<u>374,055,000</u>	<u>171,934,000</u>	<u>-</u>	<u>545,989,000</u>	<u>-</u>
<u>\$ 497,184,042</u>	<u>\$ 204,185,590</u>	<u>\$ (21,139,725)</u>	<u>\$ 680,229,907</u>	<u>\$ 13,389,265</u>

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

NOTE K - UNEARNED REVENUE

General Fund

Program grants received prior to the incurrence of qualifying expenditures are recorded as deferred revenue. At June 30, 2018, unearned revenue consisted of \$231,457, which represents funds received to be used for future expenditures.

School Nutrition Services Fund

Unearned revenue of \$145,490 in the School Nutrition Services Fund represents the carryover of student deposits.

Extended Care Fund

Unearned revenue of \$144,354 represents deposits received for 2018-2019 school year programs.

Community Education Fund

Unearned revenue of \$101,202 represents deposits received for 2018-2019 school year programs.

NOTE L - PENSIONS

Summary of Significant Accounting Policies

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

General Information About the Pension Plan

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

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

NOTE L - PENSIONS (Continued)

Benefits Provided - PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

Members Contributions

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with services rendered on or after January 1, 2002.

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

NOTE L - PENSIONS (Continued)

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

Employer Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2017, was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the plan from the School District were \$35,740,000 for the year ended June 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$545,989,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the School District's proportion was 1.1055%, which was an increase of 0.3507% from its proportion measured as of June 30, 2016.

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

NOTE L - PENSIONS (Continued)

For the year ended June 30, 2018, the School District recognized pension expense of \$79,106,000. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
GOVERNMENTAL ACTIVITIES		
Difference between expected and actual experience	\$ 5,536,000	\$ 3,206,000
Changes in assumptions	14,415,000	-
Net difference between projected and actual investment earnings	12,296,000	-
Changes in proportions	129,037,000	38,237,000
Difference between employer contributions and proportionate share of total contributions	4,103,000	5,088,000
Contributions subsequent to the measurement date	<u>37,867,000</u>	<u>-</u>
	<u>\$ 203,254,000</u>	<u>\$ 46,531,000</u>
BUSINESS-TYPE ACTIVITIES		
Difference between expected and actual experience	\$ 160,000	\$ 93,000
Changes in assumptions	417,000	-
Net difference between projected and actual investment earnings	356,000	-
Changes in proportions	3,670,000	1,065,000
Difference between employer contributions and proportionate share of total contributions	119,000	147,000
Contributions subsequent to the measurement date	<u>1,096,000</u>	<u>-</u>
	<u>\$ 5,818,000</u>	<u>\$ 1,305,000</u>

\$38,963,000 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the new pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2018	\$ 28,751,000	\$ 832,000
2019	32,525,000	941,000
2020	26,817,000	776,000
2021	<u>30,763,000</u>	<u>868,000</u>
	<u>\$ 118,856,000</u>	<u>\$ 3,417,000</u>

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

NOTE L - PENSION (Continued)

Changes in Actuarial Assumptions

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

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

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

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

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

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School District's proportionate share of the net pension liability	\$ <u>672,065,000</u>	\$ <u>545,989,000</u>	\$ <u>439,545,000</u>

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

NOTE M - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - PSERS

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

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

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

Premium Assistance Eligibility Criteria

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

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

Pension Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include 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.pa.gov.

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

NOTE M - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) -PSERS
(Continued)

Benefits Provided

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

Contributions

The Districts' contractually required contribution rate for the fiscal year ended June 30, 2017 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$296,600 for the year ended June 30, 2017.

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

At June 30, 2018, the District reported a liability of \$22,524,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.2263% percent, which was a decrease of 0.0060% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized OPEB expense of \$769,943. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
GOVERNMENTAL ACTIVITIES		
Changes in assumptions	\$ -	\$ 1,018,551
Net difference between projected and actual investment earnings	23,326	-
Changes in proportions	6,293,150	-
Difference between employer contributions and proportionate share of total contributions	-	749,497
Contributions subsequent to the measurement date	<u>314,210</u>	<u>-</u>
	<u>\$ 6,630,686</u>	<u>\$ 1,768,048</u>

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

NOTE M - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) -PSERS
(Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
BUSINESS-TYPE ACTIVITIES		
Changes in assumptions	\$ -	\$ 29,449
Net difference between projected and actual investment earnings	677	-
Changes in proportions	181,948	-
Difference between employer contributions and proportionate share of total contributions	-	21,670
Contributions subsequent to the measurement date	<u>9,085</u>	<u>-</u>
	<u>\$ 191,709</u>	<u>\$ 51,119</u>

\$323,295 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2019	\$ 944,784	\$ 27,316
2020	944,784	27,316
2021	944,784	27,316
2022	944,784	27,316
2023	938,953	27,147
Thereafter	<u>(169,662)</u>	<u>(4,905)</u>
	<u>\$ 4,548,427</u>	<u>\$ 131,506</u>

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

NOTE M - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) -PSERS
(Continued)

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate.
- Eligible retirees will elect to participate Pre age 65 at 50%.
- Eligible retirees will elect to participate Post age 65 at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

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

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

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

NOTE M - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) -PSERS
(Continued)

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

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

Discount Rate

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

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

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

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

NOTE M - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) -PSERS
(Continued)

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

	1% Decrease	Current Rate	1% Increase
System net OPEB liability	\$ <u>22,518,000</u>	\$ <u>22,524,000</u>	\$ <u>22,528,000</u>

Sensitivity of the Net OPEB Liability to Change in the Discount Rate

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

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the net OPEB liability	\$ <u>25,603,000</u>	\$ <u>22,524,000</u>	\$ <u>19,965,000</u>

NOTE N - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – SINGLE EMPLOYER PLAN

Plan Description

The School administers a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors has the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

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

NOTE N - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – SINGLE EMPLOYER PLAN (Continued)

Plan Membership

At June 30, 2018, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	41
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>1,831</u>
	<u><u>1,872</u></u>

Funding Policy and Funding Status

The plan is an unfunded plan with no assets accumulated in a trust. Contributions to the plan are equal to benefit payments. For the year ending June 30, 2018 benefit payments paid as they came due were \$307,357.

Benefits Provided

The plan provides the following benefits:

Administrators

Administrators who retired before July 1, 2011 shall be eligible for up to \$1,500 per year reimbursement of premiums for medical and prescription drug insurance for the member only until Medicare age. Superintendents and administrators who retire after July 1, 2011, and who are eligible for PSERS retirement, shall be eligible for participation in medical, prescription drug, dental, and vision insurance until Medicare age. Members are responsible for the full premium.

In addition, for Superintendents and administrators who retired prior to July 1, 2011, the member is entitled to participate in group life insurance with the School District paying the premiums until the member reaches Medicare age. Members may then continue coverage by paying the full premium until age 70.

Administrators who retire after July 1, 2011 are entitled to participate in group life insurance coverage until age 70. Members are responsible for the full premium.

All Other Employees

All employees other than administrators, who are eligible for PSERS retirement, will be eligible to participate in group coverage for medical and prescription drug insurance until reaching Medicare age. Members are responsible for the full premium.

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

NOTE N - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – SINGLE EMPLOYER PLAN (Continued)

Assumptions

The following assumptions and actuarial methods and calculation were used:

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

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

Health Care Cost Trend Rate - 6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

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

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

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

Disability - No disability was assumed.

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

Percent of Eligible Retirees Electing Coverage in Plan – 50% of teachers and administrators and 20% of the support staff are assumed to elect coverage. 75% of administrators are assumed to elect life insurance coverage.

Percent Married at Retirement - 25% of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.

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

NOTE N - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – SINGLE EMPLOYER PLAN (Continued)

Spouse Age - Wives are assumed to be two years younger than their husbands.

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

Actuarial Value of Assets - Equal to the Market Value of Assets.

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

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

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2017	\$ <u>8,486,785</u>
Changes for the year	
Service cost	666,971
Interest cost	223,783
Change in benefit terms	(2,527)
Changes for experience	(308,591)
Changes in assumptions	431,851
Benefit payments	<u>(307,357)</u>
Net changes	<u>704,130</u>
Balance at June 30, 2018	\$ <u><u>9,190,915</u></u>

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

NOTE N - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – SINGLE EMPLOYER PLAN (Continued)

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

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

	1% Decrease <u>2.13%</u>	Current Discount Rate <u>3.13%</u>	1% Increase <u>4.13%</u>
Total OPEB liability	\$ <u>9,897,700</u>	\$ <u>9,190,915</u>	\$ <u>8,523,469</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	1% <u>Decrease</u>	Current <u>Rates</u>	1% <u>Increase</u>
Total OPEB liability	\$ <u>8,118,147</u>	\$ <u>9,190,915</u>	\$ <u>10,465,843</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - For the year ended June 30, 2018, the School recognized OPEB expense of \$898,499. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
GOVERNMENTAL ACTIVITIES		
Changes in assumptions	\$ 384,739	\$ -
Difference between expected and actual experience	-	274,926
Contributions subsequent to the measurement date	<u>214,859</u>	<u>-</u>
	<u>\$ 599,598</u>	<u>\$ 274,926</u>

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

NOTE N - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – SINGLE EMPLOYER PLAN (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
BUSINESS-TYPE ACTIVITIES		
Changes in assumptions	\$ 11,124	\$ -
Changes in proportion	-	-
Difference between expected and actual experience	-	7,949
Net difference between projected and actual investments earnings	-	-
Contributions subsequent to the measurement date	<u>6,212</u>	<u>-</u>
	<u>\$ 17,336</u>	<u>\$ 7,949</u>

\$221,071 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2019	\$ 9,983	\$ 289
2020	9,983	289
2021	9,983	289
2022	9,983	289
2023	9,983	289
Thereafter	<u>59,896</u>	<u>1,732</u>
	<u>\$ 109,813</u>	<u>\$ 3,175</u>

NOTE O - COMPENSATED ABSENCES AND EARLY RETIREMENT INCENTIVE PLAN

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

The liability to current employees is estimated and will change since unused vacation will be paid at the rate of pay in effect at the time of separation. These accumulated leaves are recorded as an expenditure in the period taken or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, which was \$1,448,813 at June 30, 2018, is recorded in compensated absences on the statement of net position.

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

NOTE O - COMPENSATED ABSENCES AND EARLY RETIREMENT INCENTIVE PLAN
(Continued)

The School District pays various per diem rates to retirees for unused sick time. Compensation payable in future years, which was \$3,096,747 at June 30, 2018, is recorded in compensated absences on the statement of net position.

NOTE P - COMMITMENTS AND CONTINGENCIES

There are a number of tax assessment appeals in the Court of Common Pleas of Montgomery County from the decisions of the Board of Assessment Appeals. Legal counsel for the School District cannot give an opinion on the outcome of these appeals nor can they reasonably estimate the financial impact.

NOTE Q - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the School District to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE R - JOINT VENTURE

The School District is a participating member of the North Montco Technical Career Center (the "Center"). The Center is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The Board of School Directors of each participating district must approve the Center's annual operating budget. Each participating district pays a pro rata share of the Center's operating costs based on the number of students attending the Center from each district. The School District's share of the Center's operating costs for 2017-2018 was \$3,889,430.

On dissolution of the Center, the net position of the Center will be shared on a pro rata basis of each participating district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the School District does not have an equity interest in the Center, as defined by GASB Statement No. 14, except a residual interest in net assets upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the Center can be obtained from the Center's administrative office.

In June 2010, the District entered into a long-term sublease agreement with the Center through May 2031 for a portion of the debt service payments on the Center's School Lease Revenue Bonds, Series of 2010.

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

NOTE R - JOINT VENTURE (Continued)

Future minimum sublease payments are as follows:

Year Ending June 30,	
2019	\$ 195,925
2020	200,535
2021	207,450
2022	214,365
2023	223,585
2024-2028	1,260,835
2029-2031	<u>885,120</u>
	<u>\$ 3,187,815</u>

NOTE S - DONATED FOODS

The School Nutrition Services Fund generally contains inventories which consist of both food commodities donated by the federal government and other food and supply inventories. Donated food inventory is valued at last unit cost in accordance with the recommendations of the Food Nutrition Service of the Department of Agriculture and are expensed as used. There was \$95,469 in donated foods in the Proprietary Fund's inventory balance at June 30, 2018.

NOTE T - SELF-INSURANCE

In July 2011, the School District elected to sponsor a self-insured employee welfare benefit plan for health care coverage. An administrative services agreement was signed with a third-party insurance company (claims administrator) to administer the costs and claims associated with the plan. The agreement required the School District to establish a deposit with the administrator. These funds are reported as prepaid expenses on the statement of net position in the amount of \$10,297,799. The deposit will be used to pay claims, retention charges and broker commissions incurred prior to but paid after the date of determination. The deposit is intended to secure only the School District's obligations to the claims administrator and has no effect, application, or operation regarding the School District's direct obligation to the benefit program. The claims administrator may, in its discretion, require a greater or lesser deposit amount from the School District to secure the School District's obligations under the agreement. If the claims administrator requires a lesser amount, the School District will receive a refund or credit.

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

NOTE U - PRIOR PERIOD ADJUSTMENT

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

For the government-wide governmental activities, the School District has treated their proportionate share of the beginning of year PSERS net OPEB liability of \$15,801,150 and deferred outflows of resources of \$288,266 and the beginning of year single employer OPEB plan liability of \$8,248,306 as having been recognized in the period incurred. As part of the implementation, the previously recognized obligation for other postemployment benefits under GASB 45 in the amount of \$5,998,620 will be reversed. The School District has adjusted beginning net position for the governmental activities from (\$192,512,233) to (\$210,274,804).

For the business-type activities, the School District has treated their proportionate share of the beginning of year PSERS net OPEB liability of \$456,850 and deferred outflows of resources of \$8,334 and the beginning of year single employer OPEB plan liability of \$238,479 as having been recognized in the period incurred. The School District has adjusted beginning net position for the business-type activities as follows:

Fund	Previously Reported Amount	Change	Currently Reported Amount
Food Service Fund	\$ (4,092,363)	\$ (376,502)	\$ (4,468,865)
Extended Day Fund	(3,197,415)	(259,151)	(3,456,566)
Community Education Fund	(542,094)	(51,341)	(593,435)
	<u>\$ (7,831,872)</u>	<u>\$ (686,994)</u>	<u>\$ (8,518,866)</u>

NOTE V – SUBSEQUENT EVENT

On December 3, 2018, the School District issued \$9,565,000 of General Obligation Bonds for the purposes of construction and renovation of district owned facilities. The bonds mature starting in 2024 through 2034 with interest on the bonds being due March 1 and September 1 of each year with rates ranging from 2.80% to 3.20%.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 194,007,132	\$ 194,007,132	\$ 198,901,177	\$ 4,894,045
State sources	50,756,788	50,756,788	50,377,168	(379,620)
Federal sources	2,983,043	2,983,043	2,865,162	(117,881)
TOTAL REVENUES	<u>247,746,963</u>	<u>247,746,963</u>	<u>252,143,507</u>	<u>4,396,544</u>
EXPENDITURES				
Instruction	163,555,282	161,437,681	159,812,631	1,625,050
Support services	69,417,264	69,707,484	67,736,418	1,971,066
Operation of non-instructional services	3,257,752	3,283,907	3,011,663	272,244
Facilities acquisition, construction and improvement services	-	-	18,995	(18,995)
Debt service	15,321,588	17,628,528	17,628,512	16
Refund of prior year revenues	100,000	100,000	448,787	(348,787)
TOTAL EXPENDITURES	<u>251,651,886</u>	<u>252,157,600</u>	<u>248,657,006</u>	<u>3,500,594</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,904,923)</u>	<u>(4,410,637)</u>	<u>3,486,501</u>	<u>7,897,138</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	10,000	10,000	13,000	3,000
Transfers in	100,000	100,000	129,039	29,039
Transfers out	-	-	(3,687,284)	(3,687,284)
Budgetary reserve	(750,000)	(244,286)	-	244,286
TOTAL OTHER FINANCING SOURCES (USES)	<u>(640,000)</u>	<u>(134,286)</u>	<u>(3,545,245)</u>	<u>(3,410,959)</u>
EXTRAORDINARY LOSS	<u>-</u>	<u>-</u>	<u>(57,596)</u>	<u>(57,596)</u>
NET CHANGE IN FUND BALANCE	<u>(4,544,923)</u>	<u>(4,544,923)</u>	<u>(116,340)</u>	<u>4,428,583</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>33,422,215</u>	<u>33,422,214</u>	<u>41,017,477</u>	<u>(7,595,263)</u>
FUND BALANCE AT END OF YEAR	<u>\$ 28,877,292</u>	<u>\$ 28,877,291</u>	<u>\$ 40,901,137</u>	<u>\$ (3,166,680)</u>

See accompanying notes to the budgetary comparison schedule.

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2018

NOTE A - BUDGETARY INFORMATION

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

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

1. In January, the School District must make the Act 1 preliminary budget available for public inspection 20 days prior to the School Board vote.
2. The School Board of Directors must approve the Act 1 preliminary budget 90 days prior to the Pennsylvania primary election.
3. The operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following July 1.
4. Public hearings are conducted at the School District offices to obtain taxpayer comments.
5. Prior to July 1, the budget is legally enacted through passage of an ordinance.
6. The Business Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
7. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for the Special Revenue Funds. Formal budgetary integration is also not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
8. Budgeted amounts are as originally adopted or as amended by the School Board.

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2018

NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2018, expenditures exceeded appropriations in the following General Fund department levels (the legal level of budgetary control):

Facilities acquisition, construction and improvement services	\$ <u>18,995</u>
Refund of prior year revenues	\$ <u>348,787</u>

These excess expenditures were funded by available fund balance in the General Fund.

NORTH PENN SCHOOL DISTRICT
SCHEDULES OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
SCHOOL DISTRICT'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	<u>1.1055%</u>	<u>0.7548%</u>	<u>0.9051%</u>	<u>0.8931%</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	<u>\$ 545,989,000</u>	<u>\$ 374,055,000</u>	<u>\$ 392,046,000</u>	<u>\$ 353,497,000</u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	<u>\$ 147,188,129</u>	<u>\$ 97,749,376</u>	<u>\$ 116,454,969</u>	<u>\$ 113,971,850</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	<u>370.95%</u>	<u>382.67%</u>	<u>336.65%</u>	<u>310.16%</u>
THE PLAN'S FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>51.84%</u>	<u>50.14%</u>	<u>45.64%</u>	<u>57.24%</u>

NOTES TO SCHEDULES

The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2017, 2016, 2015 and 2014).

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

NORTH PENN SCHOOL DISTRICT
SCHEDULES OF THE SCHOOL DISTRICT'S CONTRIBUTIONS
LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CONTRACTUALLY REQUIRED CONTRIBUTION	\$ 38,963,000	\$ 35,740,000	\$ 29,998,000	\$ 23,825,000
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>38,963,000</u>	<u>35,740,000</u>	<u>29,998,000</u>	<u>23,825,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	<u>\$ 126,248,276</u>	<u>\$ 147,188,129</u>	<u>\$ 97,749,376</u>	<u>\$ 116,454,969</u>
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>30.86%</u>	<u>24.28%</u>	<u>30.69%</u>	<u>20.46%</u>

NOTE TO SCHEDULES

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

NORTH PENN SCHOOL DISTRICT

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

SCHOOL DISTRICT'S PROPORTION OF THE NET OPEB LIABILITY (ASSET)	<u><u>1.1055%</u></u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)	<u><u>\$ 22,524,000</u></u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	<u><u>\$ 147,188,129</u></u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	<u><u>15.30%</u></u>
THE PLAN'S FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY	<u><u>5.73%</u></u>

NOTES TO SCHEDULE

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

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

NORTH PENN SCHOOL DISTRICT

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

CONTRACTUALLY REQUIRED CONTRIBUTION	\$ 323,295
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>323,295</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u><u>-</u></u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	\$ <u><u>147,188,129</u></u>
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u><u>0.22%</u></u>

NOTE TO SCHEDULE

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

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

TOTAL OPEB LIABILITY	
Service cost	\$ 666,971
Interest	223,783
Change in benefit terms	(2,527)
Changes in experience	(308,591)
Changes of assumptions	431,851
Benefit payments	<u>(307,357)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	704,130
TOTAL OPEB LIABILITY, BEGINNING	<u>8,486,785</u>
TOTAL OPEB LIABILITY, ENDING	<u>\$ 9,190,915</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 116,833,571</u>
TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>7.87%</u>

NOTES TO SCHEDULE

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

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

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

SUPPLEMENTARY INFORMATION SECTION

NORTH PENN SCHOOL DISTRICT
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2018

	Capital Project Funds					Total Other Governmental Funds
	Capital Reserve Fund	2017/2018 Bond Fund	2016/2017 Bond Fund	2014/2015 Bond Fund	2013 Bond Fund	
ASSETS						
Cash and cash equivalents	\$ 632	\$ -	\$ 540	\$ 19,716	\$ 236,875	\$ 257,763
Investments	3,314,840	3,386,098	1,409,661	2,201,093	-	10,311,692
Due from other funds	3,687,284	-	-	-	-	3,687,284
TOTAL ASSETS	\$ 7,002,756	\$ 3,386,098	\$ 1,410,201	\$ 2,220,809	\$ 236,875	\$ 14,256,739
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 1,027,103	\$ 6,744	\$ 18,210	\$ -	\$ 1,808	\$ 1,053,865
FUND BALANCES						
Restricted for capital projects	-	-	1,391,991	2,220,809	235,067	3,847,867
Committed to capital projects	5,975,653	-	-	-	-	5,975,653
Unassigned	-	3,379,354	-	-	-	3,379,354
TOTAL FUND BALANCES	5,975,653	3,379,354	1,391,991	2,220,809	235,067	13,202,874
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,002,756	\$ 3,386,098	\$ 1,410,201	\$ 2,220,809	\$ 236,875	\$ 14,256,739

NORTH PENN SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	Capital Project Funds					Total Other Governmental Funds
	Capital Reserve Fund	2017/2018 Bond Fund	2016/2017 Bond Fund	2014/2015 Bond Fund	2013 Bond Fund	
REVENUES						
Local sources	\$ 37,374	\$ 50,753	\$ 40,871	\$ 12,527	\$ 1,263	\$ 142,788
EXPENDITURES						
Facilities acquisition, construction and improvement services	2,658,555	1,572,141	5,677,294	4,980	1,808	9,914,778
TOTAL EXPENDITURES	2,658,555	1,572,141	5,677,294	4,980	1,808	9,914,778
DEFICIENCY OF REVENUES OVER EXPENDITURES	(2,621,181)	(1,521,388)	(5,636,423)	7,547	(545)	(9,771,990)
OTHER FINANCING SOURCES (USES)						
Transfers in	3,687,284	-	-	-	-	3,687,284
TOTAL OTHER FINANCING SOURCES (USES)	3,687,284	-	-	-	-	3,687,284
NET CHANGE IN FUND BALANCES	1,066,103	(1,521,388)	(5,636,423)	7,547	(545)	(6,084,706)
FUND BALANCES AT BEGINNING OF YEAR	4,909,550	4,900,742	7,028,414	2,213,262	235,612	19,287,580
FUND BALANCES AT END OF YEAR	\$ 5,975,653	\$ 3,379,354	\$ 1,391,991	\$ 2,220,809	\$ 235,067	\$ 13,202,874

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

To the Board of School Directors
North Penn School District
Lansdale, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the North Penn School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the North Penn School District's basic financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control Over Financial Reporting

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

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

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

To the Board of School Directors
North Penn School District
Lansdale, Pennsylvania

Compliance and Other Matters

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

Purpose of this Report

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

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

Oaks, Pennsylvania
December 10, 2018

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance in Accordance With the Uniform Guidance

To the Board of School Directors
North Penn School District
Lansdale, Pennsylvania

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the North Penn School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

To the Board of School Directors
North Penn School District
Lansdale, Pennsylvania

Report on Internal Control Over Compliance

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



Oaks, Pennsylvania
December 10, 2018

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

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL
AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates
U.S. DEPARTMENT OF EDUCATION				
Passed through the PA Department of Education				
Title I Improving Basic Programs	I	84.010	13-170289	July 1, 2016 to September 30, 2017
Title I Improving Basic Programs	I	84.010	13-180289	July 1, 2017 to September 30, 2018
Academic Achievement Award	I	84.010	077-160289	August 23, 2016 to September 30, 2017
TOTAL CFDA 84.010				
Keystones to Opportunity	I	84.371	143-150289	May 1, 2015 to September 30, 2016
Keystones to Opportunity	I	84.371	143-160289	May 1, 2016 to September 30, 2017
Passed through the Lancaster-Lebanon Intermediate Unit				
Keystones to Opportunity - KTO-R8514	I	84.371	N/A	July 1, 2017 to June 30, 2018
TOTAL CFDA 84.371				
Title II Improving Teacher Quality	I	84.367	20-170289	July 1, 2016 to September 30, 2018
Title II Improving Teacher Quality	I	84.367	20-180289	July 1, 2017 to September 30, 2019
TOTAL CFDA 84.367				
Title III Language Inst LEP/Immigrant Students	I	84.365	10-160289	July 1, 2015 to September 30, 2017
Title III Language Inst LEP/Immigrant Students	I	84.365	10-170289	July 1, 2016 to September 30, 2018
Title III Language Inst LEP/Immigrant Students	I	84.365	10-180289	July 1, 2017 to September 30, 2018
TOTAL CFDA 84.365				
Title IV Student Support and Academic Enrichment	I	84.424	144-180289	July 1, 2017 to September 30, 2018
SUBTOTAL FORWARD				

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2018</u>	<u>Passed Through to Sub-Recipients</u>
1,324,905	\$ 159,178	\$ 159,178	\$ -	\$ -	\$ -	\$ -
1,217,561	1,049,235	-	1,203,031	1,203,031	153,796	-
50,000	<u>3,571</u>	<u>3,502</u>	<u>69</u>	<u>69</u>	<u>-</u>	<u>-</u>
	<u>1,211,984</u>	<u>162,680</u>	<u>1,203,100</u>	<u>1,203,100</u>	<u>153,796</u>	<u>-</u>
1,257,268	261,157	261,157	-	-	-	-
759,918	126,653	74,314	52,339	52,339	-	-
12,000	<u>12,000</u>	<u>-</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>	<u>-</u>
	<u>399,810</u>	<u>335,471</u>	<u>64,339</u>	<u>64,339</u>	<u>-</u>	<u>-</u>
299,438	78,880	54,878	24,002	24,002	-	-
303,662	<u>282,800</u>	<u>-</u>	<u>244,894</u>	<u>244,894</u>	<u>(37,906)</u>	<u>-</u>
	<u>361,680</u>	<u>54,878</u>	<u>268,896</u>	<u>268,896</u>	<u>(37,906)</u>	<u>-</u>
174,335	829	(1,838)	2,667	2,667	-	-
131,232	96,237	(34,639)	121,562	121,562	(9,314)	-
120,149	<u>42,910</u>	<u>-</u>	<u>20,503</u>	<u>20,503</u>	<u>(22,407)</u>	<u>-</u>
	<u>139,976</u>	<u>(36,477)</u>	<u>144,732</u>	<u>144,732</u>	<u>(31,721)</u>	<u>-</u>
27,872	<u>15,904</u>	<u>-</u>	<u>21,253</u>	<u>21,253</u>	<u>5,349</u>	<u>-</u>
	<u>\$ 2,129,354</u>	<u>\$ 516,552</u>	<u>\$ 1,702,320</u>	<u>\$ 1,702,320</u>	<u>\$ 89,518</u>	<u>\$ -</u>

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL
AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates
U.S. DEPARTMENT OF EDUCATION				
SUBTOTAL FORWARDED				
Passed through the Montgomery County Intermediate Unit				
IDEA - Part B	I	84.027	N/A	July 1, 2016 to June 30, 2017
IDEA - Part B	I	84.027	N/A	July 1, 2017 to June 30, 2018
Passed through Intermediate Unit #1				
IDEA - School Wide Positive Behavior Interventions & Supports	I	84.027	N/A	October 1, 2017 to June 30, 2018
TOTAL CFDA 84.027				
IDEA - Section 619	I	84.173	N/A	July 1, 2016 to June 30, 2017
IDEA - Section 619	I	84.173	N/A	July 1, 2017 to June 30, 2018
TOTAL CFDA 84.173				
TOTAL SPECIAL EDUCATION CLUSTER				
TOTAL U.S. DEPARTMENT OF EDUCATION				
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the PA Department of Agriculture				
National School Lunch Program Donated Commodities	I	10.555	N/A	July 1, 2017 to June 30, 2018
Passed through the PA Department of Education				
Child Nutrition Cluster				
National School Lunch Program	I	10.555	N/A	July 1, 2017 to June 30, 2018
TOTAL CFDA 10.555				
National School Breakfast Program	I	10.553	N/A	July 1, 2017 to June 30, 2018
Summer Food Program	I	10.559	N/A	July 1, 2017 to June 30, 2018
TOTAL CHILD NUTRITION CLUSTER				
National School Lunch Program	S	N/A	N/A	July 1, 2017 to June 30, 2018
National School Breakfast Program	S	N/A	N/A	July 1, 2017 to June 30, 2018
Child and Adult Care Food Program	I	10.558	N/A	July 1, 2017 to June 30, 2018
TOTAL U.S. DEPARTMENT OF AGRICULTURE				
TOTAL FEDERAL AND CERTAIN STATE AWARDS				
LESS STATE AWARDS				
TOTAL FEDERAL AWARDS				

Footnotes:

- (A) Total amount of commodities received from Department of Agriculture.
- (B) Beginning inventory at July 1, 2017.
- (C) Total amount of commodities used.
- (D) Ending inventory at June 30, 2018.

Source Codes:

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

See accompanying notes to the schedule of expenditures of federal and certain state awards.

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2018</u>	<u>Passed Through to Sub-Recipients</u>
	\$ 2,129,354	\$ 516,552	\$ 1,702,320	\$ 1,702,320	\$ 89,518	\$ -
2,355,173	654,770	654,770	-	-	-	-
2,327,186	1,248,002	-	2,327,186	2,327,186	1,079,184	-
8,906	-	-	8,906	8,906	8,906	-
	<u>1,902,772</u>	<u>654,770</u>	<u>2,336,092</u>	<u>2,336,092</u>	<u>1,088,090</u>	<u>-</u>
13,281	13,281	13,281	-	-	-	-
8,404	<u>1,521</u>	<u>-</u>	<u>8,404</u>	<u>8,404</u>	<u>6,883</u>	<u>-</u>
	<u>14,802</u>	<u>13,281</u>	<u>8,404</u>	<u>8,404</u>	<u>6,883</u>	<u>-</u>
	<u>1,917,574</u>	<u>668,051</u>	<u>2,344,496</u>	<u>2,344,496</u> *	<u>1,094,973</u>	<u>-</u>
	<u>4,046,928</u>	<u>1,184,603</u>	<u>4,046,816</u>	<u>4,046,816</u>	<u>1,184,491</u>	<u>-</u>
N/A	308,888 (A)	- (B)	308,888 (C)	308,888 (C)	- (D)	-
N/A	<u>1,777,308</u>	<u>39,602</u>	<u>1,825,959</u>	<u>1,825,959</u>	<u>88,253</u>	<u>-</u>
	2,086,196	39,602	2,134,847	2,134,847	88,253	-
N/A	393,311	10,337	405,322	405,322	22,348	-
N/A	<u>207,580</u>	<u>49,901</u>	<u>157,679</u>	<u>157,679</u>	<u>-</u>	<u>-</u>
	2,687,087	99,840	2,697,848	2,697,848	110,601	-
N/A	118,079	2,902	121,167	121,167	5,990	-
N/A	27,161	764	27,962	27,962	1,565	-
N/A	<u>36,434</u>	<u>479</u>	<u>44,652</u>	<u>44,652</u>	<u>8,697</u>	<u>-</u>
	<u>2,868,761</u>	<u>103,985</u>	<u>2,891,629</u>	<u>2,891,629</u>	<u>126,853</u>	<u>-</u>
	6,915,689	1,288,588	6,938,445	6,938,445	1,311,344	-
	<u>(145,240)</u>	<u>(3,666)</u>	<u>(149,129)</u>	<u>(149,129)</u>	<u>(7,555)</u>	<u>-</u>
	<u>\$ 6,770,449</u>	<u>\$ 1,284,922</u>	<u>\$ 6,789,316</u>	<u>\$ 6,789,316</u>	<u>\$ 1,303,789</u>	<u>\$ -</u>

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

NOTE A - BASIS OF ACCOUNTING

All expenditures included in the schedule of expenditures of federal and certain state awards are presented on the basis that expenditures are reported to the respective federal and state grantor agencies. Accordingly, certain expenditures are recorded when paid and certain other expenditures are recorded when the federal obligation is determined.

NOTE B - FEDERAL EXPENDITURES

The schedule of expenditures of federal and certain state awards reflects federal expenditures for all individual grants, which were active during the fiscal year.

NOTE C - DONATED FOODS

Donated foods were valued according to cost estimates provided by the U.S.D.A.

NOTE D - PROGRAM DISCLOSURES

U.S. Department of Education

Funds passed through Pennsylvania Department of Education under Title I are used primarily to provide education to economically disadvantaged children. Funds received under other grants are used to support instructional programs.

U.S. Department of Agriculture

Funds passed through the Pennsylvania Departments of Education and Agriculture are used to provide nutritional meals to economically disadvantaged children.

NOTE E - INDIRECT COST RATES

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

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

A. SUMMARY OF AUDITORS' RESULTS

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

Program	CFDA
Special Education Cluster	84.027/84.173
8. The threshold used for distinguishing Types A and B programs was \$750,000.
9. North Penn School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

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

None.