

BIG SPRING SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

DRAFT

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Big Spring School District
Newville, 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 fiduciary fund of Big Spring School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the fiduciary funds of Big Spring 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 - change in accounting principle

As described in the notes to the financial statements titled *recent accounting standards*, the District implemented this new accounting guidance, GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits 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 management's discussion and analysis on pages MDA-1 through MDA-16 and other required supplementary information on pages ORSI-1 through ORSI-7 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.

Board of School Directors
Big Spring School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2018, on our consideration of Big Spring 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 the 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 Big Spring School District's internal control over financial reporting and compliance.

GREENAWALT & COMPANY, P.C.

_____, 2018

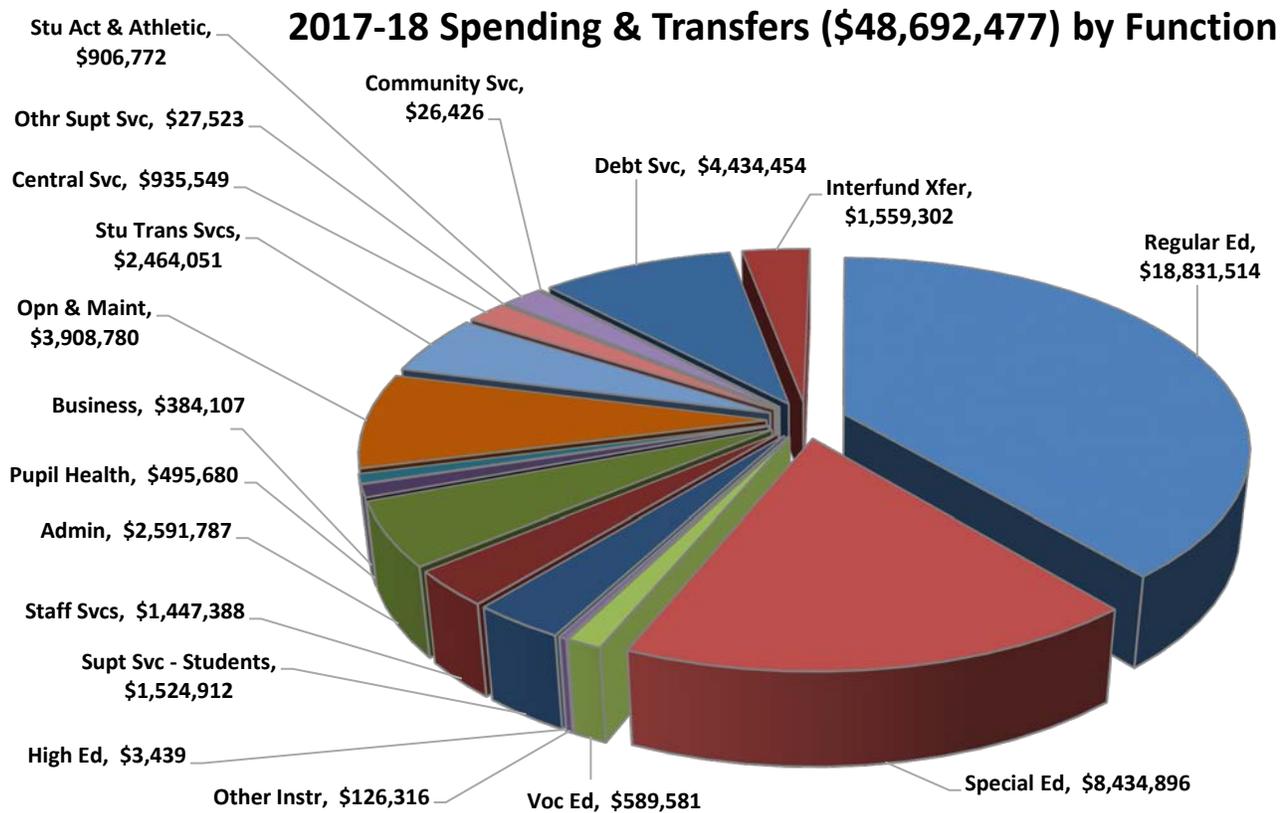
Mechanicsburg, Pennsylvania

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BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

This discussion and analysis provides an overview of the District's financial performance for the year ending June 2018. The report format is in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Management's Discussion and Analysis (MD&A) includes comparisons of financial position at June 30, 2018 and 2017. The MD&A also includes comparisons of current year financial activities to the previous year. The 2017 amounts come from our prior year MD&A and are otherwise not a part of the June 2018 financial statements. Please read our discussion and analysis in conjunction with the District's financial statements, which begin on page FS-1. To preserve readability, dollar amounts in comparative tables derived from the financial statements are presented in millions. Some amounts may not add due to rounding.

FINANCIAL HIGHLIGHTS



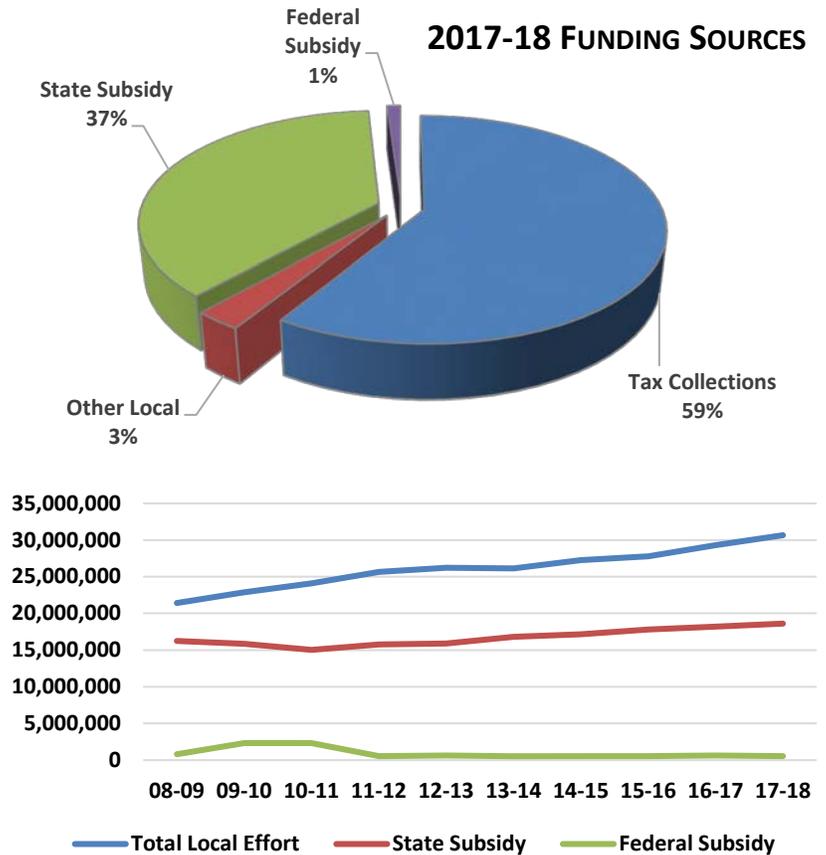
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MANAGEMENT’S DISCUSSION AND ANALYSIS
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General Fund revenues increased 3.5% from \$48,126,574 in 2016-17 to \$49,804,779 in 2017-18; expenditures and other uses (sources) increased from \$47,842,535 in 2016-17 to \$48,692,477 in 2017-18 or 1.8% from the prior year. The District added \$1,112,302 to the fund balance for a total of \$10,596,375 as of June 30, 2018. Of that total, \$2,000,000 is prepaid employee health insurance, \$554,000 is committed for PSERS expense and \$4,050,000 is assigned for various uses, including PSERS, healthcare, special education and technology, leaving an unassigned balance of \$3,992,375. The Administration transferred \$1,500,000 from the General Fund to the Capital Project Fund as of June 30, 2017. The General Fund unassigned balance is 7.9% of the \$50,396,578 contained in the 2018-19 Budget – just under the 8% maximum required under state law.

The funding source graphs at right show the trend of increasing dependence on local taxes and decreasing subsidy support from both the State and Federal Dept. of Education. Local effort continues to be the biggest portion of the revenue pie; in 2006-07 it was 53% of revenues and this year it is 59% of revenues. In 2010-11 the Federal portion of total revenue was 6% due to American Recovery and Reinvestment Act (ARRA) funding. Seven years later, in 2017-18, Federal revenue continues at the pre-ARRA 1% of total revenues. The Commonwealth’s contribution again decreased by 1%; from 38% in 2016-17 to 37% in 2017-18.

Going forward, the uncertainty of medical expense and increasing PSERS rates creates a challenge for the district. As the Commonwealth struggles to meet their obligation of 50% subsidy of the PSERS contributions, the District absorbs the full cost of healthcare plus its share of the PSERS payment.

The economy’s impact on the District is turning positive. Investment income in the General Fund increased from \$102,013 in 2016-17 to \$225,788 in 2017-18. The District continues to see some fluctuation in EIT



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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

revenue; but, an overall positive trend with the occasional dip due to the local economy. The District collected \$5.286 million in 2016-17 and \$5.481 in 2017-18.

The Capital Reserve Fund ending balance was \$7,817,077 at June 2017 and increased to \$8,235,139 at June 2018. The District earned \$71,348 of investment earnings in the capital reserve during 2017-18 but also spent \$1,420,580.

During 2017-18, the District initiated several projects with the Capital Reserve Fund, including:

- \$564,740 for a series of technology infrastructure upgrades as part of the 2018 & 2019 construction projects
- \$1,155,000 for the replacement of select portions of the Mt. Rock Roof (moved out of construction fund).
- \$130,304 For furniture specification, bidding & select purchase of furniture for flexible furniture at MS/HS and the HS collaboration lab

On April 13, 2017 the District closed on \$12,635,000 in General Obligation Bonds, Series of 2017, resulting in \$13,004,518 deposit to the Newville Projects Fund. The Standard & Poor's rating for the issue was AA-/Stable. The District contracted with Crabtree Rohrbaugh & Associates for the design of the Newville Renovation and Expansion project in 2018 along with renovation at Mt. Rock, the Middle School and the High School in 2018 & 2019. The spending plan for the projects was:

<u>Project</u>	<u>2017 Bond</u>	<u>2018 Bond</u>
NV Expansion & Renovation; MS Courtyard reno, new gym floor, new generator, Stadium lot drainage	\$9,302,900	
Middle School Partial Roof Replacement	\$1,376,700	
High School White Knight Coating	\$830,000	
New Track/Field	\$2,151,501	
Middle School Projects	\$1,961,123	\$394,266
Mt. Rock Elem – new floors & doors		\$1,304,920
High School Collaboration lab, Pool & Auditorium upgrades		\$1,020,135

Based on the plan developed with Crabtree, on May 22, 2017, the Board passed a parameters resolution to incur additional general obligation debt up to \$18,000,000 in support of those renovations. On April 3, 2018

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MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2018

the District closed on bonds of \$9,505,000 resulting in \$9,820,943 deposited into the Mt. Rock 2018 Projects Fund. The Standard & Poor’s rating for the issue was again AA-/Stable.

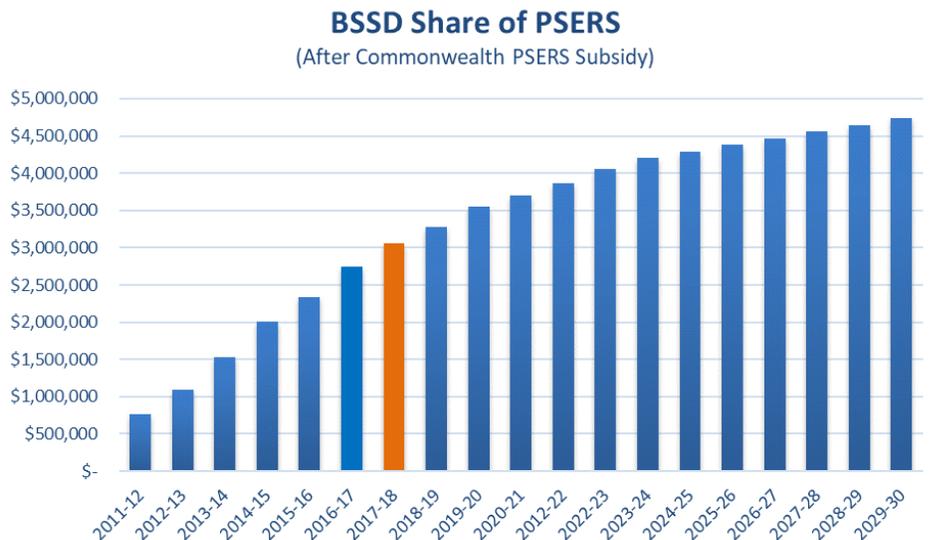
The District self-funds its healthcare using the South Central Trust (SCT). After several years of several high-dollar claims, the District’s claims experience moderated over the last four years with three of those resulting in decreasing rates. With good claims experience, the balance in the trust increased from \$2,890,307 at June 30, 2017 to \$3,342,697 on June 30, 2018.

Healthcare expense was \$3,845,600 for 2016-17 including medical, dental and vision experience; in 2017-18 that decreased to \$3,099,158. Premiums decreased by 6% in 2016-17 and 10% in 2017-18 with another 3.55% decrease forecasted for 2018-19.

In January 2015, the Board and the Big Spring Education Association signed a new collective bargaining agreement with a new high deductible health plan which included a Health Savings Account as of July 1, 2015. The District’s cost for healthcare costs declined each year since and for 2017-18 the reduced experience added \$650,000 in prepaid employee health insurance to the District’s overall fund balances at June 30, 2018. In October of 2016 the Board approved a new two-year CBA from July 2017 thru June 2019 and is in negotiations for a follow-on agreement beginning June 2019.

The District continues under the restrictions of Act 1 which limits future increases in the District’s real estate taxes and displaces a selected amount of local real estate taxes with gaming funds. The District was allotted gaming funds in the amount of \$773,265 in 2017-18; these funds were distributed in equal amounts to each qualified taxpayer of \$133.67 per homestead/farmstead.

In November 2010 Act 120 reformed the PA State Employees Retirement System (PSERS) by implementing steep increases in employer contributions. As shown below, BSSD total PSERS payment shot up from \$1,543,501 in 2011-12 to \$6,103,687 in 2017-18 with the Commonwealth returning approximately half that as a PSERS subsidy payment.

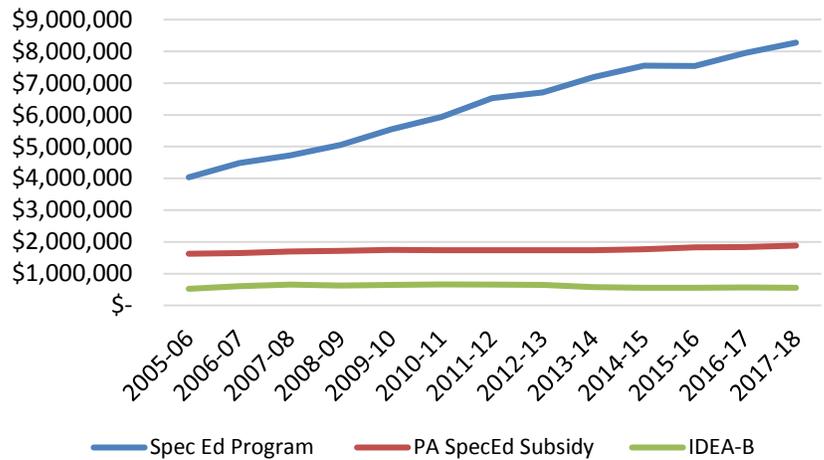


BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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The steep rise in PSERS retirement contributions is remarkable as increases of this magnitude will continue into the foreseeable future. With a corresponding trend increase in healthcare and continued pressure on wages, it is not apparent how the District, or other subsidy dependent School Districts in Pennsylvania, will survive without some governmental leadership.

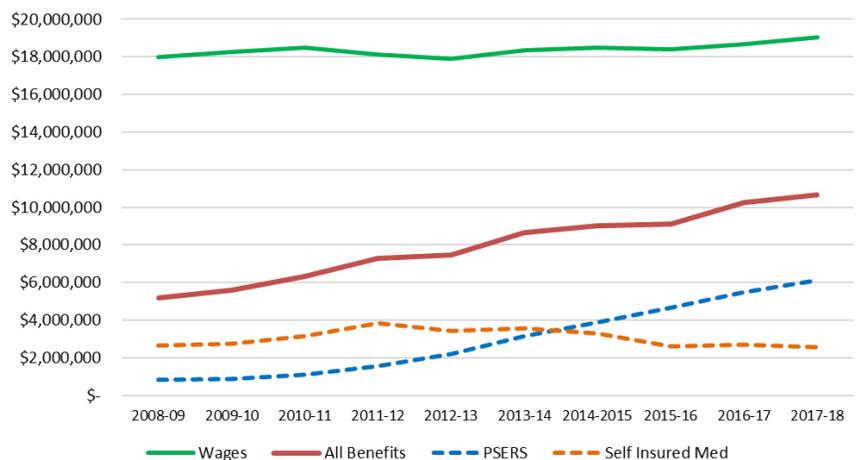
This District is also squeezed by the continuously increasing cost of Special Education services. Over the last ten years, special education has increased at an average of 6.9% per year. The decline in student population and moderating healthcare costs, along with other external factors, resulted in a small 1.78% increase for 2017-18; State subsidy went up 1.35% and federal IDEA support declined by -2.33%. The District continues to struggle with increasing demands from parents, the courts, and widening mandates from both the state and federal level. The expanding mandates contrast dramatically with the small funding increases from the Commonwealth and declining support from the Federal IDEA program (see chart at right above).

SPECIAL EDUCATION - AN UNFUNDED MANDATE



The chart at right shows the competition between wages and benefits for the budget dollar. Due to the quickly rising cost of retirement contributions, the uncertain future of healthcare and a need to add to the Capital Reserve, the District continues to restrain spending in other areas in order to offset budget expenses for personnel (salary & benefits). Even with those spending restraints, in order to meet the rising cost of wages and benefits, the Board raised millage by 2.4% in 2015-16, 3.1% in 2016-17 and 2.5% in 2017-18. In April 2018, the Board raised the millage for 2018-19 by 2.5% - under the adjusted index limit of 3.0%.

WAGES, BENEFITS, PSERS & HEALTHCARE



BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

USING THESE FINANCIAL STATEMENTS

This report contains a series of financial statements. The Statement of Net Position and the Statement of Activities are on pages FS-1 and FS-2. These statements provide information about the District as a whole, and present a longer-term view of District finances than fund financial statements. Fund financial statements are on pages FS-3, FS-5 and FS-7 through FS-10. For governmental funds, the statements show how District services have been financed in the short-term, as well as the amount remaining for future spending. Proprietary fund statements provide information about non-governmental operations, in this case food service. The fiduciary funds statement reports amounts held in trust by the District for student activities.

Page FS-4 reconciles total governmental fund balances to total net position of governmental activities. Page FS-6 reconciles the total net change in governmental fund balances to the change in net position of governmental activities.

District-wide Financial Statements

District-wide statements present financial activities and the results of those activities in two categories, governmental and business-type. Capital assets (land, buildings, improvements, furniture and equipment) are included with all other assets. Long-term debt is included with all other liabilities. Also included are the net pension liability, and related deferred outflows and inflows of resources. This is distinctly different from the fund statements in which assets and liabilities are separated into various funds such as General and Capital Reserve.

In the district-wide statements, the approach to measurement of revenues and expenses is similar to that used in the private sector and is referred to as the accrual basis of accounting. This is disclosed further in the notes to financial statements.

Fund Financial Statements

Fund statements provide financial information about the District's funds rather than the District as a whole. There are three types of funds, Governmental, Proprietary and Fiduciary. The use of each type of fund is disclosed in the notes to financial statements. Unlike district-wide statements that report revenues on the accrual basis, the fund statements report revenues only to the extent cash has been received or is expected to be received in the near future.

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

THE DISTRICT AS A WHOLE

Statement of Net Position

Net position (deficit) equals total assets plus deferred outflows of resources less liabilities and deferred inflow of resources, and represents resources that may be used to pay for future operations and capital assets.

The District's total net position was a deficit of \$13.2 million at June 2017 and a deficit of \$16.2 million at June 30, 2018. The June 2018 deficit results from the requirement to include pension related debt of \$68.0 million and a \$7.2 million other postemployment benefits liability, as a result of the adoption of GASB 68 as of July 1, 2017. The following summarizes the Statement of Net Position (page FS-1).

	Governmental Activities		Business-type Activities		Totals	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 44.6	\$ 37.8	\$ 0.6	\$ 0.5	\$ 45.2	\$ 38.3
Capital assets	61.7	56.7	0.2	0.2	61.9	56.9
Total assets	106.3	94.5	0.8	0.7	107.1	95.2
Deferred outflows for OPEB	0.3	-	n/a	n/a	0.3	-
Deferred outflows for pension	10.5	12.1	n/a	n/a	10.5	12.1
Total deferred outflows of resources	10.8	12.1	n/a	n/a	10.8	12.1
Current and other liabilities	8.5	6.7	0.1	0.1	8.6	6.8
Long-term liabilities	123.8	112.7	-	-	123.8	112.7
Total liabilities	132.3	119.4	0.1	0.1	132.4	119.5
Deferred inflows for OPEB	0.2	-	n/a	n/a	0.2	-
Deferred inflows for pension	1.5	1.1	n/a	n/a	1.5	1.1
Total deferred inflows of resources	1.7	1.1	n/a	n/a	1.7	1.1
Capital assets (net of related debt)	14.0	3.5	0.2	0.2	14.2	3.7
Restricted for capital projects	15.9	11.9	-	-	15.9	11.9
Unrestricted	(46.8)	(29.3)	0.5	0.5	(46.3)	(28.8)
Total net position	\$ (16.9)	\$ (13.9)	\$ 0.7	\$ 0.7	\$ (16.2)	\$ (13.2)

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

At the end of fiscal year 2017, the total net position for governmental activities was reported as \$ (13.9). It was restated to \$(19.3) to reflect the cumulative adjustment related to the adoption of a new accounting standard, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This is discussed on page FS-27 of the footnotes accompanying the 2018 financial statements.

Beginning July 1, 2014, the District is required to report the net pension liability, pension expense, and deferred outflows and inflows of resources related to pensions. This new Governmental Accounting Standards Board Statement 68 (GASB 68) requirement significantly and negatively affects the Net Position (Deficit) of the District's financial statements beginning with 2014-15 and continuing this year.

Statement of Activities

The following summarizes the Statement of Activities (page FS-2). It shows that total net position increased by \$2,465,517 in 2018 and \$2,413,817 in 2017.

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Program revenues						
Charges for services	\$ 0.6	\$ 0.5	\$ 0.6	\$ 0.6	\$ 1.2	\$ 1.1
Operating grants and contributions	8.8	8.6	0.6	0.6	9.4	9.2
Capital grants and contributions	0.8	0.7	-	-	0.8	0.7
General revenues					-	
Taxes	29.0	28.5	-	-	29.0	28.5
Earnings on investments	0.5	0.2	-	-	0.5	0.2
Gain on sale of capital assets	-	-	-	-	-	-
State general subsidies	10.1	10.0	-	-	10.1	10.0
Total revenues	49.8	48.5	1.2	1.2	51.0	49.7
Direct expenses	47.2	46.0	1.3	1.3	48.5	47.3
Excess revenues (expenses) before transfers	2.6	2.5	(0.1)	(0.1)	2.5	2.4
Transfers between activities	(0.1)	(0.1)	0.1	0.1	-	-
Change in net assets	\$ 2.5	\$ 2.4	\$ -	\$ -	\$ 2.5	\$ 2.4

The change in net position is the difference between revenues and expenses using the accrual basis of accounting.

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

The following summarizes expense information from the Statement of Activities (page FS-2). Direct expenses represent the actual cost of providing the services while the net expense represents the amount of cost that is not recovered through program revenues, meaning user charges, grants and contributions. The net expense must be recovered through general revenues, primarily taxes and state general subsidies. Amounts not recovered reduce funds available for future years.

	Governmental Activities					
	Direct Expenses		Program Revenues		Net Expense	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Instruction	\$ 30.6	\$ 30.4	\$ 6.1	\$ 5.8	\$ 24.5	\$ 24.6
Instructional student support	3.7	3.5	0.4	0.4	3.3	3.1
Administrative and financial support	4.0	4.2	0.9	0.9	3.1	3.3
Operation and maintenance of plant	4.2	3.9	0.2	0.2	4.0	3.7
Pupil transportation	2.5	2.4	1.5	1.5	1.0	0.9
Student activities	1.1	1.0	0.2	0.2	0.9	0.8
Community services	-	-	-	-	-	-
Interest on long-term debt	1.1	0.6	0.8	0.7	0.3	(0.1)
	<u>\$ 47.2</u>	<u>\$ 46.0</u>	<u>\$ 10.1</u>	<u>\$ 9.7</u>	37.1	36.3
Transfers to business-type activities					0.1	0.1
Total governmental activities					37.2	36.4
State general subsidies revenues					10.1	10.0
Total needs from taxes and other local sources					<u>\$ 27.1</u>	<u>\$ 26.4</u>

	Business-type Activities					
	Direct Expenses		Program Revenues		Net Expense	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$ 1.3</u>	<u>\$ 1.3</u>	<u>\$ 1.2</u>	<u>\$ 1.2</u>	\$ 0.1	\$ 0.1
Transfers from governmental activities and investment earnings					(0.1)	(0.1)
					<u>\$ -</u>	<u>\$ -</u>

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

THE DISTRICT'S FUNDS

Governmental Funds – fund balances

	2018	2017	Change
General fund - nonspendable	\$ 2.0	\$ 1.4	\$ 0.6
General fund - committed	0.6	0.6	-
General fund - assigned	4.0	3.7	0.3
General fund - unassigned	4.0	3.8	0.2
Capital reserve fund - committed	8.2	7.8	0.4
Capital projects fund - restricted	15.9	12.0	3.9
Governmental fund balances	\$ 34.7	\$ 29.3	\$ 5.4
Total reserved + nonspendable	\$ 2.0	\$ 1.4	\$ 0.6
Total restricted	15.9	12.0	3.9
Total committed	8.8	8.4	0.4
Total assigned	4.0	3.7	0.3
Total unassigned	4.0	3.8	0.2
Total governmental funds	\$ 34.7	\$ 29.3	\$ 5.4

Changes from 2017 to 2018

The 2017-18 General Fund budget used \$179,986 from fund balance to cover the deficit. At year end June 30, 2018, the General Fund increased by \$1,112,302 after a \$1.5 million transfer to capital reserve. The increase to fund balance included an additional \$650,000 of nonspendable fund balance in South Central Trust due to medical claims that were less than projected. In addition to the nonspendable total of \$2,000,000, the District has \$554,000 in committed for PSERS with assigned amounts of \$650,000 for PSERS, \$350,000 for Healthcare, \$2,300,000 for Technology (student devices & associated support), \$550,000 for Special Education and \$200,000 for upgrade of the Student and Financial Information Systems for a total of \$10,596,375. Due in part to the transfer from the General Fund, the Capital Reserve fund increased from \$418,062 at June 30, 2017 to \$8,235,139 in 2018.

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Changes from 2016 to 2017

The 2016-17 General Fund budget used \$111,618 from fund balance to cover the deficit. At June 30, 2017, the General Fund increased by \$284,039 after a \$2.6 million transfer to capital reserve. The fund balance included an additional \$250,000 of nonspendable fund balance in South Central Trust due to medical claims that were far less than projected. In addition to the nonspendable total of \$1,350,000, the District has \$554,000 in committed for PSERS with assigned amounts of \$650,000 for PSERS, \$350,000 for Healthcare, \$2,300,000 for Technology (student devices & associated support), \$250,000 for Special Education and \$200,000 for upgrade of the Student and Financial Information Systems. Due in part to the large transfer from the General Fund, the Capital Reserve fund increased from \$6.4 million at June 30, 2016 to \$7.8 million at June 30, 2017.

General Fund Budget

The following summarizes the budgetary comparison information presented on page ORSI-1, along with comparisons to the previous year.

	Final Budget		Actual Amount		Variance	
	2018	2017	2018	2017	2018	2017
Total revenues	\$ 49.1	\$ 48.2	\$ 49.8	\$ 48.1	\$ 0.7	\$ (0.1)
Total expenditures	48.5	47.8	47.1	45.2	1.4	(2.6)
Excess revenues (expenditures)	0.6	0.4	2.7	2.9	2.1	2.5
Other financing sources (uses)	(0.8)	(0.5)	(1.6)	(2.6)	(0.8)	(2.1)
Net change in fund balance	<u>\$ (0.2)</u>	<u>\$ (0.1)</u>	<u>\$ 1.1</u>	<u>\$ 0.3</u>	<u>\$ 1.3</u>	<u>\$ 0.4</u>

In 2018, actual revenues exceeded the actual expenditures by \$2,671,604. Actual expenditures were \$1,416,327 under the final budgeted amount while revenues were \$637,819 more than budgeted.

Under the modified accrual basis of accounting, the District considers taxes unavailable to be recognized as revenue unless they are received within 2 months after the fiscal year. The District's unavailable tax revenue was \$1.7 million at June 2018 a decrease from the \$2.0 million at June 2017. This increase resulted in \$0.3 million less revenue, primarily earned income taxes, being recognized in the General Fund during 2018.

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

CAPITAL ASSETS

During 2017-18 the District purchased \$7.9 million in capital assets. Of that, approximately \$6.9 million was for construction in progress projects including expansion & renovation of Newville Elementary, roof work at the High School and Mt. Rock and various projects at the Middle School and Mt. Rock and \$1.0 million was for other capital assets.

	<u>Capital assets (net of depreciation)</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Governmental activities			
Land	\$ 0.9	\$ 0.9	\$ -
Construction in progress	5.0	2.5	2.5
Buildings and improvements	52.5	51.0	1.5
Furniture and equipment	1.5	0.8	0.7
Library books	0.2	0.2	-
Technology equipment	1.6	1.3	0.3
	<u>\$ 61.7</u>	<u>\$ 56.7</u>	<u>\$ 5.0</u>
Business-type activities			
Furniture and equipment	<u>\$ 0.2</u>	<u>\$ 0.2</u>	<u>\$ -</u>

Capital assets in the governmental activities were \$61.7 million at June 2018 and \$56.7 at June 2017. The District purchased more than \$7.9 million in assets against \$2.9 million in depreciation resulting in an approximate increase of \$5.0 million in capital assets for 2018. For the year ended June 2017, the District purchased \$2.7 million in assets against \$2.5 million in depreciation and disposals resulting in an approximate increase of \$.02 million in capital assets.

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

LONG-TERM LIABILITIES

The following summarizes the long-term liabilities note to financial statements (starting at page FS-31). Most of the debt is general obligation bonds and notes issued to pay for capital improvements. The District's ability to raise future funds through the issuance of debt depends on how existing bonds are rated by the investment community.

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Governmental activities			
General obligation bonds and notes	\$ 46.6	\$ 40.5	\$ 6.1
Bond premiums (discounts)	1.1	0.8	0.3
Compensated absences	0.9	0.8	0.1
Net OPEB liability	7.2	7.0	0.2
Net pension liability	68.0	69.3	(1.3)
Total liabilities	<u>\$ 123.8</u>	<u>\$ 118.4</u>	<u>\$ 5.4</u>

Each year the District pays interest on the debt and a portion of the outstanding bonds and notes, referred to as redemption. During 2017-18 the District made regularly scheduled payments of \$4,433,778 and \$3,897,449 in 2016-17.

On April 13, 2017 the District closed on \$12,635,000 in General Obligation Bonds, Series of 2017, resulting in a \$13,004,518 deposit to the Newville Projects Fund. On May 22, 2017 the Board passed a parameters resolution to incur additional general obligation debt up to \$18,000,000 in support of the Mt. Rock Elementary School renovation and associated projects at the Middle School, High School and Oak Flat. On April 3, 2018 the District closed on bonds of \$9,505,000 resulting in \$9,820,943 deposited into the Mt. Rock 2018 Projects Fund. The Standard & Poor's rating for the issue was again AA-/Stable.

Other post-employment benefits (OPEBs) has to do with purchasing discounted health insurance after retirement through the District. The District's July 2018 actuarial accrued liability of \$4.4 million is being amortized over a period of 30 years. Additional OPEB detail is available starting at page FS-33 of the notes.

GASB 68 requires the District to report its pension related items. The net pension liability, including deferred outflows and inflows, increased by \$9.8 million during 2018. The pension obligation at June 2018 was \$68 million, \$58.2 million at June 2017 and \$56.4 million in June 2016. Effective July 1, 2017 the District is now required to report the entire other postemployment benefits (OPEB) liability, OPEB expense and deferred outflows and deferred inflows of resources related to other postemployment benefits. GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," had additional negative effect of the net position of the School's financial statements beginning in the current year.

BIG SPRING SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2018

NEXT YEAR’S BUDGET AND OTHER FACTORS

	Original Budget		
	2018-19	2017-18	Change
Total revenue	\$ 50.2	\$ 49.2	\$ 1.0
Total expenditures and other uses	50.4	49.3	1.1
Excess revenues (expenditures)	\$ (0.2)	\$ (0.1)	\$ (0.1)

The Big Spring School District is committed to maintaining a strong educational program for students while minimizing the burden on taxpayers. In June 2018 the District approved a \$50,396,578 million budget to cover the increasing cost of salary, benefits and special education program. The Commonwealth is struggling with the cost of retirement contributions also and any increase in subsidy to the District is mostly a reflection of the 50% subsidy paid on the increases in PSERS payments. The American Recovery and Reinvestment Act funding is gone and federal support is now flat, which in light of inflation is a reduction. In addition, the District continues to expand services for special needs students without additional state or federal funding. For 2017-18 the District approved a 10% decrease in healthcare premiums. Looking forward to the 2018-19, the District forecasts a 3.5% reduction in healthcare premiums.

The 2018-19 budget shows \$50,176,931 in revenues, which is a 2% increase over the 2017-18 revenue budget of \$49,166,959. The real estate millage increased from 14.0429 to 14.3238 or 2%. The earned income tax rate remains at 1.65%.

The 2018-19 expenditures and other uses budget is \$50,396,578 or a 2.13% increase over 2017-18 budget of \$49,346,946. The 2018-19 budget exceeded revenues by \$219,647. The major drivers of the 2018-19 budget are the 2.75% wage increase for CBA salaries, 2.75% for administrative and support staffs and the PSERS contribution rate increased from 32.57% of payroll in 2017-18 to 33.43% in 2018-19 – a 2.6% year over year increase in rate. The projected PSERS rate for 2019-20 is 34.79; however, that is subject to increase based on PSERS final Board vote in December.

In 2016-17 the District continued its expansion and upgrade of both technology infrastructure and student devices. It also began a parallel process to update and reconfigure the learning environments at the three elementary schools in a series of renovations in the summer of 2018 and 2019. In the spring of 2018 the District accepted bids for the following projects in 2018:

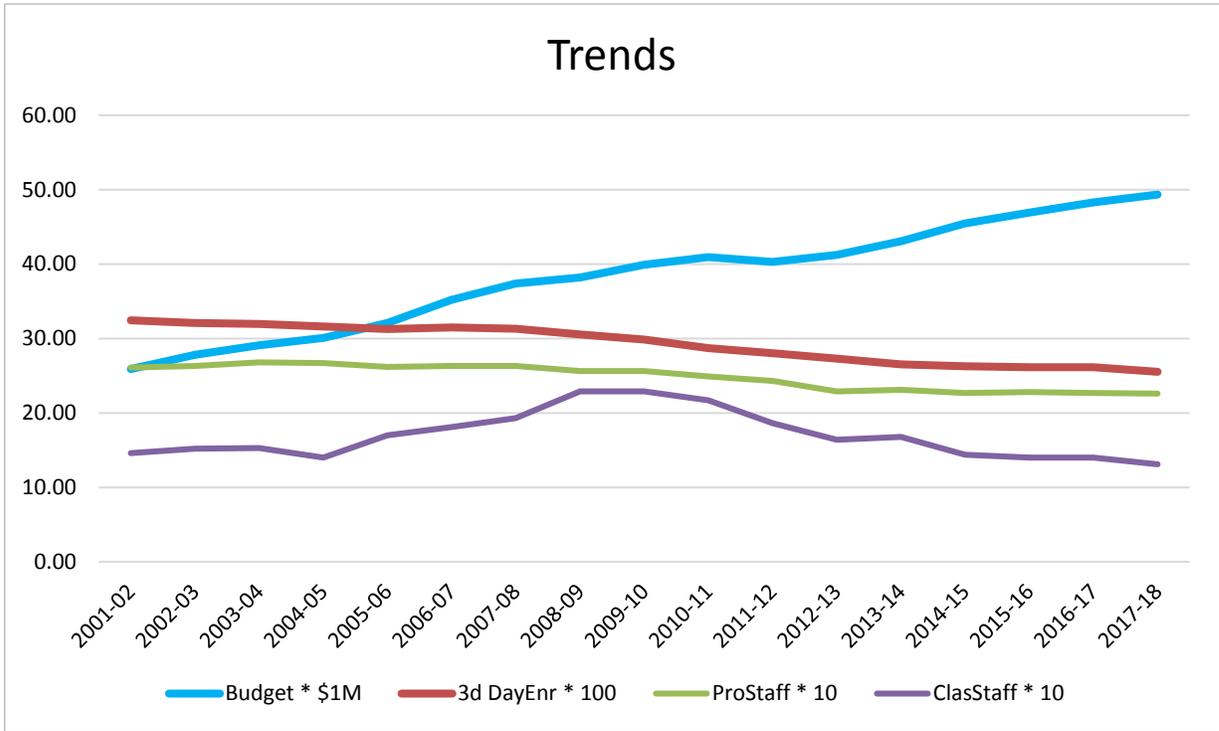
BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

2018 Projects - Bids + Alternates

<u>Description</u>	<u>Amount</u>
Middle School Auditorium Abatement	\$ 52,200
Mt Rock Abatement (all flooring)	\$ 48,400
Newville Expansion & Renovation of old building	\$ 6,439,881
Mt. Rock Roof Partial Replacement	\$ 1,155,000
High School Roof Coating	\$ 392,000
Mt. Rock - new flooring, doors, windows & select bathrooms	\$ 985,073
Middle School - select exterior walls, flooring & doors, stadium & DAO drainage	\$ 1,857,000
High School Renovations	\$ 525,000
Total	\$ 11,454,554

Looking ahead, the near term challenge for the District continues to be reliable Commonwealth funding given the weight of pension debt. The District's previous year budget (2016-17) passed on time with small increase for the District from the Commonwealth due to the new funding formula. The 2017-18 budget was a similar process with the smallest increase in Commonwealth subsidies in recent history. The new funding formula will be a continuing challenge for the District as it depended on the old hold harmless funding process. At this time, the forecast for the 2018-19 budget is good given that the District did not go to the index and does not plan to make any transfer to the capital reserve fund. The longer term challenge for the District is captured in the graph below. The District continues to see a slow, but constant, decline in student enrollment. This caused some reduction in staffing over the past several years. Even with the cuts, the budget continues to grow, largely as a result of the increasing cost of salaries, pension payments and tuition payments related to special education.

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018



Despite the many challenges of declining enrollment against increases in PSERS and special education, the District stands committed to ensuring the best opportunities for students. The 2018-19 budget balances the requirement to protect essential programs versus tax increases.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

The District’s financial report is intended to provide the readers with a general overview of the District’s finances and to show the Board’s accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the district office of Big Spring School District, 45 Mount Rock Road, Newville, PA 17241, (717) 776-2000.

BIG SPRING SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 14,946,271	\$ 470,006	\$ 15,416,277
Investments	5,000,000	-	5,000,000
Taxes receivable (net of allowance for uncollectibles)	1,950,500	-	1,950,500
Internal balances	16,584	(16,584)	-
Due from other governments	2,752,255	64,130	2,816,385
Other receivables	98,553	23,524	122,077
Inventories	-	16,261	16,261
Prepaid health insurance	2,000,000	-	2,000,000
Restricted cash	17,876,517	-	17,876,517
Capital assets not being depreciated	5,918,729	-	5,918,729
Capital assets being depreciated, net	55,779,169	188,792	55,967,961
Total assets	106,338,578	746,129	107,084,707
Deferred outflows of resources			
Deferred outflows for OPEB	350,212	-	350,212
Deferred outflows for pension	10,485,710	-	10,485,710
Total deferred outflows of resources	10,835,922	-	10,835,922
Liabilities			
Accounts payable	4,316,344	59,889	4,376,233
Payroll and benefits payable	3,857,804	-	3,857,804
Unearned revenues	330	22,089	22,419
Accrued interest on bonds payable	320,000	-	320,000
Long-term liabilities			
Due within one year	3,513,000	-	3,513,000
Due in more than one year, net	45,086,267	-	45,086,267
Net OPEB liability	7,185,287	-	7,185,287
Net pension liability	68,008,000	-	68,008,000
Total liabilities	132,287,032	81,978	132,369,010
Deferred inflows of resources			
Deferred inflows for OPEB	171,540	-	171,540
Deferred inflows for pension	1,566,784	-	1,566,784
Deferred charges on refundings	18,315	-	18,315
Total deferred inflows of resources	1,756,639	-	1,585,099
Net position			
Invested in capital assets (net of related debt)	13,960,231	188,792	14,149,023
Restricted for capital projects	15,900,429	-	15,900,429
Unrestricted (deficit)	(46,729,831)	475,359	(46,254,472)
Total net position (deficit)	\$ (16,869,171)	\$ 664,151	\$ (16,205,020)

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Functions/Programs	Direct Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Grants and Contributions		Governmental Activities	Business-type Activities	Total
			Operating	Capital			
Governmental activities							
Instruction	\$ 30,586,112	\$ 463,220	\$ 5,673,501	\$ -	\$ (24,449,391)	\$ -	\$ (24,449,391)
Instructional student support	3,742,672	-	422,411	-	(3,320,261)	-	(3,320,261)
Administrative and financial support	4,051,297	4,457	889,714	-	(3,157,126)	-	(3,157,126)
Operation and maintenance of plant	4,185,750	-	257,786	-	(3,927,964)	-	(3,927,964)
Student transportation	2,468,715	24,362	1,485,326	-	(959,027)	-	(959,027)
Student activities	1,109,068	69,477	80,239	-	(959,352)	-	(959,352)
Community services	25,284	3,859	1,643	-	(19,782)	-	(19,782)
Interest on long-term debt	1,025,124	-	-	765,278	(259,846)	-	(259,846)
Total governmental activities	47,194,022	565,375	8,810,620	765,278	(37,052,749)	-	(37,052,749)
Business-type activities							
Food service	1,261,850	574,431	612,127	-	-	(75,292)	(75,292)
Total school district	\$ 48,455,872	\$ 1,139,806	\$ 9,422,747	\$ 765,278	(37,052,749)	(75,292)	(37,128,041)
		General revenues					
		Real estate taxes			23,257,373	-	23,257,373
		Earned income taxes			5,271,451	-	5,271,451
		Personal taxes			56,369	-	56,369
		Other taxes			407,616	-	407,616
		Investment earnings			452,293	3,209	455,502
		State general subsidies			10,132,466	-	10,132,466
		Transfers			(59,302)	59,302	-
		Total general revenues and transfers			39,518,266	62,511	39,580,777
		Change in net position			2,465,517	(12,781)	2,452,736
		Net position (deficit) - beginning - restated			(19,334,688)	676,932	(18,657,756)
		Net position (deficit) - ending			\$ (16,869,171)	\$ 664,151	\$ (16,205,020)

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2018

	General	Capital Reserve	Capital Projects		Total
			Newville	Mt. Rock	
Assets					
Cash and cash equivalents	\$ 11,499,828	\$ 3,446,443	\$ -	\$ -	\$ 14,946,271
Investments	1,000,000	4,000,000	-	-	5,000,000
Restricted cash and cash equivalents	-	-	8,151,992	9,724,525	17,876,517
Taxes receivable (net of allowance for uncollectibles)	1,950,500	-	-	-	1,950,500
Due from governmental funds	1,475	1,500,000	-	-	1,501,475
Due from proprietary funds	16,584	-	-	-	16,584
Due from other governments	2,752,255	-	-	-	2,752,255
Other receivables	98,553	-	-	-	98,553
Prepaid health insurance	2,000,000	-	-	-	2,000,000
Total assets	\$ 19,319,195	\$ 8,946,443	\$ 8,151,992	\$ 9,724,525	\$ 46,142,155
Liabilities, deferred inflows of resources and fund balances					
Liabilities					
Accounts payable	\$ 1,630,427	\$ 709,829	\$ 1,541,772	\$ 434,316	\$ 4,316,344
Payroll and benefits payable	3,857,804	-	-	-	3,857,804
Unearned revenues	330	-	-	-	330
Due to governmental funds	1,500,000	1,475	-	-	1,501,475
Total liabilities	6,988,561	711,304	1,541,772	434,316	9,675,953
Deferred inflows of resources					
Unavailable tax revenue	1,734,259	-	-	-	1,734,259
Fund balances					
Nonspendable - employee health insurance	2,000,000	-	-	-	2,000,000
Restricted					
Capital outlays	-	-	6,610,220	9,290,209	15,900,429
Committed					
Capital outlays	-	8,235,139	-	-	8,235,139
Pension plan rate increases	554,000	-	-	-	554,000
Assigned - various items	4,050,000	-	-	-	4,050,000
Unassigned	3,992,375	-	-	-	3,992,375
Total fund balances	10,596,375	8,235,139	6,610,220	9,290,209	34,731,943
Total liabilities, deferred inflows of resources and fund balances	\$ 19,319,195	\$ 8,946,443	\$ 8,151,992	\$ 9,724,525	\$ 46,142,155

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total fund balances - Governmental funds \$ 34,731,943

Amounts presented for governmental activities in the statement of net position are different because:

Capital assets are not financial resources and therefore are not presented as assets in the governmental funds, but are reported in the governmental activities in the statement of net position. At year end, capital assets consist of:

Cost of assets	\$ 106,870,068	
Accumulated depreciation	<u>(45,172,170)</u>	61,697,898

Taxes receivable will be collected, but are not available soon enough to pay for current year expenditures, and therefore are unavailable in the governmental funds. At year end, these taxes receivable consist of:

Real estate and personal taxes	524,259	
Earned income taxes	<u>1,210,000</u>	1,734,259

Certain liabilities are not due and payable in the current year, and therefore are not reported as liabilities in the governmental funds. At year end, these liabilities consist of:

Bonds and note payable	(46,585,000)	
Compensated absences	<u>(861,600)</u>	
Long-term liabilities	(47,446,600)	
Accrued interest on bonds and notes payable	<u>(320,000)</u>	(47,766,600)

Bond discounts (premiums) and charges on refundings are presented as expenditures in the governmental funds. At year end, remaining unamortized bond related items consist of:

Bond discounts (premiums)	(1,152,667)	
Deferred charge on refundings	<u>(18,315)</u>	(1,170,982)

Certain liabilities, such as the net pension and net OPEB obligations, are not due and payable in the current year and, therefore, are not reported in the governmental funds. At year end, these liabilities consist of:

Net pension liability		(68,008,000)
Net OPEB liability		<u>(7,185,287)</u>

Deferred outflows and inflows of resources related to pensions and OPEBs are applicable to future periods, and therefore, are not reported in the governmental funds. At year end, these consists of:

Deferred outflows of resources related to pensions	10,485,710	
Deferred inflows of resources related to pensions	<u>(1,566,784)</u>	8,918,926

Deferred outflows of resources related to OPEBs	350,212	
Deferred inflows of resources related to OPEBs	<u>(171,540)</u>	<u>178,672</u>

Net position (deficit) - Governmental activities \$ (16,869,171)

The accompanying notes are an integral part of these financial statements.

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

	General	Capital Reserve	Capital Projects			Total
			Stadium	Newville	Mt. Rock	
Revenues						
Local sources - taxes	\$ 29,305,252	\$ -	\$ -	\$ -	\$ -	\$ 29,305,252
Local sources - other	1,353,057	338,642	132	131,556	23,469	1,846,856
State sources	18,612,695	-	-	-	-	18,612,695
Federal sources	533,775	-	-	-	-	533,775
Total revenues	<u>49,804,779</u>	<u>338,642</u>	<u>132</u>	<u>131,556</u>	<u>23,469</u>	<u>50,298,578</u>
Expenditures						
Instruction	27,985,746	-	-	-	-	27,985,746
Support services	13,779,777	509,836	-	-	174,095	14,463,708
Noninstructional services	933,198	-	-	-	-	933,198
Capital outlay	-	910,744	-	5,471,707	554,204	6,936,655
Debt service (principal and interest)	4,434,454	-	-	-	-	4,434,454
Total expenditures	<u>47,133,175</u>	<u>1,420,580</u>	<u>-</u>	<u>5,471,707</u>	<u>728,299</u>	<u>54,753,761</u>
Excess (deficiency) of revenues over expenditures	2,671,604	(1,081,938)	132	(5,340,151)	(704,830)	(4,455,183)
Other financing sources (uses)						
Bond premium	-	-	-	-	490,039	490,039
Issuance of bonds	-	-	-	-	9,505,000	9,505,000
Transfers from other funds	-	1,500,000	-	227	-	1,500,227
Transfers to other funds	(1,559,302)	-	(227)	-	-	(1,559,529)
Net changes in fund balances	1,112,302	418,062	(95)	(5,339,924)	9,290,209	5,480,554
Fund balances - beginning	<u>9,484,073</u>	<u>7,817,077</u>	<u>95</u>	<u>11,950,144</u>	<u>-</u>	<u>29,251,389</u>
Fund balances - ending	<u>\$ 10,596,375</u>	<u>\$ 8,235,139</u>	<u>\$ -</u>	<u>\$ 6,610,220</u>	<u>\$ 9,290,209</u>	<u>\$ 34,731,943</u>

The accompanying notes are an integral part of these financial statements.

BIG SPRING 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

Total net change in fund balances - Governmental funds \$ 5,480,554

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

Capital outlays are presented as expenditures in the governmental funds. In the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. During the year, capital outlays and depreciation expense are as follows:

Capital outlays	\$ 7,966,763	
Disposals (adjusted cost basis of the assets exceeded the amount of proceeds received)	(79,991)	
Depreciation expense	<u>(2,883,572)</u>	5,003,200

Because some taxes will not be collected until more than two months after the end of the fiscal year, they are not considered as available revenues in the governmental funds. Unavailable taxes increased (decreased) during the year as follows:

Real estate and personal taxes	(102,443)	
Earned income taxes	<u>(210,000)</u>	(312,443)

Bond and note proceeds and principal repayments are presented as other financing sources and expenditures (other financing uses if refunded bonds) in the governmental funds. In the statement of activities, proceeds and repayments do not effect net position. During the year, proceeds and principal repayments are as follows:

Bond proceeds	(9,505,000)	
Principal repayments	<u>3,445,000</u>	(6,060,000)

Bond discounts (premiums) and charges on refundings (any difference between the carrying amount of refunded debt and its payoff amount) are presented as expenditures in the governmental funds. In the statement of activities, these amounts are allocated over the life of the debt as amortization expense. During the year, costs incurred and amortization expense are as follows:

Bond discounts (premiums) and charges on refundings on new bonds (Amortization) and accretion, net	(490,039)	
	<u>106,430</u>	(383,609)

Payments of interest are presented as expenditures in the governmental funds when the payment is due. In the statement of activities, the expense is measured by the amount accrued during the year. The liability for accrued interest on bonds and notes payable increased during the year.

(142,100)

Payments of compensated absences are presented as expenditures in the governmental funds. In the statement of activities, the expense is measured by the amount earned by employees during the year. The liability for compensated absences increased during the year.

(36,600)

Payments of other postemployment benefits are presented as expenditures in the governmental funds. In the statement of activities, the expense includes actuarial estimates, primarily for amortization of prior costs. The liability for other postemployment benefit and changes in deferred inflows and outflows increased during the year.

(242,066)

Pension costs are presented as expenditures in the governmental funds. In the statement of activities, the changes in the unfunded pension obligation and changes in the deferred outflows and inflows related to pension are reported as additional pension costs. The liability for net pension costs and changes in deferred inflows and outflows increased during the year.

(841,419)

Change in net position - Governmental activities

\$ 2,465,517

The accompanying notes are an integral part of these financial statements.

BIG SPRING AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	<u>Food Service</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 470,006
Due from other governments	64,130
Other receivables	23,524
Inventories	16,261
Total current assets	573,921
Capital assets being depreciated, net	188,792
Total assets	762,713
 Liabilities	
Current liabilities	
Accounts payable	59,889
Due to governmental funds	16,584
Unearned revenues	22,089
Total current liabilities	98,562
 Net position	
Invested in capital assets (net of related debt)	188,792
Unrestricted	475,359
Total net position	\$ 664,151

The accompanying notes are an integral part of these financial statements.

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

	Food Service
Operating revenues - Food service revenue	\$ 574,431
Operating expenses	
Salaries	11,044
Employee benefits	4,627
Food service management - non-food costs	624,366
Food and milk	458,025
Supplies and other expenses	34,522
Purchased property services - utilities	65,000
Depreciation	64,266
Total operating expenses	1,261,850
Operating income (loss)	(687,419)
Nonoperating revenues	
Earnings on investments	3,209
Private sources - grant	7,500
State sources - meal subsidies	29,812
Federal sources - meal subsidies	499,511
Federal sources - donated commodities	75,304
Total nonoperating revenues	615,336
Income (loss) before transfers	(72,083)
Transfers from other funds	59,302
Change in net position	(12,781)
Net position - beginning	676,932
Net position - ending	\$ 664,151

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2018

	<u>Food Service</u>
Operating activities	
Cash received from users	\$ 563,206
Cash payments to employees for services	(15,671)
Cash payments to suppliers for goods and services	(1,146,646)
Net cash provided by (used for) operating activities	<u>(599,111)</u>
Non-capital financing activities	
State sources	26,334
Federal sources	515,870
Private Sources - grant	7,500
General Fund advances (due from/to governmental funds)	1,628
General Fund contributed services	59,302
Net cash provided by (used for) non-capital financing activities	<u>610,634</u>
Capital and related financing activities	
Cash payments for equipment	(74,527)
Net cash provided by (used for) capital and related financing activities	<u>(74,527)</u>
Investing activities	
Earnings on investments	3,209
Net cash provided by (used for) investing activities	<u>3,209</u>
Net change in cash and cash equivalents	(59,795)
Cash and cash equivalents - beginning	<u>529,801</u>
Cash and cash equivalents - ending	<u>\$ 470,006</u>
Supplemental Disclosure of Noncash Transactions	
Donated commodities	<u>\$ 75,304</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating income (loss)	<u>\$ (687,419)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities	
Depreciation	64,266
Net change in other assets and other liabilities	
Other receivables	(12,217)
Inventories	7,749
Accounts payable	27,518
Unearned revenues	992
Total adjustments	<u>88,308</u>
Net cash provided by (used for) operating activities	<u>\$ (599,111)</u>

The accompanying notes are an integral part of these financial statements.

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

	<u>Student Activities</u>
Assets	
Cash and cash equivalents	\$ 43,399
Investments	<u>176,197</u>
Total assets	<u>219,596</u>
Liabilities	
Due to student groups	<u>219,596</u>
Total liabilities	<u>219,596</u>
Net position	<u><u>\$ -</u></u>

DRAFT

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Big Spring School District is the level of government which has oversight responsibility and control over activities related to public school education. The report includes services provided by the District to residents within its boundaries: the Cumberland County Townships of Cooke, Lower Frankford, Upper Frankford, Lower Mifflin, Upper Mifflin, North Newton, South Newton, Penn and West Pennsboro and the Borough of Newville. Services provided include a comprehensive curriculum for primary and secondary education as well as special education and vocational education programs. The District receives revenue from local, state and federal sources and must comply with the requirements of these funding sources.

Reporting entity

GASB establishes criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the established criteria. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are:

The economic resources received or held by the separate organization are entirely for the direct benefit of the District or its constituents.

The District is entitled to (or has the ability to) access a majority of the economic resources received or held by the separate organization.

The economic resources received or held by the separate organization that the District is entitled to (or has the ability to) access is significant to the District.

There are no component units that meet all of the above criteria for inclusion in this reporting entity.

Jointly-governed organizations

The District is a participant in three jointly-governed organizations, each of which is a separate legal entity that offers services to the District and its residents. Each entity serves several school districts and/or municipalities, and therefore are not included in this reporting entity. These entities do not have taxing power, but are required to adopt an annual budget, which is funded primarily by its member Districts or others that use its services. Complete financial statements for these entities can be obtained from their administrative offices.

Capital Area Intermediate Unit provides special education services and programs.

Cumberland Perry Area Vocational Technical School provides vocational and technical education services and programs.

Cumberland County Tax Bureau provides earned income tax collection services.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation

The financial statements of the District have been prepared in accordance with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) establishes U.S. generally accepted accounting principles for governments. Accounting guidance is also provided through the Comptroller's office for Pennsylvania's Department of Education. The more significant of these accounting policies are as follows:

Basis of presentation - District-wide financial statements

District-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present information on all of the nonfiduciary activities of the District. As a general rule the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are presented separately from business-type activities which rely to a significant extent, on fees and charges for support.

District-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Real estate and personal taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation and amortization are charged as an expense against current operations. Capital assets (net of accumulated depreciation), bonds and note payable (net of unamortized premiums or discounts), net OPEB liability and net pension liability are presented in the statement of net position.

The statement of activities demonstrates the degree to which the direct expenses of given functions or programs are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are presented as general revenues.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements

Fund financial statements are also provided for all governmental funds, proprietary funds, and fiduciary funds of the District. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Nonmajor funds, if any, are aggregated and presented in a single column. Fiduciary funds are reported by fund.

Governmental funds are presented 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 received within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if received within 2 months of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recognized as unearned revenues until earned. Expenditures generally are recognized 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 recognized only when payment is due.

Proprietary funds generally follow standards for accounting and financial presentation for private business enterprises to the extent that those standards do not conflict with or contradict guidance of the GASB. The District does not attempt to allocate all "building-wide costs" to the proprietary fund. Thus, general fund expenditures which partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized with the proprietary fund. Similarly, the proprietary fund does not recognize a cost for the building space it occupies.

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

Fund accounting

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

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements (Cont'd.)

Fund accounting (Cont'd.)

When both restricted and unrestricted resources are available, the District's general policy is to use the restricted (primarily operating grants) resources first, then unrestricted resources as needed.

The District has the following types of funds:

Governmental Funds – These funds account for activities through which most of the District's operations are provided.

Proprietary Funds – These funds account for operations of the District that are financed and operated in a manner similar to private business enterprises.

Fiduciary Funds – These funds account for assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are therefore not available to support the District's own programs.

The District presents the following major governmental funds:

The General Fund is the primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

An operating budget is adopted prior to the beginning of each year on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

The Pennsylvania School Code dictates specific procedures relative to budget adoption and financial statement presentation. The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year. This process includes the publishing of notices by advertisement, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District, and that public hearings are held on the proposed operating budget which are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may approve transfers of funds appropriated to any particular item of expenditure in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval, provided it is not at a higher level than the Board adopted budget.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements (Cont'd.)

Fund accounting (Cont'd.)

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recognized. Unused encumbrances expire at the end of each year.

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

The Capital Projects Funds can consist of more than one project, to separately account for each project, if required. Each issuance of new debt (primarily bonds) is a project to account for the debt proceeds and the expenditure of those proceeds. The District also maintains a Capital Reserve Fund for amounts transferred from the General Fund and the expenditure of those funds for capital outlays.

The District presents the following proprietary fund:

The Food Service Fund accounts for the operations of the cafeterias.

The District presents the following fiduciary fund:

The Student Activities Fund accounts for programs operated and sponsored by various clubs and organizations within the schools.

Cash and cash equivalents and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits (including pooled investments), and short-term investments with original maturities of three months or less from the date of acquisition.

Types of authorized investments are limited by State regulations. Pooled investment funds are required to be operated in accordance with State regulations.

Investments, including pooled investments, are reported at fair value.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Taxes and taxes receivable

Real estate and personal taxes are levied as of July 1 with a legal, enforceable claim against the property and/or taxpayer. Amounts not collected within six months (December 31) are considered delinquent and submitted to outside agencies/entities for collection actions.

Receivables and payables between funds

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/to other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the district-wide financial statements as "internal balances". Any balances between funds are short term items pending periodic repayments.

Inventories and prepaid items

Inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when consumed. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation.

Certain payments, if any, to vendors reflect expenses applicable to future accounting periods and are presented as prepaid items in both district-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are presented in the applicable governmental or business-type activities columns in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$ 1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous groups with individual costs of less than \$ 1,500 as capital assets for financial presentation purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are presented at historical cost or estimated historical cost if purchased or constructed.

Major outlays for capital assets and improvements are capitalized when incurred. 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.

Upon sale or retirement, the cost and related accumulated depreciation, if applicable, are eliminated from the respective district-wide and proprietary accounts and any resulting gain or loss is reflected in those accounts.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Capital assets (Cont'd.)

Capital assets are depreciated using the straight-line method, over the following estimated useful lives (in years):

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Buildings	40	-
Site improvements	20	-
Furniture	15	15
Machinery and equipment	10 to 15	15
Library books	7	-
Audio visual equipment	6	-
Technology equipment	5	5

Long-term liabilities

In district-wide financial statements, and proprietary fund types in fund financial statements, bonds and notes payable and other long-term obligations are presented as liabilities. Bond discounts (premiums) and any charges on refundings are amortized over the life of the bonds using the effective interest method.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs and charges on refundings, as current period expenditures. The face amount of debt issued is presented as other financing sources while discounts and charges on refundings are presented as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are presented as support service expenditures.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Deferred outflows/inflows of resources

In addition to assets, the statement of net position reports 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 future periods and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. These are a deferred pension contribution and deferred outflows of resources for pension which are reported in the government-wide statement of net position. A deferred pension contribution results from contributions made to the pension plan subsequent to the measurement date and prior to the District's year end. The contributions will be recognized as a reduction in net pension liability in the following year. Deferred outflows of resources for pension relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business type activities. These amounts are deferred and amortized over a closed five year period. Deferred changes in OPEB assumptions result from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual earnings, changes in the employer's proportion, or differences between employer contributions and the proportionate share of total contributions reported by the OPEB plan, or changes in the internal allocation of the net pension liability between governmental and business type activities. It relates to the difference between healthcare cost assumptions and actual experience. It is amortized over an appropriate actuarially determined period of time.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items that qualify. The first item, *deferred inflows of resources for pension*, relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, or differences between employer contributions and the proportionate share of total contributions reported by the pension plan. These amounts are deferred and amortized over a closed five year period. The second item, *unavailable revenue*, arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources - property taxes, earned income taxes and personal taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The third item, *deferred charges on refundings*, relates to the district-wide statement of net position. Charges on refundings result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The fourth item, *deferred changes in OPEB*, results from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, or differences between employer contributions and the proportionate share of total contributions reported by the OPEB plan. It relates to the difference between healthcare cost assumptions and actual experience. It is amortized over an appropriate actuarially determined period of time.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Unearned revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide and fund financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

Pensions

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

General information about the pension plan

Plan description

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

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 after June 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 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.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Pensions (Cont'd.)

Benefits provided (Cont'd.)

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 benefits that would have been effective if the member had retired on the day before death.

Contributions

Member contributions

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

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

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

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

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Pensions (Cont'd.)

Contributions (Cont'd.)

Employer contributions

The school districts' contractually required contribution rate for fiscal year ended June 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan for the District were \$ 6,200,318 for the year ended June 2018.

Other postemployment benefits other than pensions

Eligible retirees, including teachers, administrators, and support staff are allowed to continue health insurance coverage for themselves and their dependents until the retiree attains the Medicare eligible age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

In addition to the other postemployment benefit detailed above, the Public School Employees' Retirement System (PSERS) also provides a health insurance premium assistance program for all eligible employees, which is a cost-sharing multiple employer defined benefit plan.

Other postemployment benefits - PSERS health insurance premium assistance

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.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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 of 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 1/2 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.

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.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

General Information about the Health Insurance Premium Assistance Program (Cont'd.)

Employer Contributions

The Districts' contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$ 158,006 for the year ended June 30, 2018.

Net position

Net position (deficit) represents total assets plus deferred outflows of resources less total liabilities and deferred inflows of resources. In district-wide financial statements and proprietary fund financial statements, categories of net position are:

Invested in capital assets (net of related debt) - This category presents all capital assets into one component of net position. Accumulated depreciation and outstanding debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted - This category presents funds restricted for a specific purpose as per: External parties, contributors or enabling legislation.

Unrestricted - This category presents the net position (deficit) of the District, which are not restricted for any project or other purpose. However, these funds may be committed or assigned for specific projects or purposes in the fund financial statements.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Governmental fund balances

GASB has established criteria for classifying fund balances into specifically defined classifications based on a hierarchy that reflects the extent to which the District is bound to honor constraints on how those funds can be spent. The District's general policy is to first use restricted funds, if any, prior to using unassigned funds. Classifications of fund balances are:

Nonspendable - Amounts that cannot be spent because they are either in a (a) non-spendable form (i.e. inventories) or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

Restricted - Amounts constrained to be used for a specific purpose as per: External parties, contributors or enabling legislation.

Committed - Amounts constrained to be used for a specific purpose as per: The District's highest level of decision making authority which is the Board of School Directors.

Assigned - Amounts intended to be used for a specific purpose as per: Committee (such as budget or finance) or individual authorized by the Board of School Directors (such as Superintendent or Business Manager).

Unassigned - Amounts available for any purpose (amounts that are not Nonspendable, Restricted, Committed or Assigned) in the General Fund.

Estimates

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

Recent accounting standards

The following reflects only those pronouncements initially effective in the current or upcoming reporting periods which based on our review, may be applicable to the District's reporting requirements.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Recent accounting standards (Cont'd.)

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and establishes new accounting and financial reporting requirements for OPEB plans. This statement is effective for fiscal years beginning after June 15, 2017. The District has implemented GASB 75 in the current year.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68 and No. 73*. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this statement for the selection of assumptions in a circumstance in which the pension liability is measured as of a date other than the most recent fiscal year-end. In that circumstance, the effective date is June 15, 2017. The District has implemented GASB 82 in the current year.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The requirements of this statement are effective for reporting periods beginning after June 15, 2018, and earlier application is encouraged. The District is currently evaluating what effect, if any, the adoption of GASB 83 will have on the District's financial statements.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Recent accounting standards (Cont'd.)

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this statement are effective for reporting periods beginning after December 15, 2018, and earlier application is encouraged. The District is currently evaluating what effect, if any, the adoption of GASB 84 will have on the District's financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this statement are effective for reporting periods beginning after June 15, 2017, and earlier application is encouraged. The District has implemented GASB 85 in the current year.

In June 2017, GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, and earlier application is encouraged. The District is currently evaluating what effect, if any, the adoption of GASB 87 will have on the District's financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes related to debt. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement requires that additional essential information related to debt be disclosed, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, and significant subjective acceleration clauses. It also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018, and earlier application is encouraged. The District is currently evaluating what effect, if any, the adoption of GASB 88 will have on the District's financial statements.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Recent accounting standards (Cont'd.)

There are other GASB pronouncements that will become effective for future reporting periods. The District does not currently anticipate any significant impact on the District's financial statements from these pronouncements.

Subsequent events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through _____, 2018, the date the financial statements were available to be issued.

RESTATEMENT OF NET POSITION/RESTATEMENT OF BEGINNING BALANCES

The District restated its beginning net position as a result of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. It changed the actuarial method of calculating OPEB obligation and includes the deferred outflow of resources entitled *deferred changes of OPEB* assumptions for governmental and business-type activities.

The financial impact of the implementation of GASB Statement No. 75 is as follows:

<u>Government-wide Statement of Net Position</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net position (deficit) as previously reported at June 30, 2017	\$ (13,894,051)	\$ 676,932	\$ (13,217,119)
Prior period adjustment			
Implementation of OPEB obligation Standard GASB 75	<u>(5,440,637)</u>	<u>-</u>	<u>(5,440,637)</u>
Net position (deficit), as restated, at June 30, 2017	<u>\$ (19,334,688)</u>	<u>\$ 676,932</u>	<u>\$ (18,657,756)</u>

CASH AND CASH EQUIVALENTS AND INVESTMENTS

Pennsylvania statutes provide for investment of District funds into authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of funds for investment purposes.

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned. The District does not have a formal investment policy for custodial credit risk. However, the District requires all deposits in excess of federal deposit insurance coverage to be collateralized by the depository institution with approved collateral as provided by law.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont'd.)

As of June 30, 2018, the District's deposits totaled \$ 406,769 and the depository institution balances totaled \$ 867,324. Of the depository institution balances, \$ 474,559 was covered by federal deposit insurance and \$ 392,765 was collateralized by pooled assets. The pledged collateral is held by the Federal Reserve Bank, but is not titled in the District's name.

The District also has cash equivalents and investments with organizations that operate as common law trusts established pursuant to the Intergovernmental Cooperation Act and related statutes for the purpose of pooling investments. Each organization's fundamental policy is to maintain a net asset value of \$ 1 per share, but there can be no assurance that the net asset value will not vary from \$ 1 per share. They may only purchase securities which are permitted under PA law. As of June 30, 2018, District deposits in these organizations are as follows:

	<u>Cash and Cash</u>	<u>Investments</u>
	<u>Equivalents</u>	<u>Investments</u>
Pennsylvania School District Liquid Asset Funds (PSDLAF)	\$ 32,920,696	\$ 5,000,000
Pennsylvania Local Government Investment Trust (PLGIT)	8,728	-

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy for interest rate risk. The weighted average maturity of securities held by each of the organizations is generally less than 90 days.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal investment policy for credit risk. The District's deposits in each of the organizations were rated "AAAm" by Standard & Poor's.

Cash and cash equivalents and investments are as follows:

	<u>Cash and Cash</u>	<u>Investments</u>
	<u>Equivalents</u>	<u>Investments</u>
Governmental activities	\$ 32,822,788	\$ 5,000,000
Business-type activities	470,006	-
Fiduciary funds	<u>43,399</u>	<u>176,197</u>
	<u>\$ 33,336,193</u>	<u>\$ 5,176,197</u>

Investments consist of certificates of deposit with original maturities of more than three months from the date of acquisition.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

TAXES RECEIVABLE

Taxes receivable are as follows:

	Taxes Receivable (Gross)	Allowance for Uncollectibles	Taxes Receivable (Net)	Unavailable Tax Revenue
Real estate taxes	\$ 738,652	\$ 152	\$ 738,500	\$ 522,259
Earned income taxes	1,210,000	-	1,210,000	1,210,000
Personal taxes	<u>4,565</u>	<u>2,565</u>	<u>2,000</u>	<u>2,000</u>
General Fund	1,953,217	2,717	1,950,500	1,734,259
Full accrual adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,734,259)</u>
 Governmental activities	 <u>\$ 1,953,217</u>	 <u>\$ 2,717</u>	 <u>\$ 1,950,500</u>	 <u>\$ -</u>

DUE FROM/TO OTHER FUNDS AND INTERFUND TRANSFERS

Interfund balances are as follows:

Assets		Liabilities	
General Fund	\$ 16,584	\$ 16,584	Food Service Fund
General Fund	1,475	1,475	Capital Reserve Fund
Capital Reserve Fund	1,500,000	1,500,000	General Fund

Interfund transfers were as follows:

Other financing sources		Other financing uses	
Food Service Fund	\$ 59,302	\$ 59,302	General Fund
Capital Reserve Fund	1,500,000	1,500,000	General Fund
Capital Projects - Newville	227	227	Capital Projects - Stadium

DUE FROM OTHER GOVERNMENTS

Due from other governments are as follows:

	Governmental Activities	Business-type Activities
Local sources - earned income taxes	\$ 611,289	\$ -
Local sources - realty transfer taxes	36,692	-
Local sources - other schools	278,086	-
Local sources - other items	23,752	-
State sources	1,645,817	3,572
Federal sources	<u>156,619</u>	<u>60,558</u>
	 <u>\$ 2,752,255</u>	 <u>\$ 64,130</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

CAPITAL ASSETS

Changes in capital assets were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 899,408	\$ -	\$ -	\$ 899,408
Construction in progress	<u>2,460,291</u>	<u>6,925,470</u>	<u>(4,366,440)</u>	<u>5,019,321</u>
	<u>3,359,699</u>	<u>6,925,470</u>	<u>(4,366,440)</u>	<u>5,918,729</u>
Capital assets being depreciated				
Buildings and improvements	83,564,694	3,852,182	-	87,416,876
Furniture and equipment	3,357,993	785,058	(15,197)	4,127,854
Library books	2,308,721	-	-	2,308,721
Technology equipment	<u>6,439,901</u>	<u>770,493</u>	<u>(112,506)</u>	<u>7,097,888</u>
	<u>95,671,309</u>	<u>5,407,733</u>	<u>(127,703)</u>	<u>100,951,339</u>
Accumulated depreciation				
Buildings and improvements	(32,545,276)	(2,337,120)	-	(34,882,396)
Furniture and equipment	(2,559,856)	(93,775)	9,403	(2,644,228)
Library books	(2,077,848)	-	-	(2,077,848)
Technology equipment	<u>(5,153,330)</u>	<u>(452,677)</u>	<u>38,309</u>	<u>(5,567,698)</u>
	<u>(42,336,310)</u>	<u>(2,883,572)</u>	<u>47,712</u>	<u>(45,172,170)</u>
Capital assets being depreciated, net	<u>53,334,999</u>	<u>2,524,161</u>	<u>(79,991)</u>	<u>55,779,169</u>
Governmental activities capital assets, net	<u>\$ 56,694,698</u>	<u>\$ 9,449,631</u>	<u>\$ (4,446,431)</u>	<u>\$ 61,697,898</u>
Business-type activities				
Capital assets being depreciated				
Furniture and equipment	\$ 1,615,360	\$ 74,527	\$ -	\$ 1,689,887
Accumulated depreciation				
Furniture and equipment	<u>(1,436,829)</u>	<u>(64,266)</u>	<u>-</u>	<u>(1,501,095)</u>
Business-type activities capital assets, net	<u>\$ 178,531</u>	<u>\$ 10,261</u>	<u>\$ -</u>	<u>\$ 188,792</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

CAPITAL ASSETS (Cont'd.)

Depreciation expense was charged to functions/programs as follows:

Governmental activities		
Instruction	\$	2,158,995
Instructional student support		134,937
Administrative and financial support		161,925
Operation and maintenance of plant		242,887
Student activities		<u>184,828</u>
	<u>\$</u>	<u>2,883,572</u>
Business-type activities - Food service		<u>\$ 64,266</u>

LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds and note payable	\$ 40,525,000	\$ 9,505,000	\$ (3,445,000)	\$ 46,585,000	\$ 3,330,000
Bond premiums (discounts)	759,400	490,039	(96,772)	1,152,667	-
Compensated absences	825,000	219,558	(182,958)	861,600	183,000
Net OPEB liability	7,061,174	445,162	(321,049)	7,185,287	-
Net pension liability	<u>69,280,000</u>	<u>10,744,500</u>	<u>(12,016,500)</u>	<u>68,008,000</u>	<u>-</u>
	<u>\$ 118,450,574</u>	<u>\$ 21,404,259</u>	<u>\$ (16,062,279)</u>	<u>\$ 123,792,554</u>	<u>\$ 3,513,000</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

Bonds and note payable

Changes in bonds and note payable were as follows:

	Beginning Balance	New Issue	Refunding	Scheduled Redemptions	Ending Balance
1999 Series (note)	\$ 390,000	\$ -	\$ -	\$ (390,000)	\$ -
2012 Series	8,840,000	-	-	(740,000)	8,100,000
2013 Series	760,000	-	-	(760,000)	-
2015 Series	9,170,000	-	-	(375,000)	8,795,000
2016 Series	4,820,000	-	-	(1,170,000)	3,650,000
2016 Series A	3,910,000	-	-	(5,000)	3,905,000
2017 Series	12,635,000	-	-	(5,000)	12,630,000
2018 Series	-	9,505,000	-	-	9,505,000
	40,525,000	9,505,000	-	(3,445,000)	46,585,000
Bond premium	759,400	490,039	-	(96,772)	1,152,667
	<u>\$ 41,284,400</u>	<u>\$ 9,995,039</u>	<u>\$ -</u>	<u>\$ (3,541,772)</u>	<u>\$ 47,737,667</u>

The 2018 Series bond in the amount of \$ 9,505,000 was issued at a premium of \$ 490,039. After payment of issuance costs of \$ 174,095, the net proceeds of \$ 9,820,944 were deposited into the District's capital projects fund to be used for various capital projects of the District.

	Interest Rates	Maturity Date	Callable Date	Due Within One Year
2012 Series	.90% to 2.00%	April 2023	April 2018	\$ 875,000
2015 Series	0.23% to 3.00%	March 2025	March 2021	1,255,000
2016 Series	1.94%	February 2021	Anytime, w/o penalty	1,190,000
2016 Series A	1.94%	February 2025	Anytime, w/o penalty	5,000
2017 Series	.90% to 5.00%	February 2029	45 days notice	5,000
2018 Series	1.75% to 4.00%	March 2033	September 2023	-
				<u>\$ 3,330,000</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

Bonds and note payable (Cont'd.)

Scheduled debt service requirements, payable by the General Fund, are as follows:

<u>Year Ending June</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,330,000	\$ 1,345,286	\$ 4,675,286
2020	3,400,000	1,313,644	4,713,644
2021	3,485,000	1,233,560	4,718,560
2022	3,590,000	1,177,927	4,767,927
2023	3,975,000	1,086,126	5,061,126
2024-2028	17,505,000	4,051,589	21,556,589
2029-2033	<u>11,300,000</u>	<u>1,136,525</u>	<u>12,436,525</u>
	<u>\$ 46,585,000</u>	<u>\$ 11,344,657</u>	<u>\$ 57,929,657</u>

Compensated absences

Compensated absences (those for which employees are compensated) are presented using the termination payment method. A liability is computed using estimates which apply historical data to current factors. The District maintains records of unused leave and applies the contracted rate for employees eligible for the severance allowance. The District allows only restricted sabbatical leave and therefore does not present any liability in advance of the sabbatical. Payments for compensated absences are made in the year the absence is taken or the employee retires.

At retirement or death, while in District service, employees or their beneficiaries shall choose one of the available options (subject to a maximum of \$ 19,500 for administrators, \$ 17,000 for teaching staff and \$ 10,081 for classified staff). The severance allowance is paid as a District contribution into the employee's 403(b) tax sheltered annuity account.

Net OPEB liability

District plan

OPEBs are presented in accordance with GASB Statement No. 75, which requires their recognition as part of the compensation package of active employees for services rendered. The cost and obligation for OPEBs are measured by an actuarial valuation.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

Net OPEB liability (Cont'd.)

District plan (Cont'd.)

Plan description

Under the negotiation's agreement with Big Spring Education Association, the District provides for continuance of health care insurance coverage after retirement.

If the eligible member retired after June 2011, and had 30 years with the District, the District will pay 50% of the medical and prescription drug premiums for the member only, subject to a maximum annual District contribution of \$ 4,000. The coverage will cease upon the earlier of 5 years or member Medicare age. The member may elect dental and vision coverage by paying the full premiums. Dependents may elect available coverage by paying the full premiums. If the 5 years are exhausted and the member has not reached Medicare age, the member and dependents may continue coverage by paying the full premiums.

If the eligible member retired before July 2011, the District will pay 50% of the medical and prescription drug premiums for the member and dependents. The coverage will cease upon the earlier of 5 years or member Medicare age. The member and dependents may elect dental and vision coverage by paying the full premiums. If the 5 years are exhausted and the member has not reached Medicare age, the member and dependents may continue coverage by paying the full premiums.

If the retired member did not qualify for the District subsidized benefit, but has retired through PSERS, the member and dependents may elect available coverage by paying the full premiums.

Retired administrators are eligible for health care insurance coverage similar to the above.

Retired classified employees, hired before July 2007, are eligible for health care insurance coverage similar to the above. If hired after June 2007, the retiree and dependents may elect available coverage by paying the full premiums.

Retiree's premiums are less than the District's actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the cost of covering retired members and their dependents results in what is known as an "implicit rate subsidy," which creates an additional cost to the District.

Participant information	
Active participants	273
Vested former members	0
Retired participants	<u>54</u>
	<u>327</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

Net OPEB liability (Cont'd.)

District plan (Cont'd.)

Plan description (Cont'd.)

At retirement, 100% of teachers and administrators eligible to receive a subsidy are assumed to elect coverage, and if the subsidy exhausts prior to the member reaching Medicare age, 75% are assumed to elect coverage thereafter. 75% of teachers and administrators not eligible to receive a subsidy are assumed to elect coverage. Support staff employees eligible to receive a subsidy prior to Medicare age are assumed to follow the same election percentages as teachers and administrators, 40% of support staff employees never eligible to receive a subsidy are assumed to elect coverage.

Funding policy

The District funds Plan liabilities on a “pay-as-you-go” basis, and has not established an OPEB trust fund to accumulate assets to fund Plan obligations. The District has no statutory or contractual obligation to fund the Plan and would only do so at the District’s discretion.

Actuarial cost method

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.

The changes in the District’s total OPEB liability are as follows:

District service cost	\$ 292,483
Interest	106,568
Changes in assumptions	46,111
Benefit payments	<u>(115,421)</u>
Net changes	329,741
Net OPEB obligation - beginning	<u>4,049,897</u>
Net OPEB obligation - ending	<u>\$ 4,379,638</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

Net OPEB liability (Cont'd.)

District plan (Cont'd.)

Actuarial cost method (Cont'd.)

At June 30, 2018, the District reported an OPEB District plan liability of \$ 4,379,638. The District recognized OPEB expense of \$ 402,894. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 42,268	\$ -
Benefit payments subsequent to the measurement date	<u>146,972</u>	<u>-</u>
	<u>\$ 189,240</u>	<u>\$ -</u>

In the year ended June 30, 2018, \$ 146,972 was reported as deferred outflows of resources related to OPEBs resulting from District benefit payments subsequent to the measurement date which will be recognized as a reduction of the net OPEB liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense for the year ended June 30 as follows:

2018	\$ 3,843
2019	3,843
2020	3,843
2021	3,843
2022	3,843
Thereafter	23,053

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

Net OPEB liability (Cont'd.)

District plan (Cont'd.)

Actuarial assumptions

Actuarial assumptions and methods used in the July 2016 actuarial valuation include the following:

Interest rate	3.13%
General inflation rate	2.50%
Salary increases	1% real growth, teachers and administrators a merit increase which varies by age from 2.75% and 0%.
Health care cost trend rate	6.00% in 2017 and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later

The rate of 3.13% is based on the S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2017.

Actuarial evaluations on an ongoing basis involve estimates of the reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Projections of benefits are based on the types of benefits provided under the plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point in time.

Actuarial calculations reflect a long-term perspective, and consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities.

The required schedule of funding progress in the other required supplementary information (ORSI) immediately following the notes to the financial statements, is to present multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the District maintains no Plan assets, information relative to Plan asset disclosures is not applicable.

BIG SPRING SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)
 JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

Net OPEB liability (Cont'd.)

District plan (Cont'd.)

Sensitivity of the net OPEB liability to change in healthcare cost trend rates

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

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB liability	\$ 3,874,675	\$ 4,379,638	\$ 5,039,591

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate

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

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
Net OPEB liability	\$ 4,760,073	\$ 4,379,638	\$ 4,022,040

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB - PSERS health insurance premium assistance

At June 30, 2018, the District reported a liability of \$ 2,805,649 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 .1377%, which was a decrease of .0021 from its proportion measured as of June 30, 2017.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB - PSERS health insurance premium assistance (Cont'd.)

For the year ended June 30, 2018, the District recognized OPEB expense of \$ 112,599. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ 130,552
Net difference between projected and actual investment earnings	2,966	-
Changes in proportions	-	38,772
Difference between employer contributions and proportionate share of total contributions	-	2,216
Contributions subsequent to the measurement date	<u>158,006</u>	<u>-</u>
	<u>\$ 160,972</u>	<u>\$ 171,540</u>

In the year ended June 30, 2018, \$ 158,006 was 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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense for the year ended June 30 as follows:

2018	\$ 27,000
2019	27,000
2020	27,000
2021	27,000
2022	28,000
Thereafter	28,000

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB - PSERS health insurance premium assistance (Cont'd.)

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.

BIG SPRING SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)
 JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB - PSERS health insurance premium assistance (Cont'd.)

Actuarial Assumptions (Cont'd.)

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.

<u>OPEB - 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>100%</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.

BIG SPRING SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)
 JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB - PSERS health insurance premium assistance (Cont'd.)

Sensitivity of the System and District's 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 per year. 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.

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
System net OPEB liability (in thousands)	\$ 2,036,880	\$ 2,037,412	\$ 2,037,839
District's net OPEB liability	2,805,000	2,805,649	2,806,000

Sensitivity of the System and District's net OPEB liability to changes in the discount rate

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

	<u>1% Decrease 2.13%</u>	<u>Current Discount Rate 3.13%</u>	<u>1% Increase 4.13%</u>
System net OPEB liability (in thousands)	\$ 2,315,996	\$ 2,037,412	\$ 1,805,991
District's net OPEB liability	3,189,000	2,805,649	2,487,000

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB - PSERS health insurance premium assistance (Cont'd.)

OPEB plan fiduciary net position

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

The combined OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to both OPEB plans are summarized below.

At June 30, 2018, the district reported a combined liability of \$ 7,185,287 for its net OPEB liability. The combined OPEB expense totaled \$ 515,493.

At June 30, 2018, the District reported outflows of resources and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		
	District Plan	PSERS Health Insurance Premium Assistance	Total
Changes in assumptions	\$ 42,268	\$ -	\$ 42,268
Net difference between projected and actual investment earnings	-	2,966	2,966
Changes in proportion	-	-	-
Difference between employer contributions and proportionate share of total contributions	-	-	-
Contributions/benefit payments subsequent to the measurement date	146,972	158,006	304,978
	\$ 189,240	\$ 160,972	\$ 350,212

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB - PSERS health insurance premium assistance (Cont'd.)

OPEB plan fiduciary net position (Cont'd.)

	Deferred Inflows of Resources		
	District Plan	PSERS Health Insurance Premium Assistance	Total
Changes in assumptions	\$ -	\$ 130,552	\$ 130,552
Net difference between projected and actual investment earnings	-	-	-
Changes in proportion	-	38,772	38,772
Difference between employer contributions and proportionate share of total contributions	-	2,216	2,216
Contributions/benefit payments subsequent to the measurement date	-	-	-
	<u>\$ -</u>	<u>\$ 171,540</u>	<u>\$ 171,540</u>

In the year ended June 30, 2018, \$ 304,978 was reported as deferred outflows of resources related to OPEB resulting from District contributions/benefit payments subsequent to the measurement date will be recognized as a reduction of the net OPEB liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense for the year ended June 30 as follows:

	District Plan	PSERS Health Insurance Premium Assistance	Total
2018	\$ 3,843	\$ 27,000	\$ 30,843
2019	3,843	27,000	30,843
2020	3,843	27,000	30,843
2021	3,843	27,000	30,843
2022	3,843	28,000	31,843
Thereafter	23,053	28,000	51,053

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

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

At June 30, 2018, the District reported a liability of \$ 68,008,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was .1377%, which was a decrease of .0021 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$ 6,883,287. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 410,942
Changes in assumptions	1,847,480	-
Net difference between projected and actual investment earnings	2,285,353	-
Changes in proportions	197,148	1,155,842
Difference between employer contributions and proportionate share of total contributions	113,417	-
Contributions subsequent to the measurement date	<u>6,042,312</u>	<u>-</u>
	<u>\$ 10,485,710</u>	<u>\$ 1,566,784</u>

In the year ended June 30, 2018, \$ 6,042,312 was reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense for the year ended June 30 as follows:

2018		\$ 709,000
2019		1,575,000
2020		891,000
2021		(411,000)

BIG SPRING SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)
 JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Cont'd.)

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	<u>(20.0%)</u>	1.1%
	<u>100%</u>	

BIG SPRING SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)
 JUNE 30, 2018

LONG-TERM LIABILITIES (Cont'd.)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Cont'd.)

Actuarial assumptions (Cont'd.)

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

Discount rate

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

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following 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 1% point lower (6.25%) or 1% point higher (8.25%) than the current rate:

	1% Decrease	Current	1% Increase
	6.25%	Discount Rate 7.25%	8.25%
District's proportionate share of the net pension liability	\$ 83,712,000	\$ 68,008,000	\$ 54,749,000

Pension plan fiduciary net position

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

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

TAX ABATEMENT

The District negotiates property tax abatement agreements on an individual basis. As of June 30, 2018, the District has one tax abatement agreement.

The agreement was negotiated under the Pennsylvania Local Economic Revitalization Tax Assistance Act of December 1, 1977, referred to as LERTA. LERTA permits local taxing authorities such as the District to provide tax abatement for new construction on deteriorated industrial, commercial or other business property in economically depressed communities. The exemption amount, if approved by a Board of School Director's resolution, would be the valuation of the new construction or improvement. The Act establishes that the length of exemption shall not exceed ten years, with a schedule stipulating the portion of the new construction or improvements to be exempted by year. The current District LERTA property has an established tax assessment percentage of 35 percent over the five year period.

The state law does not provide for the recapture of abated taxes, in the event an abatement recipient does not fulfill the commitment it makes in return for the tax abatement.

The District has not made any commitments as part of the agreement other than to reduce real estate taxes. The District is not subject to any tax abatement agreements entered into by other governmental entities.

For the year ended June 30, 2018, the following schedule provides the LERTA eligible property and related tax abatement:

<u>Owner of Tax Parcel</u>	<u>Year of Abatement *</u>	<u>Exempted Real Estate Valuation</u>	<u>Percentage of Abatement</u>	<u>Abated 2017/2018 Real Estate Taxes</u>
PANCAL 954 Centerville (Unit B) LLC	5	\$ 30,434,000	65%	\$ <u>277,798</u>
Gross amount of District tax reduction				\$ <u><u>277,798</u></u>

Note: The District millage for 2017/2018 was 14.0429 mills.

* Year of Abatement based on calendar year - exemption percentage allocated to school year.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

RISK MANAGEMENT

Health insurance

The District's health insurance plan through South Central Trust allows each participant to choose one of the three available coverage options. South Central Trust is not a risk sharing pool. The Trust was established for processing claims and obtaining reinsurance through commercial insurance carriers. The Trust has reinsurance for claims in excess of \$ 100,000 specific (per person) and 125% aggregate (estimated District annual cost). Financial statements of the trust are provided to the member districts. District transactions within the Trust were as follows:

Cash balance in the trust - beginning		\$ 2,890,307
Payments from the District and its retirees		3,659,453
Benefit claims paid by the trust	\$ (2,943,082)	
Administrative and other fees, net of interest earned	(178,150)	
Stop loss premiums	<u>(85,831)</u>	<u>(3,207,063)</u>
Cash balance in the trust - ending		3,342,697
District prepaid health insurance		<u>2,000,000</u>
Amount available for benefit claims		<u>\$ 1,342,697</u>

The amount available for benefit claims was as follows:

Accrual for benefit claims		\$ 715,654
Accrual for administrative and other fees		52,445
Accrual for health insurance coverage on payroll payable		<u>574,598</u>
Amount available for benefit claims		<u>\$ 1,342,697</u>

There are various methodologies for estimating a reasonable accrual for benefit claims. District management has selected the methodology of approximately '3 months of paid claims'. District management believes this methodology provides an adequate amount for accrued costs.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

RISK MANAGEMENT (Cont'd.)

Other insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

For State unemployment compensation laws, the District is self-insured, which is a common practice for local governmental units. Any unemployment claims are paid by the District on a quarterly basis as incurred.

For workers' compensation insurance, approximately 80 Districts participate in a public entity risk sharing pool (School Districts Insurance Consortium) for processing claims and obtaining reinsurance through commercial insurance carriers. Under this plan, the District's annual cost should not exceed standard commercial insurance rates.

ASSIGNED FUND BALANCE

Assigned fund balance amounts of the General Fund are as follows:

Technology	\$ 2,300,000
Pension plan rate increases	650,000
Health care	350,000
Special education	550,000
Software	<u>200,000</u>
	<u>\$ 4,050,000</u>

OPERATING LEASES

The District was obligated under various technology equipment lease agreements for the year ended June 30, 2018. Payments on these operating leases included in General Fund expenditures were \$ 145,591. Future minimum payments under this operating lease agreement are as follows:

2018-2019	\$ 145,591
2019-2020	<u>51,869</u>
	<u>\$ 197,460</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2018

COMMITMENTS AND CONTINGENCIES

The District's contract with its teaching staff expires in June 2022. The District contract with its classified staff expires in June 2019.

In the normal course of business, the District is subject to legal disputes and claims. The District does not anticipate any material losses from any pending or threatened litigation.

In the normal course of preparing for the subsequent school year, the District has awarded bids for various supplies, fuel contracts, etc. The District entered into thirteen construction contracts. For the year ended June 30, 2018, the District incurred approximately \$ 3,838,000 in costs. The outstanding commitments at June 30, 2018 for these contracts are approximately \$ 7,568,000. The total cost of these projects for the year is as follows:

Middle School Abatement	\$ 52,000
Newville Elementary School Expansion and Renovation	6,440,000
Mt. Rock Roof Partial Replacement	1,155,000
High School Roof Coating	392,000
Mt. Rock Renovations	985,000
Middle School Renovations	1,857,000
High School Renovations	525,000

The District participates in state and federal grant programs which are governed by various rules and regulations. Expenditures charged to these grant programs are subject to program compliance audits and reviews by the grantor agencies. The District is potentially liable for any expenditure which may be disallowed by the rules of these grant programs. The District does not anticipate any material disallowance of program expenditures.

BIG SPRING SCHOOL DISTRICT
BUDGETARY COMPARISON INFORMATION - GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Local sources - taxes	\$ 28,551,952	\$ 28,551,952	\$ 29,305,252	\$ 753,300
Local sources - other	982,140	982,140	1,353,057	370,917
State sources	19,028,707	19,028,707	18,612,695	(416,012)
Federal sources	604,161	604,161	533,775	(70,386)
Total revenues	<u>49,166,960</u>	<u>49,166,960</u>	<u>49,804,779</u>	<u>637,819</u>
Expenditures				
Regular programs	19,732,245	19,439,569	18,831,514	608,055
Special programs	8,329,045	8,437,045	8,434,896	2,149
Vocational programs	682,000	682,000	589,581	92,419
Other instructional programs	40,610	138,610	126,316	12,294
Higher education programs	3,000	3,800	3,439	361
Pupil personnel	1,405,833	1,525,833	1,524,912	921
Instructional staff	1,571,592	1,537,708	1,447,388	90,320
Administration	2,672,667	2,674,983	2,591,787	83,196
Pupil health	536,775	536,775	495,680	41,095
Business	427,717	427,717	384,107	43,610
Operation and maintenance of plant	3,977,750	3,977,750	3,908,780	68,970
Student transportation	2,688,456	2,666,456	2,464,051	202,405
Central services	914,307	936,307	935,549	758
Other support services	28,000	28,000	27,523	477
Student activities	1,057,615	1,057,615	906,772	150,843
Community services	29,984	29,984	26,426	3,558
Capital outlay	-	-	-	-
Debt service (principal and interest)	4,449,350	4,449,350	4,434,454	14,896
Total expenditures	<u>48,546,946</u>	<u>48,549,502</u>	<u>47,133,175</u>	<u>1,416,327</u>
Excess (deficiency) of revenues over expenditures	620,014	617,458	2,671,604	2,054,146
Other financing sources (uses)				
Transfers to other funds	(700,000)	(700,000)	(1,559,302)	(859,302)
Budgetary reserve	(100,000)	(97,444)	-	97,444
Net change in fund balance	(179,986)	(179,986)	1,112,302	1,292,288
Fund balance - beginning	8,166,800	8,166,800	9,484,073	1,317,273
Fund balance - ending	<u>\$ 7,986,814</u>	<u>\$ 7,986,814</u>	<u>\$ 10,596,375</u>	<u>\$ 2,609,561</u>

BIG SPRING SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN
 LAST 10 FISCAL YEARS*

Year Ended	District's Proportion of the Net OPEB Liability	District's Proportionate share of the Net OPEB Liability	District's Covered- Employee Payroll	District's proportionate share of the net OPEB Liability as a % of its Covered- Employee Payroll	Plan Fiduciary Net Position as a % of the Total OPEB Liability
June 30, 2018	0.1377%	\$ 2,805,649	\$ 18,335,485	15.30%	5.73%

Notes to Schedule

Changes in assumptions: Changes in assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period presented above.

2018	3.13%
------	-------

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 75 was implemented in fiscal year ending June 30, 2018, and, until a full 10-year trend is compiled, the School has only presented information for the years in which information is available.

BIG SPRING SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 DISTRICT OPEB PLAN
 LAST 10 FISCAL YEARS*

Year Ended	District's Proportion of the Net OPEB Liability	District's Proportionate share of the Net OPEB Liability	District's Covered-Employee Payroll	District's proportionate share of the net OPEB Liability as a % of its Covered-Employee Payroll	Plan Fiduciary Net Position as a % of the Total OPEB Liability
June 30, 2018	100.00%	\$ 4,379,638	\$ 15,054,068	29.09%	100.00%

Notes to Schedule

Changes in assumptions: Changes in assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period presented above.

2018	3.13%
------	-------

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 75 was implemented in fiscal year ending June 30, 2018, and, until a full 10-year trend is compiled, the School has only presented information for the years in which information is available.

BIG SPRING SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

Year Ending	District Proportion of the Net Pension Liability	District Proportionate Share of the Net Pension Liability	District's Covered Employee Payroll	District Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 2018	0.1377%	\$ 68,008,000	\$ 18,335,485	370.91%	51.84%
June 2017	0.1398%	69,280,000	18,099,573	382.77%	50.14%
June 2016	0.1413%	61,205,486	18,175,445	336.75%	54.36%
June 2015	0.1410%	55,808,811	17,995,841	310.12%	57.24%

Notes to Schedule

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in fiscal year ending June 30, 2015, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

BIG SPRING SCHOOL DISTRICT
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
LAST 10 FISCAL YEARS*

Year Ended	Statutorily Required Contribution	Actual Employer Contribution	Contribution Excess/ (Deficiency)	District's Covered Member Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2018	\$ 6,200,318	\$ 6,200,318	\$ -	\$ 19,534,713	31.74%
June 30, 2017	5,414,570	5,414,570	-	18,543,050	29.20%
June 30, 2016	4,758,923	4,758,923	-	19,035,700	25.00%
June 30, 2015	3,700,183	3,700,183	-	18,049,673	20.50%

Notes to Schedule

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in fiscal year ending June 30, 2015, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

_____, 2018

Board of School Directors
Big Spring School District
Newville, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary funds of Big Spring School District for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 10, 2018 and in our meeting about planning matters with your Business Manager and several other District employees on June 5, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Big Spring School District are described in the notes to financial statements. As described in the notes to the financial statements, Big Spring School District changed accounting policies related to postemployment benefit obligations other than pensions by adopting Statement of Governmental Standards, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of activities. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of the adequacy of the amount available for accrued health insurance claims is based on information provided by South Central Trust and consultants of the Trust. We evaluated the key factors and assumptions used to develop the adequacy of the amount in determining that it is reasonable in relation to the financial statements taken as a whole. This included reviewing a draft of the June 30, 2018 audited financial statements of the Trust and final information received from the Trust for the District for the year ended June 30, 2018.

Management's estimate of the future collectability of taxes receivable (real estate, earned income and personal taxes) is primarily based on past experience and other historical data. We evaluated the key factors and assumptions used to develop the receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of estimated useful lives of capital assets, and the resulting depreciation expense, are based on past experience and other available information. We evaluated the assigned useful lives and determined that the lives and the resulting depreciation expense are reasonable in relation to the financial statements taken as a whole.

Other postemployment benefits (OPEBs) are based on actuarial reports from the District's two separate OPEB plans that are required biennially (every 2 years). The District provides continuation of certain benefits to eligible retired employees and obtains actuarial valuation from Conrad Siegel Actuaries. In addition, a health insurance premium assistance program is provided by Pennsylvania Public School Employee's Retirement System (PSERS) who provide audited actuarial information. If the plan experiences significant changes a new actuarial valuation should be performed rather than waiting for the next scheduled valuation date. The District's most recent valuation reports are as of July 2016. We evaluated the census data and other key factors provided to each plan to develop the required amounts and disclosures in determining that it is reasonable in relation to the financial statements taken as a whole.

The net pension liability and related deferred outflows and inflows of resources are based on audited information provided by the Pennsylvania Public School Employee's Retirement System (PSERS). We evaluated census data and other key factors provided by PSERS to support the required amounts and disclosures in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated _____, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management’s discussion and analysis on pages MDA-1 through MDA-16, and other required supplementary information on pages ORSI-1 through ORSI-7, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board of School Directors and management of Big Spring School District and is not intended to be, and should not be, used by anyone other than these specified parties.