

---

FINANCIAL SECTION  
*POCONO MOUNTAIN SCHOOL DISTRICT*



**Our Mission:**

*To Prepare All Students for  
Tomorrow's Challenges & Opportunities*

---



## INDEPENDENT AUDITOR'S REPORT

**Board of School Directors  
Pocono Mountain School District  
Swiftwater, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pocono Mountain School District, Swiftwater, Pennsylvania as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Pocono Mountain School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pocono Mountain School District, Swiftwater, Pennsylvania as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

We have previously audited the Pocono Mountain School District's 2018 financial statements, and our report dated December 21, 2018, expressed unmodified audit opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the schedules of the District's proportionate share of the net pension liability - PSERS and pension plan contributions – PSERS, schedule of changes in OPEB liability single employer plan and the schedules of the District's proportionate share of the net OPEB liability - PSERS and OPEB plan contributions – PSERS on pages 23 through 35 and 73 through 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pocono Mountain School District's basic financial statements. The introductory section, combining and individual fund financial statements and the comparative General Fund schedules and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019, on our consideration of Pocono Mountain School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pocono Mountain School District's internal control over financial reporting and compliance.

**BBD, LLP**

**Philadelphia, Pennsylvania  
December 20, 2019**

# POCONO MOUNTAIN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

---

Management's discussion and analysis ("**MD&A**") of the Pocono Mountain School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2019. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

### DISTRICT PROFILE

During 2018 – 2019, the District consisted of nine schools – five elementary schools, two junior high schools and two senior high schools consisting of approximately 8,855 students. The District is located in Northeastern Pennsylvania and covers an area of approximately 304 square miles. The District serves a population of approximately 53,000 within eight municipalities in Monroe County. The municipalities consist of the Borough of Mount Pocono and the Townships of Barrett, Coolbaugh, Jackson, Paradise, Pocono, Tobyhanna and Tunkhannock. During 2018 – 2019, there were 1,358 employees in the District, consisting of 820 teachers, 70 administrators including general administration, principals and supervisors and 468 support personnel which includes administrative assistants, bus drivers, computer technicians, duplication clerks, grounds and building maintenance, health room nurses, vehicle mechanics, non-teaching assistants, para-professionals and security guards.

The mission of the District is to prepare all students for tomorrow's challenges and opportunities.

### FINANCIAL HIGHLIGHTS

- On a government-wide basis, including all governmental activities and the business-type activities, the liabilities and deferred inflows of resources of the District exceeded the assets and deferred outflows of resources resulting in a deficit in total net position at the close of the 2018 – 2019 fiscal year of \$243,959,314. During the 2018 – 2019 fiscal year, the District had a decrease in total net position of \$6,337,011. The net position of governmental activities decreased by \$6,368,249 and net position of business-type activities increased by \$31,238.
- The General Fund reported a decrease in fund balance of \$1,790,293, bringing the cumulative fund balance to \$31,021,653 at the conclusion of the 2018 – 2019 fiscal year.
- At June 30, 2019, the General Fund Balance includes \$6,405,969 restricted or committed for the following purposes:
  - ✓ \$178,106 restricted for compensatory education
  - ✓ \$5,000,000 committed to balance the 2019 – 2020 general fund budget
  - ✓ \$1,227,863 committed for capital improvements and infrastructure
- At June 30, 2019, the General Fund Balance includes unassigned amounts of \$24,565,597 or 11.17% of the \$220,000,000 General Fund expenditure budget for 2019 – 2020. Since the District is not raising real estate taxes, the unassigned fund balance amount is in compliance with School Board policy and guidelines prescribed by the Pennsylvania Department of Education. Limits pursuant to 24 PS 6-688, enacted by Act 48 of 2003 allows a school district to maintain an unassigned maximum General Fund Balance of 8.00% of the following year's expenditure budget, as long as the District did not raise property taxes above the Act 1 Index.

# POCONO MOUNTAIN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

---

The final budget to actual variance for the General Fund for the fiscal year ended June 30, 2019 resulted as follows:

	<u>Final Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Variance Positive (Negative)</u>
Revenues	\$211,300,000	\$213,437,937	\$ 2,137,937
Expenditures	216,395,865	213,371,719	3,024,146
Other Financing Sources (Uses)	<u>(704,135)</u>	<u>(1,856,511)</u>	<u>(1,152,376)</u>
Total Net Change in Fund Balance	<u>\$ (5,800,000)</u>	<u>\$ (1,790,293)</u>	<u>\$ 4,009,707</u>

### OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The *Statement of Net Position (Deficit)* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

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

#### **Governmental Activities**

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

# POCONO MOUNTAIN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

---

### **Business-Type Activities**

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 36 and 37 of this report.

### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

#### **Governmental Funds**

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the two major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 38 through 41 of this report.

#### **Proprietary Funds**

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses internal service funds to account for the District's health and workers' compensation self-funded insurance programs. Because an internal service fund predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements provide separate financial information for its major fund and internal service funds. The proprietary fund financial statements can be found on Pages 42 through 44 of this report.

# POCONO MOUNTAIN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

---

### ***Fiduciary Funds***

The District is the trustee, or fiduciary, for assets that belong to others, consisting of scholarship and student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on Pages 45 and 46 of this report.

### ***Notes to the Financial Statements***

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 47 through 72 of this report.

### ***Other Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the general fund, schedules of the District's proportionate share of the net pension liability-PSERS and pension plan contributions-PSERS, schedule of changes in OPEB liability single-employer plan, and the schedules of the District's proportionate share of the net OPEB liability-PSERS and OPEB plan contributions-PSERS, as well as additional analysis which consists of combining and individual fund financial statements and comparative General Fund schedules.

The required supplementary information and additional analysis can be found on Pages 73 through 88 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As previously noted, net position may serve over time as a useful indicator of the District's financial position. At the close of the 2018 – 2019 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$243,959,314. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2018 and 2019.

**POCONO MOUNTAIN SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED**

**June 30, 2019**

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
<b>ASSETS</b>						
Current assets	\$ 91,436,903	\$ 92,215,259	\$2,253,816	\$2,390,883	\$ 93,690,719	\$ 94,606,142
Capital assets	228,045,350	236,811,260	220,445	187,664	228,265,795	236,998,924
<b>Total assets</b>	<u>319,482,253</u>	<u>329,026,519</u>	<u>2,474,261</u>	<u>2,578,547</u>	<u>321,956,514</u>	<u>331,605,066</u>
<b>DEFERRED OUTFLOWS</b>						
Deferred amounts on debt refunding	5,009,466	5,719,772	-	-	5,009,466	5,719,772
Deferred charges - OPEB	4,884,397	3,866,413	-	-	4,884,397	3,866,413
Deferred charges - pension	55,141,034	73,957,131	-	-	55,141,034	73,957,131
<b>Total deferred outflows</b>	<u>65,034,897</u>	<u>83,543,316</u>	<u>-</u>	<u>-</u>	<u>65,034,897</u>	<u>83,543,316</u>
<b>LIABILITIES</b>						
Current liabilities	42,840,252	43,201,400	202,838	338,362	43,043,090	43,539,762
Noncurrent liabilities	567,775,969	605,471,265	-	-	567,775,969	605,471,265
<b>Total liabilities</b>	<u>610,616,221</u>	<u>648,672,665</u>	<u>202,838</u>	<u>338,362</u>	<u>610,819,059</u>	<u>649,011,027</u>
<b>DEFERRED INFLOWS</b>						
Deferred credits - OPEB	1,242,627	701,448	-	-	1,242,627	701,448
Deferred credits - pension	18,889,039	3,058,210	-	-	18,889,039	3,058,210
<b>Total deferred inflows</b>	<u>20,131,666</u>	<u>3,759,658</u>	<u>-</u>	<u>-</u>	<u>20,131,666</u>	<u>3,759,658</u>
<b>NET POSITION (DEFICIT)</b>						
Net investment in capital assets	61,366,242	58,676,080	220,445	187,664	61,586,687	58,863,744
Restricted	3,769,296	4,572,795	-	-	3,769,296	4,572,795
Unrestricted (deficit)	<u>(311,366,275)</u>	<u>(303,111,363)</u>	<u>2,050,978</u>	<u>2,052,521</u>	<u>(309,315,297)</u>	<u>(301,058,842)</u>
<b>Total net position (deficit)</b>	<u>\$(246,230,737)</u>	<u>\$(239,862,488)</u>	<u>\$2,271,423</u>	<u>\$2,240,185</u>	<u>\$(243,959,314)</u>	<u>\$(237,622,303)</u>

The District's total assets as of June 30, 2019 were \$321,956,514 of which \$61,864,494 or 19.22% consisted of cash and \$228,265,795 or 70.90% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2019 were \$610,819,059 of which \$177,798,574 or 29.11% consisted of general obligation debt used to acquire and construct capital assets, \$318,944,987 or 52.22% consisted of the actuarially determined net pension liability and \$77,140,143 or 12.63% consisted of the actuarially determined OPEB liability.

The District had a deficit in unrestricted net position of \$309,315,297 at June 30, 2019. The District's unrestricted net position decreased by \$8,256,455 during 2018 – 2019 primarily due to the results of current operations and the change in the District's actuarially determined net pension liability and related pension items.

A portion of the District's net position reflects its restricted net position which totaled \$3,769,296 as of June 30, 2019. The District's restricted net position related to amounts restricted for capital project expenditures and compensatory education.

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



# POCONO MOUNTAIN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

The following table presents condensed information for the *Statement of Activities* of the District for years ending June 30, 2019 and 2018:

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 1,281,303	\$ 416,556	\$1,657,849	\$1,502,500	\$ 2,939,152	\$ 1,919,056
Operating grants and contributions	38,528,072	35,847,370	3,884,926	3,844,923	42,412,998	39,692,293
Capital grants and contributions	-	-	-	-	-	-
<b>General revenues</b>						
Property taxes levied for general purposes	131,777,077	131,276,623	-	-	131,777,077	131,276,623
Earned income taxes levied for general purposes	5,661,053	5,472,165	-	-	5,661,053	5,472,165
Other taxes levied for general purposes	1,973,869	2,483,580	-	-	1,973,869	2,483,580
Grants and entitlements not restricted to specific programs	33,675,232	33,712,857	-	-	33,675,232	33,712,857
Investment earnings	1,981,287	968,232	30,998	18,292	2,012,285	986,524
<b>TRANSFERS</b>	(16,214)	-	16,214	-	-	-
<b>Total revenues and transfers</b>	<u>214,861,679</u>	<u>210,177,383</u>	<u>5,589,987</u>	<u>5,365,715</u>	<u>220,451,666</u>	<u>215,543,098</u>
<b>EXPENSES</b>						
Instruction	139,788,518	142,835,287	-	-	139,788,518	142,835,287
Instructional student support services	20,685,580	21,086,353	-	-	20,685,580	21,086,353
Administrative and financial support services	17,414,850	17,931,911	-	-	17,414,850	17,931,911
Operation and maintenance of plant services	17,947,529	18,014,640	-	-	17,947,529	18,014,640
Pupil transportation	14,924,741	15,209,511	-	-	14,924,741	15,209,511
Student activities	4,435,442	4,715,240	-	-	4,435,442	4,715,240
Community services	92,538	37,189	-	-	92,538	37,189
Interest and amortization expense related to noncurrent liabilities	5,940,730	6,339,660	-	-	5,940,730	6,339,660
Food service	-	-	5,558,749	5,259,719	5,558,749	5,259,719
<b>Total expenses</b>	<u>221,229,928</u>	<u>226,169,791</u>	<u>5,558,749</u>	<u>5,259,719</u>	<u>226,788,677</u>	<u>231,429,510</u>
<b>CHANGE IN NET POSITION (DEFICIT)</b>	(6,368,249)	(15,992,408)	31,238	105,996	(6,337,011)	(15,886,412)
<b>NET POSITION (DEFICIT)</b>						
Beginning of year	(239,862,488)	(223,870,080)	2,240,185	2,134,189	(237,622,303)	(221,735,891)
<b>End of year</b>	<u>\$(246,230,737)</u>	<u>\$(239,862,488)</u>	<u>\$2,271,423</u>	<u>\$2,240,185</u>	<u>\$(243,959,314)</u>	<u>\$(237,622,303)</u>

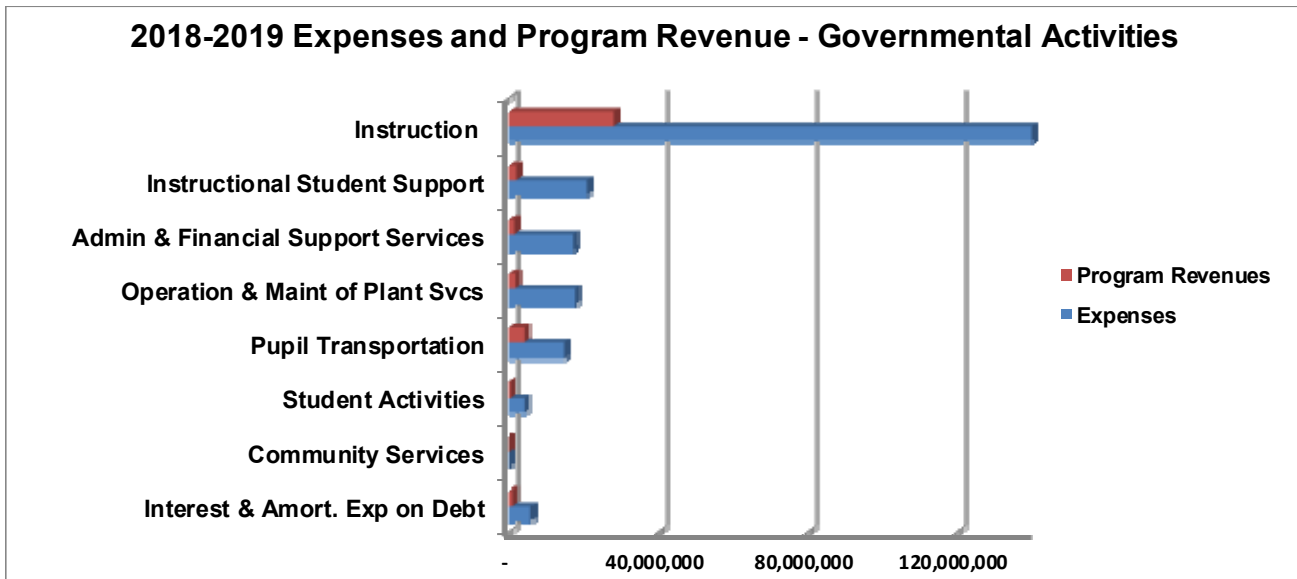
During 2018 – 2019, the District's net position decreased by \$6,337,011 in part due to increased medical costs, pension contributions, charter cyber school tuition and special education services. Management of the District continues to implement cost efficiencies and revenue-generating strategies to mitigate these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing whose growth has slowed in recent years. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities located mostly in the Townships of Pocono and Coolbaugh.

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.

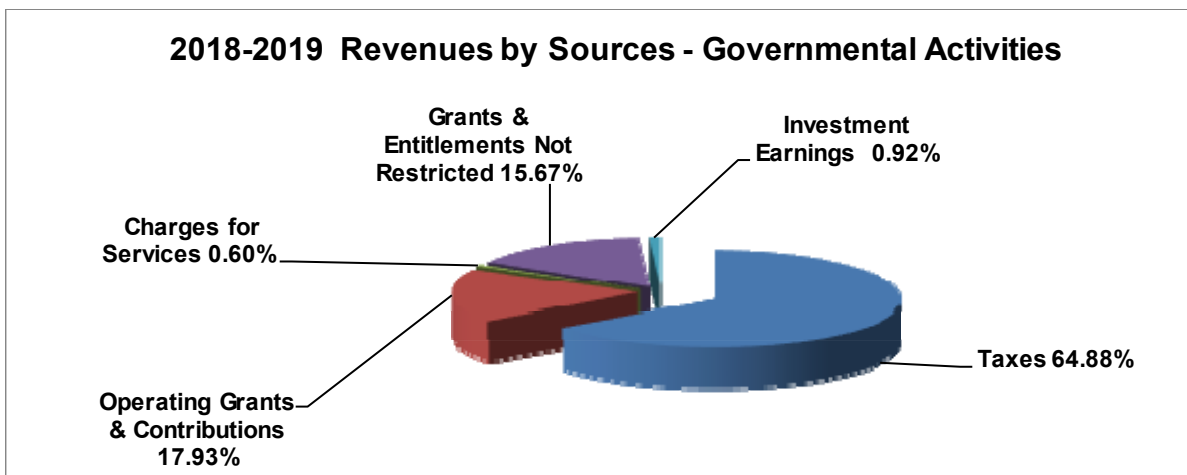
**POCONO MOUNTAIN SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED**

June 30, 2019



To the degree that the District's functions or programs cost more than the revenue they generate, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues and grants and entitlements not restricted for specific programs to finance its governmental activities.



**GOVERNMENTAL FUNDS**

The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by state statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2019, the District's governmental funds reported a combined fund balance of \$34,612,843 which is a decrease of \$2,577,308 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2019 and 2018 and the total 2019 change in governmental fund balances.

	<u>2019</u>	<u>2018</u>	<u>Change</u>
General Fund	\$31,021,653	\$32,811,946	\$(1,790,293)
Capital Projects Fund	<u>3,591,190</u>	<u>4,378,205</u>	<u>(787,015)</u>
	<u>\$34,612,843</u>	<u>\$37,190,151</u>	<u>\$(2,577,308)</u>

# POCONO MOUNTAIN SCHOOL DISTRICT

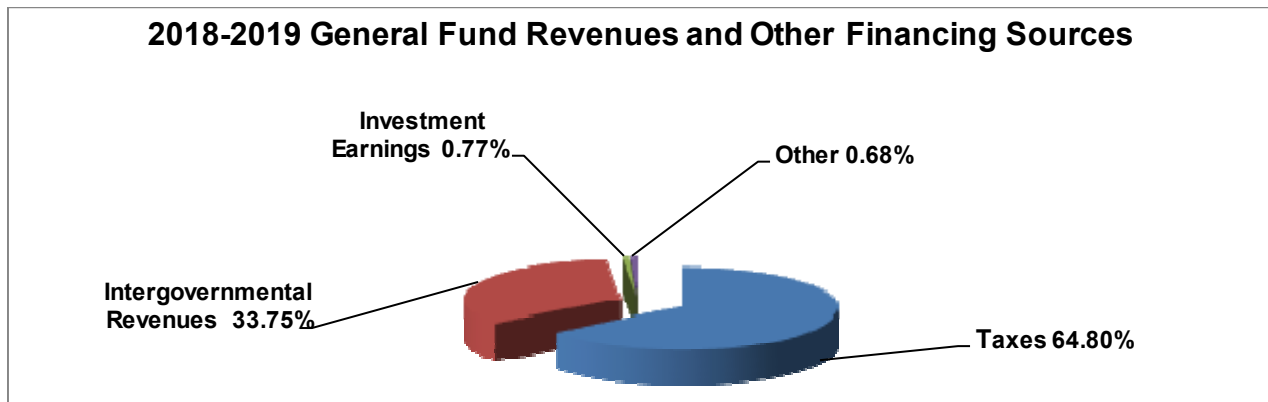
## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

### GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2018 – 2019 fiscal year, the General Fund balance was \$31,021,653 representing a decrease of \$1,790,293 in relation to the prior year. The decrease in the District's General Fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2018 – 2019 fiscal year.

The District's reliance upon tax revenues is easily seen by the graph below and indicates 64.80% of General Fund revenues are derived from local taxes.



### General Fund Revenues and Other Financing Sources

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Taxes	\$138,301,985	\$138,612,418	\$ (310,433)	(0.22)
Intergovernmental revenues	72,035,578	69,240,563	2,795,015	4.04
Investment earnings	1,651,346	833,930	817,416	98.02
Other	<u>1,450,628</u>	<u>534,639</u>	<u>915,989</u>	<u>171.33</u>
	<u>\$213,439,537</u>	<u>\$209,221,550</u>	<u>\$4,217,987</u>	<u>2.02</u>

- Intergovernmental revenues increased by \$2,795,015 or 4.04% in 2018 – 2019 compared to 2017 – 2018. The increase was predominantly due to additional funding received in state subsidies for retirement which increased commensurate with the required employer annual contribution percentage, and transportation, tuition for orphans and safe schools subsidies.
- The District's net tax revenues decreased by \$310,433 or 0.22% for the fiscal year ended June 30, 2019. The Board of Education upheld the real estate tax millage rate of 135.29, the same rate as the prior year. Since the 2012 – 2013 fiscal year, the District was able to decrease the millage rate by twelve (12.0) mills. The following table summarizes the District's millage rate for seven years:

Fiscal Year	Millage Rate
2012 – 2013	147.29
2013 – 2014	145.29
2014 – 2015	141.29
2015 – 2016	139.29
2016 – 2017	137.29
2017 – 2018	135.29
2018 – 2019	135.29

# POCONO MOUNTAIN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

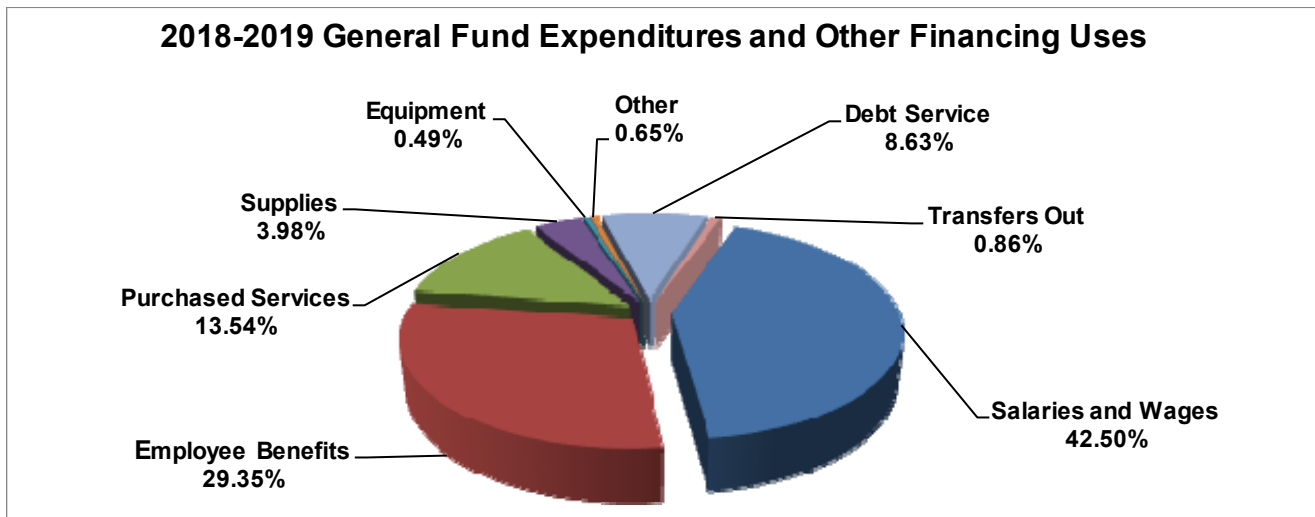
June 30, 2019

- Revenues from real estate transfer taxes declined as a result of less commercial property real estate sales as compared to the preceding fiscal year. A sizeable percentage decrease in interim real estate taxes relative to a minor decrease in revenues. Moderate increases for earned income taxes occurred for fiscal year ended June 30, 2019. The following table summarizes changes in the District's tax revenues for 2018 – 2019 compared to 2017 – 2018:

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Real estate tax	\$120,739,794	\$120,426,645	\$ 313,149	0.26
Interim real estate tax	181,238	280,650	(99,412)	(35.42)
Public utility realty tax	141,955	145,150	(3,195)	(2.20)
Payments in lieu of tax	247,949	200,120	47,829	23.90
Earned income tax	5,661,053	5,472,165	188,888	3.45
Real estate transfer tax	1,831,914	2,338,430	(506,516)	(21.66)
Delinquent real estate tax	<u>9,498,082</u>	<u>9,749,258</u>	<u>(251,176)</u>	<u>(2.58)</u>
	<u>\$138,301,985</u>	<u>\$138,612,418</u>	<u>\$(310,433)</u>	<u>(0.22)</u>

### General Fund Expenditures and Other Financing Uses

As the graph and table below illustrate, the largest portion of General Fund expenditures are for salaries, wages and benefits. The District is an educational service entity and as such is highly labor intensive.



	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$ 91,477,063	\$ 90,039,113	\$ 1,437,950	1.60
Employee benefits	63,157,569	63,614,006	(456,437)	(0.72)
Purchased services	29,137,340	27,736,368	1,400,972	5.05
Supplies	8,559,701	8,690,408	(130,707)	(1.50)
Capital outlay and equipment	1,049,611	3,540,595	(2,490,984)	(70.35)
Other	1,409,300	1,656,232	(246,932)	(14.91)
Debt service	18,581,135	17,987,748	593,387	3.30
Transfers out	<u>1,858,111</u>	<u>2,880,240</u>	<u>(1,022,129)</u>	<u>(35.49)</u>
	<u>\$215,229,830</u>	<u>\$216,144,710</u>	<u>\$(914,880)</u>	<u>(0.42)</u>

- Salaries and wages increased by \$1,437,950 or 1.60% based upon current collective bargaining agreements and employee contract agreements.

# POCONO MOUNTAIN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

---

- Purchases services expense increased by \$1,400,972 or 5.05% primarily due to increases in charter/cyber tuition expenses, police service expenses, Colonial Intermediate Unit 20 transportation services and repairs and maintenance to building equipment.
- Transfers out for 2018 – 2019 primarily consisted of transfers to the District's Capital Projects Fund for various District-wide capital projects which included East Campus water and sewer projects, West High School well, Clear Run Campus Waste Water Treatment Plant upgrade, safety and security enhancements and LED lighting replacement projects.

### CAPITAL PROJECTS FUND

The Capital Projects Fund is maintained for construction and renovation activity associated with the District's facilities and infrastructure. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2018 – 2019, the Capital Projects Fund reported a decrease in fund balance of \$787,015 resulting from capital expenditures in excess of General Fund transfers. The remaining fund balance of \$3,591,190 as of June 30, 2019 is restricted for future capital expenditures.

### GENERAL FUND BUDGET INFORMATION

The District maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1<sup>st</sup> each year. The most significant budgeted fund is the General Fund.

The final budget to actual variance for the fiscal year ended June 30, 2019 is shown on page 73 of this report.

Major budgetary highlights for the 2018 – 2019 were as follows:

- Overall local source revenues were level with the budgeted amount, although variances occurred within specific funding sources. The amount projected for delinquent real estate taxes was overstated by \$1,301,918 as compared to the actual amount of collections. On the contrary, budget amounts for earned income taxes and realty transfer taxes were understated by \$492,967. Recent commercial property and development projects within the District boundaries contributed to the additional earned income tax and realty transfer tax collections above budgeted amounts. A positive variance of \$801,346 in interest income earnings proved to contribute a supportive difference as the result of increasing investment interest rates.
- The welcome positive variance of \$1,787,547 occurred within the state source revenues. The variance is attributed to unexpected entitlements received from the Commonwealth of Pennsylvania for safe schools and transportation subsidies and the matching share of the employer's contribution for active members of PSERS.
- Federal source revenues fell behind budgeted amounts by \$46,633, resulting from less than planned reimbursements from School Based Access Medicaid Program.
- The positive variance of \$2,260,525 in instruction expenditures is mostly attributed to decreases in salaries and wages within the regular education programs and a reduced amount of funds used for general supply expenditures.

# POCONO MOUNTAIN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

---

- Total support service expenditures were \$722,741 less than budget appropriations. The District continues to enforce procedures to monitor spending and minimize expenditures. Quotes, bids and request for proposals were obtained resulting in cost savings across the entire District. These practices are also effective in the areas of obtaining services for snow plowing, acquiring heating oil, natural gas, propane, diesel fuel and electricity; all providing an influence on the positive budget variance.
- The District executed fund transfers to the District's Capital Projects and Other Governmental Funds above the anticipated amount by \$1,353,111. These funds were expended to provide for various capital improvement projects throughout the District.

### BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

The net position of the business-type activities and Food Service Fund increased by \$31,238. As of June 30, 2019, the business-type activities and Food Service Fund had net position of \$2,271,423.

### CAPITAL ASSETS

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounted to \$228,265,795 net of accumulated depreciation. This investment in capital assets includes land, buildings, buildings and site improvements, and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$8,733,129 or 3.68%. The decrease was the result of current year depreciation expense in excess of current year capital additions.

Current year capital additions were \$3,850,570 and depreciation expense was \$12,583,699.

Additional detailed information regarding capital assets is included in Note 4 – Capital Assets on pages 56 and 57 of this report.

### NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$177,798,574, consisting of \$169,110,000 in bonds payable and net of deferred credits of \$8,688,574. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$13,096,378 or 6.86% during the fiscal year.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity, which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. As of the end of the fiscal year, the debt limitation for the District was \$470.9 million dollars and the remaining borrowing capacity was approximately \$293.1 million dollars.

The general obligation debt issued by the District during the fiscal year has been assigned an underlying rating of "A+/Stable" and an insured rating of "AA" (Stable Outlook) by Standard & Poor's.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$318,944,987 as of June 30, 2019. The District's net pension liability decreased by \$27,762,013 or 8.01% during the fiscal year.

The District reports a liability for its other post-employment benefits ("**OPEB**") related to its single employer OPEB plan and its participation in the PSERS health insurance premium assistance program. The District's OPEB liability is an actuarially determined estimate of the unfunded cost of the OPEB obligation which totaled \$77,140,143 as of June 30, 2019. The District's OPEB liability increased by \$4,067,403 or 5.57% during the fiscal year.

# POCONO MOUNTAIN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

---

Other noncurrent liabilities consist of the District's liabilities for capital leases, compensated absences, and insurance claims obligations, which totaled \$7,787,752 as of June 30, 2019. These liabilities decreased by \$420,241 or 5.12% during the fiscal year primarily due to decreases in its insurance claims obligations.

Additional detailed information regarding noncurrent liabilities is included in Notes 7 – 11 on pages 58 through 69 of this report.

### FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District adopted a balanced 2019 – 2020 budget of \$220,000,000 which included a budgetary reserve of \$945,000, in accordance with School Board policy, and the real estate tax millage remained at 135.29 mills.

As part of the 2019 – 2020 budget process, the School Board and administration continued their diligence for strengthening the financial stability of the District. Providing tax relief is an indicator of the District's ability to provide the necessary funding for a quality education while at the same time being fiscally prudent. Lessening the tax burden on taxpayers allows more financial resources to be spent in the local economy which in turn can generate additional business growth and can add to the District's revenue base. Focusing on new business development and job creation can generate additional tax revenues which is important for continued growth within the District.

The following budget initiatives were incorporated into the 2019 – 2020 General Fund budget:

- Continued appropriation for the District's Enhanced Property Tax Rebate Program.
  - Utilization of committed fund balance as a funding source for District-wide capital improvements, technology infrastructure and equipment acquisitions.
  - Appropriation funding increase for self-insured medical insurance claims.
  - Partnership with Cenergistic, Inc., an energy conservation firm, to help reduce utility consumption and better manage energy usage in our schools, support buildings and throughout our campuses.
  - In 2006, Act 1 was passed, which provided taxpayer relief through gambling revenues generated at the state level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This legislation placed a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are required to either change their taxing strategies to make up for the shortfall of increased real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law created constraints on the District's revenue stream in future years. This Act's requirements on school districts included the following:
    - In the event Pocono Mountain School District wishes to increase the property tax millage rate by more than the annual Act 1 index of 3% for the 2019 – 2020 fiscal year, the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
    - Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.
-

# POCONO MOUNTAIN SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2019

---

- Any revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteads and farmsteads.
- Act 120 of 2010 includes a series of actuarial and funding changes to the public school employees' retirement system ("**PSERS**") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. Act 120 will not impact the pension benefits of current or retired PSERS members.

As a result of the legislation, the employer contribution rate for 2019 – 2020 was approved at 34.29%. The employer contribution rate for 2018 – 2019 was 33.43%, which increased 2.64% from the 2017 – 2018 employer contribution rate of 32.57%.

The following table presents the certified employer contribution rates for the next two years, in addition to the projected employer contribution rates for the next seven years:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>
2019 – 2020	34.29%
2020 – 2021	34.51%
2021 – 2022	34.95%
2022 – 2023	35.62%
2023 – 2024	36.12%
2024 – 2025	36.60%
2025 – 2026	37.23%
2026 – 2027	37.79%
2027 – 2028	38.17%

### CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Pocono Mountain School District, P.O. Box 200, 135 Pocono Mountain School Road, Swiftwater, PA 18370-0200.



# POCONO MOUNTAIN SCHOOL DISTRICT

## STATEMENT OF NET POSITION (DEFICIT)

June 30, 2019

	Governmental Activities	Business-type Activities	Total
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 60,025,733	\$ 1,838,761	\$ 61,864,494
Taxes receivable	20,991,076	-	20,991,076
Accounts receivable	-	10,717	10,717
Due from other governments	9,295,359	532,229	9,827,588
Internal balances	192,035	(192,035)	-
Other receivables	882,613	-	882,613
Prepaid expenses	50,087	-	50,087
Inventories	-	64,144	64,144
<b>Total current assets</b>	<u>91,436,903</u>	<u>2,253,816</u>	<u>93,690,719</u>
<b>CAPITAL ASSETS</b>			
Capital assets not being depreciated			
Land	6,354,208	-	6,354,208
Construction in progress	1,149,493	-	1,149,493
Capital assets being depreciated			
Buildings	269,595,469	-	269,595,469
Buildings and site improvements	93,138,757	-	93,138,757
Furniture and equipment	51,789,561	1,385,346	53,174,907
Accumulated depreciation	(193,982,138)	(1,164,901)	(195,147,039)
<b>Total capital assets</b>	<u>228,045,350</u>	<u>220,445</u>	<u>228,265,795</u>
<b>Total assets</b>	<u>319,482,253</u>	<u>2,474,261</u>	<u>321,956,514</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount on debt refunding	5,009,466	-	5,009,466
Deferred charges - pension	55,141,034	-	55,141,034
Deferred charges - OPEB	4,884,397	-	4,884,397
<b>Total deferred outflows of resources</b>	<u>65,034,897</u>	<u>-</u>	<u>65,034,897</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	2,629,350	186,834	2,816,184
Accrued salaries, payroll withholdings and benefits	23,629,763	-	23,629,763
Insurance claims payable	1,390,681	-	1,390,681
Accrued interest payable	1,294,971	-	1,294,971
Unearned revenues	-	16,004	16,004
Bonds payable, net	13,473,863	-	13,473,863
Capital leases	204,896	-	204,896
Compensated absences	216,728	-	216,728
<b>Total current liabilities</b>	<u>42,840,252</u>	<u>202,838</u>	<u>43,043,090</u>
<b>NONCURRENT LIABILITIES</b>			
Bonds payable, net	164,324,711	-	164,324,711
Compensated absences	5,816,563	-	5,816,563
Insurance claims obligation	1,549,565	-	1,549,565
Other post-employment benefits	77,140,143	-	77,140,143
Net pension liability	318,944,987	-	318,944,987
<b>Total noncurrent liabilities</b>	<u>567,775,969</u>	<u>-</u>	<u>567,775,969</u>
<b>Total liabilities</b>	<u>610,616,221</u>	<u>202,838</u>	<u>610,819,059</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred credits - pension	18,889,039	-	18,889,039
Deferred credits - OPEB	1,242,627	-	1,242,627
<b>Total deferred inflows of resources</b>	<u>20,131,666</u>	<u>-</u>	<u>20,131,666</u>
<b>NET POSITION (DEFICIT)</b>			
Net investment in capital assets	61,366,242	220,445	61,586,687
Restricted for			
Capital projects	3,591,190	-	3,591,190
Compensatory education	178,106	-	178,106
Unrestricted	(311,366,275)	2,050,978	(309,315,297)
<b>Total net position (deficit)</b>	<u>\$ (246,230,737)</u>	<u>\$ 2,271,423</u>	<u>\$ (243,959,314)</u>

See Accompanying Notes to Basic Financial Statements

**POCONO MOUNTAIN SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

Year ended June 30, 2019

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position (Deficit)</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES</b>							
Instruction	\$ 139,788,518	\$ 1,223,727	\$ 26,986,088	\$ -	\$ (111,578,703)	\$ -	\$ (111,578,703)
Instructional student support services	20,685,580	-	2,134,418	-	(18,551,162)	-	(18,551,162)
Administrative and financial support services	17,414,850	-	1,597,126	-	(15,817,724)	-	(15,817,724)
Operation and maintenance of plant services	17,947,529	19,715	1,883,650	-	(16,044,164)	-	(16,044,164)
Pupil transportation	14,924,741	-	4,421,913	-	(10,502,828)	-	(10,502,828)
Student activities	4,435,442	37,861	440,327	-	(3,957,254)	-	(3,957,254)
Community services	92,538	-	-	-	(92,538)	-	(92,538)
Interest and amortization expense related to noncurrent liabilities	5,940,730	-	1,064,550	-	(4,876,180)	-	(4,876,180)
<b>Total governmental activities</b>	<u>221,229,928</u>	<u>1,281,303</u>	<u>38,528,072</u>	<u>-</u>	<u>(181,420,553)</u>	<u>-</u>	<u>(181,420,553)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Food service	5,558,749	1,657,849	3,884,926	-	-	(15,974)	(15,974)
<b>Total primary government</b>	<u>\$ 226,788,677</u>	<u>\$ 2,939,152</u>	<u>\$ 42,412,998</u>	<u>\$ -</u>	<u>(181,420,553)</u>	<u>(15,974)</u>	<u>(181,436,527)</u>
<b>GENERAL REVENUES</b>							
Property taxes levied for general purposes					131,777,077	-	131,777,077
Earned income taxes levied for general purposes					5,661,053	-	5,661,053
Other taxes levied for general purposes					1,973,869	-	1,973,869
Grants and entitlements not restricted to specific programs					33,675,232	-	33,675,232
Investment earnings					1,981,287	30,998	2,012,285
<b>TRANSFERS</b>					(16,214)	16,214	-
<b>Total general revenues and transfers</b>					<u>175,052,304</u>	<u>47,212</u>	<u>175,099,516</u>
<b>CHANGE IN NET POSITION (DEFICIT)</b>					(6,368,249)	31,238	(6,337,011)
<b>NET POSITION (DEFICIT)</b>							
Beginning of year					(239,862,488)	2,240,185	(237,622,303)
<b>End of year</b>					<u>\$ (246,230,737)</u>	<u>\$ 2,271,423</u>	<u>\$ (243,959,314)</u>

**POCONO MOUNTAIN SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2019

	<u>Major Funds</u>		<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
<b>ASSETS</b>			
Cash	\$ 43,664,455	\$ 3,678,324	\$ 47,342,779
Due from other funds	142,351	-	142,351
Taxes receivable	20,991,076	-	20,991,076
Due from other governments	9,295,359	-	9,295,359
Other receivables	313,682	-	313,682
Prepaid items	50,087	-	50,087
<b>Total assets</b>	<u>\$ 74,457,010</u>	<u>\$ 3,678,324</u>	<u>\$ 78,135,334</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 2,542,216	\$ 87,134	\$ 2,629,350
Accrued salaries, payroll withholdings and benefits	<u>23,846,491</u>	<u>-</u>	<u>23,846,491</u>
<b>Total liabilities</b>	<u>26,388,707</u>	<u>87,134</u>	<u>26,475,841</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenues - property taxes	<u>17,046,650</u>	<u>-</u>	<u>17,046,650</u>
<b>FUND BALANCES</b>			
Nonspendable			
Prepaid items	50,087	-	50,087
Restricted for			
Capital projects	-	3,591,190	3,591,190
Compensatory education	178,106	-	178,106
Committed to			
Balance subsequent year's budget	5,000,000	-	5,000,000
Capital improvements and infrastructure	1,227,863	-	1,227,863
Unassigned	<u>24,565,597</u>	<u>-</u>	<u>24,565,597</u>
<b>Total fund balances</b>	<u>31,021,653</u>	<u>3,591,190</u>	<u>34,612,843</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 74,457,010</u>	<u>\$ 3,678,324</u>	<u>\$ 78,135,334</u>

# POCONO MOUNTAIN SCHOOL DISTRICT

## RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2019

---

<b>TOTAL GOVERNMENTAL FUND BALANCES</b>	<b>\$ 34,612,843</b>
<p>Amounts reported for governmental activities in the statement of net position (deficit) are different because:</p>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	228,045,350
Deferred outflows of resources for deferred amounts on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position (deficit).	5,009,466
Deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits (OPEB) are not reported as assets and liabilities in the governmental funds balance sheet.	39,893,765
Some of the District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds balance sheet.	17,046,650
The Internal Service Fund is used by management to charge the cost of health insurance and workers' compensation claims to the General Fund. The assets and liabilities of the District's Internal Service Funds are included in the governmental activities on the government-wide statement of net position (deficit).	10,361,323
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(579,905,163)
Accrued interest payable on long-term liabilities is included in the government-wide statement of net position, but is excluded from the governmental funds balance sheet until due and payable.	<u>(1,294,971)</u>
<b>NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ (246,230,737)</u></b>

**POCONO MOUNTAIN SCHOOL DISTRICT**

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

Year ended June 30, 2019

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Local sources	\$ 141,402,359	\$ 59,013	\$ 141,461,372
State sources	66,537,211	-	66,537,211
Federal sources	5,498,367	-	5,498,367
<b>Total revenues</b>	<u>213,437,937</u>	<u>59,013</u>	<u>213,496,950</u>
<b>EXPENDITURES</b>			
Current			
Instruction	125,453,340	208,083	125,661,423
Support services	65,159,374	81,520	65,240,894
Operation of noninstructional services	4,127,209	317,110	4,444,319
Capital outlay	-	2,081,212	2,081,212
Debt service			
Principal	12,361,459	-	12,361,459
Interest	6,219,675	-	6,219,675
Refund of prior year receipts	50,662	-	50,662
<b>Total expenditures</b>	<u>213,371,719</u>	<u>2,687,925</u>	<u>216,059,644</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>66,218</u>	<u>(2,628,912)</u>	<u>(2,562,694)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of/compensation for capital assets	1,600	-	1,600
Transfers in	-	1,841,897	1,841,897
Transfers out	(1,858,111)	-	(1,858,111)
<b>Total other financing sources (uses)</b>	<u>(1,856,511)</u>	<u>1,841,897</u>	<u>(14,614)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(1,790,293)	(787,015)	(2,577,308)
<b>FUND BALANCES</b>			
Beginning of year	<u>32,811,946</u>	<u>4,378,205</u>	<u>37,190,151</u>
<b>End of year</b>	<u>\$ 31,021,653</u>	<u>\$ 3,591,190</u>	<u>\$ 34,612,843</u>

# POCONO MOUNTAIN SCHOOL DISTRICT

## RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2019

**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (2,577,308)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlay expenditures	\$ 3,756,295	
Depreciation expense	<u>(12,522,205)</u>	(8,765,910)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources increased by this amount this year.

Deferred inflows of resources at June 30, 2018	(15,936,636)	
Deferred inflows of resources at June 30, 2019	<u>17,046,650</u>	1,110,014

The Internal Service Fund is used by management to charge the cost of health insurance and workers' compensation premiums and claims to the General Fund. The change in net position of the Internal Service Fund is reported with the governmental activities.

1,566,161

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Repayment of bonds and notes payable	12,165,000	
Repayment of extended term financing	196,459	
Current year changes to discounts, premiums and deferred amounts on refunding	<u>221,072</u>	12,582,531

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures in governmental funds.

Current year change in net pension liability and related pension items	(6,884,913)	
Current year change in accrued interest payable	57,874	
Current year change in compensated absences	133,900	
Current year change in net OPEB liability and related OPEB items	<u>(3,590,598)</u>	<u>(10,283,737)</u>

**CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES** \$ (6,368,249)

*See Accompanying Notes to Basic Financial Statements*

# POCONO MOUNTAIN SCHOOL DISTRICT

## STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2019

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,838,761	\$ 12,682,954
Accounts receivable	10,717	-
Due from other governments	532,229	-
Due from other funds	-	49,684
Other receivables	-	568,931
Inventories	64,144	-
<b>Total current assets</b>	<u>2,445,851</u>	<u>13,301,569</u>
<b>CAPITAL ASSETS</b>		
Capital assets being depreciated		
Machinery and equipment	1,385,346	-
Accumulated depreciation	(1,164,901)	-
<b>Total capital assets</b>	<u>220,445</u>	<u>-</u>
<b>Total assets</b>	<u>2,666,296</u>	<u>13,301,569</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	186,834	-
Insurance claims payable	-	1,390,681
Due to other funds	192,035	-
Unearned revenue	16,004	-
<b>Total current liabilities</b>	<u>394,873</u>	<u>1,390,681</u>
<b>NONCURRENT LIABILITIES</b>		
Insurance claims obligation	-	1,549,565
<b>Total liabilities</b>	<u>394,873</u>	<u>2,940,246</u>
<b>NET POSITION</b>		
Net investment in capital assets	220,445	-
Unrestricted	<u>2,050,978</u>	<u>10,361,323</u>
<b>Total net position</b>	<u>\$ 2,271,423</u>	<u>\$ 10,361,323</u>

See Accompanying Notes to Basic Financial Statements

# POCONO MOUNTAIN SCHOOL DISTRICT

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

Year ended June 30, 2019

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 1,657,849	\$ 27,593,576
<b>OPERATING EXPENSES</b>		
Employee benefits	-	24,860,526
Purchased services	-	101,263
Purchased property services	79,185	-
Other purchased services	4,688,682	1,336,554
Supplies	728,604	-
Depreciation	61,494	-
Other	784	-
<b>Total operating expenses</b>	<u>5,558,749</u>	<u>26,298,343</u>
<b>Operating income (loss)</b>	<u>(3,900,900)</u>	<u>1,295,233</u>
<b>NONOPERATING REVENUES</b>		
Earnings on investments	30,998	270,928
State sources	187,625	-
Federal sources	3,697,301	-
<b>Total nonoperating revenues</b>	<u>3,915,924</u>	<u>270,928</u>
<b>Change in net position before transfers</b>	15,024	1,566,161
<b>TRANSFERS</b>	<u>16,214</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	31,238	1,566,161
<b>NET POSITION</b>		
Beginning of year	<u>2,240,185</u>	<u>8,795,162</u>
<b>End of year</b>	<u>\$ 2,271,423</u>	<u>\$ 10,361,323</u>

See Accompanying Notes to Basic Financial Statements



# POCONO MOUNTAIN SCHOOL DISTRICT

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2019

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from charges for services	\$ 1,611,915	\$ -
Cash received for assessments made to other funds	-	27,594,444
Payments to suppliers for goods and services	(4,979,564)	(51,209)
Cash payments for insurance claims	-	(25,633,075)
Cash paid for other operating expenses	-	(1,336,554)
<b>Net cash provided by (used for) operating activities</b>	<u>(3,367,649)</u>	<u>573,606</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State sources	215,623	-
Federal sources	3,794,284	-
Transfers in	16,214	-
<b>Net cash provided by noncapital financing activities</b>	<u>4,026,121</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(94,275)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Earnings on investments	30,998	270,928
Receipts from investment pool withdrawals	-	9,698,136
<b>Net cash provided by investing activities</b>	<u>30,998</u>	<u>9,969,064</u>
<b>Net increase in cash</b>	595,195	10,542,670
<b>CASH</b>		
Beginning of year	<u>1,243,566</u>	<u>2,140,284</u>
<b>End of year</b>	<u>\$ 1,838,761</u>	<u>\$ 12,682,954</u>
<b>Reconciliation of operating loss to net cash provided by (used for) operating activities:</b>		
Operating income (loss)	\$ (3,900,900)	\$ 1,295,233
<b>Adjustments to reconcile operating loss to net cash provided by (used for) operating activities</b>		
Depreciation	61,494	-
Donated commodities used	428,861	-
(Increase) decrease in		
Accounts receivable	1,979	-
Due from other funds	900	24,576
Other receivables	-	(23,708)
Inventories	(16,494)	-
Increase (decrease) in		
Accounts payable	(89,904)	-
Due to other funds	192,035	-
Insurance claims payable	-	(722,495)
Unearned revenues	(45,620)	-
<b>Net cash provided by (used for) operating activities</b>	<u>\$ (3,367,649)</u>	<u>\$ 573,606</u>
<b>SUPPLEMENTAL DISCLOSURE</b>		
<b>Noncash noncapital financing activity</b>		
USDA donated commodities	<u>\$ 428,861</u>	<u>\$ -</u>

See Accompanying Notes to Basic Financial Statements

**POCONO MOUNTAIN SCHOOL DISTRICT**

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**

**June 30, 2019**

---

	<b>Private- Purpose Trust Fund</b>	<b>Agency</b>
<b>ASSETS</b>		
Cash	<u>\$ 212,513</u>	<u>\$ 329,435</u>
<b>Total assets</b>	<u>212,513</u>	<u>329,435</u>
<b>LIABILITIES</b>		
Accounts payable	6,752	-
Due to student groups	<u>-</u>	<u>329,435</u>
<b>Total liabilities</b>	<u>6,752</u>	<u>\$ 329,435</u>
<b>NET POSITION</b>		
Net position held in trust for scholarships	<u>\$ 205,761</u>	

**POCONO MOUNTAIN SCHOOL DISTRICT**

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

Year ended June 30, 2019

---

	<b>Private- Purpose Trust Fund</b>
<b>ADDITIONS</b>	
Local contributions	\$ 2,145
Earnings on investments	<u>1,552</u>
<b>Total additions</b>	<u>3,697</u>
<b>DEDUCTIONS</b>	
Scholarships awarded and fees paid	<u>24,400</u>
<b>CHANGE IN NET POSITION</b>	(20,703)
<b>NET POSITION</b>	
Beginning of year	<u>226,464</u>
<b>End of year</b>	<u>\$ 205,761</u>

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pocono Mountain School District (the "***District***") operates five elementary schools, two junior high schools and two high schools to provide education and related services to the residents in the Borough of Mount Pocono and the Townships of Barrett, Coolbaugh, Jackson, Paradise, Pocono, Tobyhanna and Tunkhannock. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the second class. The District operates under a locally elected nine-member board form of government (the "***School Board***").

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("***GAAP***") as applied to governmental units. The Governmental Accounting Standards Board ("***GASB***") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

#### **Reporting Entity**

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

#### **Basis of Presentation**

##### ***Government-Wide Financial Statements***

The statement of net position (deficit) and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position (deficit) presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position (deficit) includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

### ***Fund Financial Statements***

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

### ***Governmental Funds***

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources that are restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

### ***Revenue Recognition***

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources is reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

### ***Expenditure Recognition***

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

### ***Proprietary Funds***

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary funds:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

The Internal Service Funds are used to account for the District's health and workers' compensation self-funded insurance programs.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the District's proprietary funds include employee benefits, purchased services and supplies. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

### ***Fiduciary Funds***

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of the students in the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

### **Cash and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Section 440.1(c) of the Pennsylvania School Code authorizes the District to invest in: 1) U.S. Treasury bills; 2) deposits in savings accounts or time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and for any amounts above maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository; 3) obligations of the United States of America (USA) or any of its agencies or instrumentalities backed by the full faith and credit of the USA, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities; 4) pooled investments such as Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust and the Pennsylvania State Treasurer's Invest Program.

Investments for the District are reported at fair value, except for certificates of deposit which are recorded at cost, which approximates fair value.

---

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

### Fair Value Measurements of Assets and Liabilities

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

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

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

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

### Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

### Property Taxes

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

August 1 – September 30	- Discount period, 2% of gross levy
October 1 – November 30	- Face period
December 1 – December 31	- Penalty period, 10% of gross levy
January 1	- Lien date

The County Board of Assessments determines assessed valuations of property, and the District's taxes are billed and collected by local elected tax collectors. The tax on real estate for public school purposes for fiscal 2018 – 2019 was 135.29 mills (\$135.29 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Taxpayers within the District have the option of paying in three installments. These installments are due on or before the following due dates:

First Installment	- August 31
Second Installment	- October 31
Third Installment	- December 31

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

---

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

### **Prepaid Items and Inventories**

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures or expenses when consumed rather than when purchased.

Inventories consisting of supplies are carried at cost, using the first-in, first-out method. The cost of such inventories is recorded as an expense when consumed rather than when purchased.

### **Unearned Revenues**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

### **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$10,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets, donated works of art, historical treasures and similar assets, and capital assets that are received in a service concession arrangement will be measured at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings – 30 to 50 years, building and site improvements – 7 to 20 years and furniture and equipment – 3 to 20 years.

### **Impairment of Long-Lived Assets**

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2019.

### **Compensated Absences**

District policies permit employees to accumulate earned but unused vacation and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is recorded in the governmental funds financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

### **Long-Term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.



# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources and uses. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures except for refundings paid from proceeds which are reported as other financing costs.

### ***Fund Equity***

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

#### ***Nonspendable***

Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

#### ***Restricted***

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

#### ***Committed***

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

#### ***Assigned***

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Chief Financial Officer or (b) an appointed body (e.g., finance committee) or (c) an official to whom the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

#### ***Unassigned***

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

The School Board has set a policy to maintain an unassigned General Fund balance of not less than 5% and not more than 8% of the budgeted expenditures for that fiscal year.

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

### Use of Estimates

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

### Implementation of New Accounting Pronouncements

Effective July 1, 2018, the District adopted the provisions of GASB Statement No. 83 "*Certain Asset Retirement Obligations*" and GASB Statement No. 88 "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*".

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

The objective of GASB Statement No. 88 is to improve the information that is disclosed in the notes to financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB Statement No. 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

### New Accounting Pronouncements

GASB Statement No. 84, "*Fiduciary Activities*" will be effective for the District for the year ended June 30, 2020. The objective of GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

GASB Statement No. 89, "Accounting for Interest Cost Incurred Before the End of a Construction Period", will be effective for the District for the year ended June 30, 2021. The objectives of GASB Statement No. 89 are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 establishes accounting required for interest cost incurred before the end of a construction period. Such interest costs includes all interest that previously was accounted for in accordance with the requirements of GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", which are superseded by GASB Statement No. 89. GASB Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB Statement No. 89 also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with government fund accounting principles.

GASB Statement No. 90, "Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61", will be effective for the District for the year ended June 30, 2020. The primary objects of GASB Statement No. 90 are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

## (2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education within fifteen days of adoption. Additional copies of the budget also are required to be filed with the House Education Committee and the Senate Education Committee by September 15.

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without School Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and include the effect of approved budget amendments.

### (3) DEPOSITS

State statutes authorize the District to invest in U.S. Treasury Bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

#### **Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2019, the carrying amount of the District's deposits was \$62,406,442 and the bank balance was \$64,042,857. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal depository insurance, the depositories must pledge as collateral obligations of the United States, the Commonwealth of Pennsylvania or any other political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$731,155 was covered by federal depository insurance, and \$20,684,603 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like money market mutual funds. Their objective is to maintain a stable net asset value of \$1 per share and it is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2019, PSDLAF was rated as AAAM by Standard and Poor's.

#### **Reconciliation to Financial Statements**

Uninsured amounts	\$20,684,603
FDIC Insured amounts	731,155
Reconciling items	<u>(1,636,415)</u>
Carrying amount, bank balances	19,779,343
Pooled cash equivalents in government investment pools	<u>42,627,099</u>
<b>Total carrying amount deposits</b>	<b><u>\$62,406,442</u></b>

**POCONO MOUNTAIN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

**(4) CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 6,354,208	\$ -	\$ -	\$ 6,354,208
Construction in progress	<u>124,003</u>	<u>1,124,183</u>	<u>98,693</u>	<u>1,149,493</u>
<b>Total capital assets not being depreciated</b>	<u>6,478,211</u>	<u>1,124,183</u>	<u>98,693</u>	<u>7,503,701</u>
Capital assets being depreciated				
Buildings	269,595,469	-	-	269,595,469
Building and site improvements	91,640,857	1,497,900	-	93,138,757
Furniture and equipment	<u>54,057,635</u>	<u>1,232,905</u>	<u>3,500,979</u>	<u>51,789,561</u>
<b>Total capital assets being depreciated</b>	<u>415,293,961</u>	<u>2,730,805</u>	<u>3,500,979</u>	<u>414,523,787</u>
Less accumulated depreciation for				
Buildings	(105,009,026)	(5,162,788)	-	(110,171,814)
Building and site improvements	(37,734,181)	(3,820,459)	-	(41,554,640)
Furniture and equipment	<u>(42,217,705)</u>	<u>(3,538,958)</u>	<u>(3,500,979)</u>	<u>(42,255,684)</u>
<b>Total accumulated depreciation</b>	<u>(184,960,912)</u>	<u>(12,522,205)</u>	<u>(3,500,979)</u>	<u>(193,982,138)</u>
<b>Total capital assets being depreciated, net</b>	<u>230,333,049</u>	<u>(9,791,400)</u>	<u>-</u>	<u>220,541,649</u>
<b>Governmental activities, net</b>	<u>\$ 236,811,260</u>	<u>\$ (8,667,217)</u>	<u>\$ 98,693</u>	<u>\$ 228,045,350</u>
<b>Business-type activities</b>				
Machinery and equipment	\$ 1,287,262	\$ 94,275	\$ -	\$ 1,381,537
Less accumulated depreciation	<u>(1,099,598)</u>	<u>(61,494)</u>	<u>-</u>	<u>(1,161,092)</u>
<b>Business-type activities, net</b>	<u>\$ 187,664</u>	<u>\$ 32,781</u>	<u>\$ -</u>	<u>\$ 220,445</u>

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

<b>Governmental activities</b>	
Instruction	\$ 7,974,032
Instructional student support services	1,231,667
Administrative and financial support services	1,001,629
Operation and maintenance of plant services	1,181,321
Pupil transportation	857,407
Student activities	<u>276,149</u>
<b>Total depreciation expense – governmental activities</b>	<u>\$12,522,205</u>
<b>Business-type activities</b>	
Food service	<u>\$ 61,494</u>

As of June 30, 2019, the District had outstanding construction projects to be completed. Construction commitments and amounts completed as of June 30, 2019 are as follows:

**POCONO MOUNTAIN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

<u>Location – Project Description</u>	<u>Project Amount</u>	<u>Completed Through June 30, 2019</u>	<u>Remaining Commitment</u>
Clear Run – Waste Water Treatment Plant project	\$ 67,393	\$ 48,764	\$ 18,629
District-wide sidewalks and paving	137,932	90,345	47,587
East Campus – parking lot lights & poles	131,130	95,140	35,990
West High School – waterline and new well	566,166	520,512	45,654
East Junior High School – substation remediation	266,968	242,128	24,840
West Campus – press box	<u>168,511</u>	<u>152,604</u>	<u>15,907</u>
<b>Total</b>	<b><u>\$1,338,100</u></b>	<b><u>\$1,149,493</u></b>	<b><u>\$188,607</u></b>

**(5) NET INVESTMENT IN CAPITAL ASSETS**

Components of the net position of the governmental activities net investment in capital assets at June 30, 2019 are as follows:

Capital assets	\$ 422,027,488
Deferred outflows of resources	5,009,466
Accumulated depreciation	<u>(193,982,138)</u>
	233,054,816
General obligation debt <sup>(1)</sup>	<u>(171,688,574)</u>
<b>Net investment in capital assets</b>	<b><u>\$ 61,366,242</u></b>

<sup>(1)</sup> Excludes Series C of 2013 in the amount of \$6,110,000 which was issued to fund a portion of the District's unfunded actuarial accrued pension liability.

**(6) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2019 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ 192,035	Food Service Fund	\$ 192,035
Internal Service Fund	<u>49,684</u>	General Fund	<u>49,684</u>
	<b><u>\$ 241,719</u></b>		<b><u>\$ 241,719</u></b>

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

A summary of interfund transfers for the year ended June 30, 2019 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	\$1,841,897	General Fund	\$1,841,897
Food Service Fund	<u>16,214</u>	General Fund	<u>16,214</u>
	<b><u>\$1,858,111</u></b>		<b><u>\$1,858,111</u></b>

Transfers were used to move unrestricted fund revenues to finance various programs that the District must account for in other funds in accordance with budgetary authorizations.

**POCONO MOUNTAIN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

**(7) NONCURRENT LIABILITIES**

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2019:

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>	<u>Amount Due Within One Year</u>
<b>Governmental activities</b>					
<b>General obligation debt</b>					
Bonds payable	\$ 181,275,000	\$ -	\$ 12,165,000	\$ 169,110,000	\$ 12,565,000
Bond premiums	10,950,319	-	1,043,972	9,906,347	1,021,477
Bond discounts	<u>(1,330,367)</u>	<u>-</u>	<u>(112,594)</u>	<u>(1,217,773)</u>	<u>(112,614)</u>
<b>Total general obligation debt</b>	<u>190,894,952</u>	<u>-</u>	<u>13,096,378</u>	<u>177,798,574</u>	<u>13,473,863</u>
<b>Other noncurrent liabilities</b>					
Capital leases	401,355	-	196,459	204,896	204,896
Compensated absences	6,068,977	224,731	260,417	6,033,291	216,728
Insurance claims obligation	1,737,661	-	188,096	1,549,565	-
OPEB liability	58,769,740	6,406,992	1,888,990	63,287,742	-
Net OPEB liability – PSERS	14,303,000	-	450,599	13,852,401	-
Net pension liability - PSERS	<u>346,707,000</u>	<u>-</u>	<u>27,762,013</u>	<u>318,944,987</u>	<u>-</u>
<b>Total other noncurrent liabilities</b>	<u>427,987,733</u>	<u>6,631,723</u>	<u>30,746,574</u>	<u>403,872,882</u>	<u>421,624</u>
<b>Total noncurrent liabilities</b>	<u>\$618,882,685</u>	<u>\$6,631,723</u>	<u>\$43,842,952</u>	<u>\$581,671,456</u>	<u>\$13,895,487</u>

Noncurrent liabilities are generally liquidated by the General Fund.

**Insurance Claims Obligation**

The insurance claims obligation represents the District's unfunded liability for future estimated workers' compensation claim payments on existing active claims, which is recorded in the statements of net position of the governmental activities and the Internal Service Funds.

**(8) GENERAL OBLIGATION DEBT**

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and are payable from unrestricted local sources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of June 30, 2019 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Original Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
<b>General obligation bonds</b>				
Series B of 2013	2.00% - 4.00%	\$60,820,000	06/15/2029	\$ 52,260,000
Series C of 2013	1.077% - 3.403%	10,620,000	06/15/2025	6,110,000
Series of 2015	0.70% - 4.00%	21,465,000	10/01/2021	4,695,000
Series A of 2015	0.50% - 3.20%	18,805,000	03/01/2032	17,145,000
Series of 2016	2.00% - 5.00%	30,535,000	09/01/2034	29,530,000
Series A of 2016	2.00% - 4.00%	62,385,000	09/01/2031	<u>59,370,000</u>
<b>Total general obligation bonds</b>				<u>\$169,110,000</u>

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

### General Obligation Bonds

On April 24, 2013, the District issued \$60,820,000 of general obligation bonds, Series B of 2013 and \$10,620,000 of general obligation bonds Series C of 2013. The purpose of the Series B issue was to currently refund all of the District's outstanding general obligation notes, Series A of 2004, Series C of 2004 and Series E of 2004; currently refund all of the District's outstanding general obligation notes Series of 2006; currently refund all of the District's outstanding general obligation notes Series of 2008; fund various capital projects and to pay for the cost of issuance. The proceeds from the sale of the Series C bonds were to fund a portion of the unfunded actuarial accrued pension liability and to pay for the cost of issuance. Principal is due June 1 and the issue's final maturity is June 15, 2029 for Series B and June 15, 2025 for Series C. The Series C is not subject to optional redemption. The Series B have a call date of June 15, 2023. The bonds are payable in periodic installments and bear interest payable semi-annually on June 15 and December 15 at rates ranging from 1.00% to 4.00%.

\$ 58,370,000

On January 29, 2015, the District issued \$21,465,000 of general obligation bonds, Series of 2015. The purpose of the issue was to provide for the current refunding of the District's outstanding general obligation bonds, Series A of 2005; provide for the current refunding of the District's general obligation bonds, Series of 2009 and to pay for the costs of issuance. Principal is due October 1 each year and the issue's final maturity date is October 1, 2021. The bonds are payable in periodic installments and bear interest payable semi-annually on April 1 and October 1 at rates ranging from 0.70% to 4.00%. The District currently refunded the general obligation bonds to reduce future debt service payments by \$1,172,840.

4,695,000

On March 19, 2015, the District issued \$18,805,000 of general obligation bonds, Series A of 2015. The purpose of the issue was to provide for the advance refunding of the District's outstanding general obligation bonds, Series A of 2009 and to pay for the costs of issuance. Principal is due March 1 each year and the issue's final maturity date is March 1, 2032. The bonds are payable in periodic installments and bear interest payable semi-annually on March 1 and September 1 at rates ranging from 0.50% to 3.20%. The District advance refunded the general obligation bonds to reduce future debt service payments by \$1,619,509

17,145,000

On January 12, 2016, the District issued \$30,535,000 of general obligation bonds, Series of 2016. The purpose of the issue was to provide for the advance refunding of a portion of the District's outstanding general obligation bonds, Series A of 2007, B of 2007 and C of 2007 and to pay for the costs of issuance. Principal is due September 1 each year and the issue's final maturity date is September 1, 2034. The bonds are payable in periodic installments and bear interest payable semi-annually on March 1 and September 1 at rates ranging from 2.00% to 5.00%. The District advance refunded the general obligation bonds to reduce future debt service payments by \$3,206,909 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$3,839,521.

29,530,000



**POCONO MOUNTAIN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

On November 1, 2016, the District issued \$62,385,000 of general obligation bonds, Series A of 2016. The purpose of the issue was to provide for the current refunding of the District's outstanding general obligation notes, Series A of 2007 and Series of 2011, general obligation bonds, Series B of 2007 and C of 2007 and to pay for the costs of issuance. Principal is due September 1 each year and the issue's final maturity date is September 1, 2031. The bonds are payable in periodic installments and bear interest payable semi-annually on March 1 and September 1 at rates ranging from 2.00% to 4.00%. The District currently refunded the general obligation bonds and notes to reduce future debt service payments by \$21,768,383 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$17,178,979.

	59,370,000
<b>Total general obligation bonds</b>	<b>\$169,110,000</b>

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2020	\$ 12,565,000	\$ 5,803,359	\$ 18,368,359
2021	13,000,000	5,363,819	18,363,819
2022	13,510,000	4,854,752	18,364,752
2023	14,040,000	4,299,972	18,339,972
2024	14,650,000	3,694,755	18,344,755
2025-2029	78,610,000	10,362,821	88,972,821
2030-2034	21,295,000	1,561,476	22,856,476
2035	1,440,000	23,760	1,463,760
	<b>\$169,110,000</b>	<b>\$35,964,714</b>	<b>\$205,074,714</b>

**Authorized Unissued General Obligation Debt**

In prior years, the School Board authorized the issuance of general obligation debt totaling \$44 million to fund various capital improvement projects related to the District's facilities. As of June 30, 2019, the total amount available for borrowing was \$22.94 million.

**Legal Debt Margin**

The Local Government Unit Debt Act establishes a limit on the amount of debt the District may incur. Under the Act, the District cannot incur more than 225% of its borrowing base. The borrowing base is defined as the annual arithmetic average of "Total Revenues" (as defined in the Act) for the three full fiscal years ended.

As of June 30, 2019, the total Legal Limit was \$ 470.9 million and the total outstanding debt applicable to the limit was \$ 177.8 million which represents 37.75 percent of the total debt limit.

**(9) CAPITAL LEASES**

The District has entered into long-term lease agreements for office equipment valued at \$1,050,000. The equipment has a five year estimated useful life. This year, \$210,180 was included in depreciation expenses. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception dates.

The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments as of June 30, 2019 are as follows:

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

	<u>Governmental Activities</u>
Year ended June 30, 2020	\$210,180
Less: amount representing interest	<u>(5,284)</u>
Present value of minimum lease payments	<u>\$204,896</u>

### (10) OTHER POST-EMPLOYMENT BENEFITS

#### Single-Employer Defined Benefit OPEB Plan

The District's other post-employment benefits ("**OPEB**") include a single-employer defined benefit plan that provides medical insurance to all retirees and their dependents. The School Board has the authority to establish and amend benefit provisions. The OPEB Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

#### OPEB Plan Membership

Membership in the OPEB plan consisted of the following at July 1, 2018:

Active participants	1,340
Vested former participants	-
Retired participants	<u>163</u>
Total	<u>1,503</u>

#### Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

#### OPEB Liability

The District's OPEB liability has been measured as of June 30, 2019. The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, and by rolling forward the liabilities from the July 1, 2017 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The OPEB liability is \$63,287,742, all of which is unfunded. As of June 30, 2019, the OPEB liability of \$63,287,742 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit).

The District's change in its OPEB liability for the year ended June 30, 2019 was as follows:

<b>Balance as of July 1, 2018</b>	<u>\$58,769,740</u>
<b>Changes for the year</b>	
Service cost	3,396,599
Interest on total OPEB liability	1,913,778
Differences between expected and actual experience	954,238
Changes in assumptions	142,377
Benefit payments	<u>(1,888,990)</u>
<b>Net changes</b>	<u>4,518,002</u>
<b>Balance as of June 30, 2019</b>	<u>\$63,287,742</u>

#### OPEB Expense and Deferred Outflows and Inflows Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$5,476,335. At June 30, 2019, the District had deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

**POCONO MOUNTAIN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 867,489	\$ -
Changes in assumptions	725,826	-
Contributions subsequent to the measurement date	<u>1,738,794</u>	<u>-</u>
	<u>\$3,332,109</u>	<u>\$ -</u>

District contributions subsequent to the measurement date in the amount of \$1,738,794 reported as deferred outflows of resources related to OPEB will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2020	\$ 165,958
2021	165,958
2022	165,958
2023	165,958
2024	165,958
Thereafter	<u>763,525</u>
	<u>\$1,593,315</u>

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

The following presents the OPEB liability for June 30, 2019, calculated using current healthcare cost trends as well as what the OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
OPEB liability	<u>\$55,467,906</u>	<u>\$63,287,742</u>	<u>\$72,644,274</u>

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

The following presents the net OPEB liability of the District calculated using the discount rate of 2.98%, as well as what the OPEB liability would be if it were calculated using the discount rate that is one percentage point lower (1.98%) or 1 percentage point higher (3.98%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>1.98%</u>	<u>2.98%</u>	<u>3.98%</u>
OPEB Liability	<u>\$69,372,468</u>	<u>\$63,287,742</u>	<u>\$57,825,393</u>

**Actuarial Methods and Significant Assumptions**

The OPEB Liability as of June 30, 2019, was determined by rolling forward the OPEB Liability as of July 1, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – entry age normal.
- Discount rate – 2.98% – Standard and Poor’s 20-year municipal bond rate. The discount rate changed from 3.13% to 2.98%.

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

- Salary growth – effective average of 6.25%, comprised of inflation of 2.50%, 1.00% for real wage growth and 0.00 to 2.75% for merit or seniority increases.
- Assumed healthcare cost trends – 6.00% in 2018 and 5.50% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect experience and projected using a modified version of the MP-2015 mortality improvement scale.

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

PSERS provides health insurance premium assistance which, is a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for health insurance premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

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

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

### **Benefits Provided**

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

### **Employer Contributions**

The District's contractually required contribution rate for the fiscal year ended June 30, 2019 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 \$755,097 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$13,852,401 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.6644 percent, which was a decrease of 0.0376 percent from its proportion measured as of June 30, 2017. As of June 30, 2019, the OPEB liability of \$13,852,401 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit).

---

**POCONO MOUNTAIN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

For the year ended June 30, 2019, the District recognized OPEB expense of \$742,000. At June 30, 2019, 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>
Net difference between expected and actual experience	\$ 85,528	\$ -
Changes in assumptions	219,002	524,929
Net difference between projected and actual investment earnings	23,375	-
Changes in proportions	469,286	686,143
Difference between employer contributions and their proportionate share of total contributions	-	31,555
Contributions subsequent to the measurement date	<u>755,097</u>	<u>-</u>
	<u>\$1,552,288</u>	<u>\$1,242,627</u>

District contributions in the amount of \$755,097 that were made subsequent to the measurement date were reported as deferred outflows of resources relating to OPEB. This amount will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Year ended June 30:**

2020	\$ (78,125)
2021	(78,125)
2022	(78,125)
2023	(72,728)
2024	(74,730)
Thereafter	<u>(63,603)</u>
	<u>\$ (445,436)</u>

**Actuarial Assumptions**

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

- Actuarial cost method – entry age normal – level % of pay.
- Investment return – 2.98% – Standard & Poor's 20-year municipal bond rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

Participation rate:

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

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2018.
- Cost method - amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date.
- Asset valuation method: market value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 combined healthy annuitant tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 combined disabled tables with age set back 7 years for males and 3 years for females and disabled annuitants. (A unisex table based on the RP-2000 combined healthy annuitant tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

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

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

<u>OPEB – Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.9%	0.3%
US Core Fixed Income	92.8%	1.2%
Non-US Developed Fixed	1.3%	0.4%
	<u>100.00%</u>	

For the year ended June 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 1.63%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Discount Rate

The discount rate used to measure the OPEB liability was 2.98%. Under the OPEB plan's funding policy, contributions are structured for short term funding of health insurance premium assistance. The funding policy sets contribution rates necessary to assure solvency of health insurance premium assistance through the third fiscal year after the actuarial valuation date. The health insurance premium assistance account is funded to establish reserves that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the OPEB plan is considered a "pay-as-you-go" plan. A discount rate of 2.98% which represents the Standard & Poor's 20 year municipal bond rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

**POCONO MOUNTAIN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual health insurance premium assistance. As of June 30, 2018, retirees health insurance premium assistance benefits are not subject to future healthcare cost increases. The healthcare insurance premium assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

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

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	<u>\$13,849,664</u>	<u>\$13,852,401</u>	<u>\$13,854,594</u>

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

The following presents the net OPEB liability, calculated using the discount rate of 2.98%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.98%) or 1-percentage-point higher (3.98%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>1.98%</u>	<u>2.98%</u>	<u>3.98%</u>
District's proportionate share of the net OPEB liability	<u>\$15,753,708</u>	<u>\$13,852,401</u>	<u>\$12,274,185</u>

**OPEB Plan Fiduciary Net Position**

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

**(11) PENSION PLAN**

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

**Plan Description**

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

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

### **Benefits Provided**

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

### **Contributions**

#### **Member Contributions**

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

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

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

Members who joined the system after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

#### **Employer Contributions**

The District's contractually required contribution rate for fiscal year ended June 30, 2019 was 32.60% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$29,658,007 for the year ended June 30, 2019.

---



# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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

At June 30, 2019, the District reported a liability of \$318,944,987 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2017 to June 30, 2018. 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, 2019, the District's proportion was 0.6644 percent, which was a decrease of 0.0376 percent from its proportion measured as of June 30, 2018. As of June 30, 2019, the net pension liability of \$318,944,987 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit).

For the year ended June 30, 2019, the District recognized pension expense of \$28,193,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 2,567,448	\$ 4,936,751
Changes in assumptions	5,942,699	-
Net difference between projected and actual investment earnings	1,563,180	-
Changes in proportions	15,409,700	13,165,125
Difference between employer contributions and proportionate share of total contributions	-	787,163
Contributions subsequent to the measurement date	<u>29,658,007</u>	<u>-</u>
	<u>\$55,141,034</u>	<u>\$18,889,039</u>

District contributions in the amount of \$29,658,007 that were made subsequent to the measurement date were reported as deferred outflows of resources relating to pensions. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

#### Year ended June 30:

2020	\$ 9,282,128
2021	3,902,119
2022	(5,366,122)
2023	<u>(1,224,137)</u>
	<u>\$ 6,593,988</u>

### Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the system's total pension liability as the June 30, 2017 actuarial valuation to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level percentage 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.

**POCONO MOUNTAIN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

- 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 %	5.2%
Fixed income	36.0 %	2.2%
Commodities	8.0 %	3.2%
Absolute return	10.0 %	3.5%
Risk parity	10.0 %	3.9%
Infrastructure/MLPs	8.0 %	5.2%
Real estate	10.0 %	4.2%
Alternative investments	15.0 %	6.7%
Cash	3.0 %	0.4%
Financing (LIBOR)	(20.0)%	0.9%
	<u>100.0 %</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

**Discount Rate**

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

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

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

	<u>1% Decrease 6.25%</u>	<u>Current Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
District's proportionate share of the net pension liability	<u>\$395,355,798</u>	<u>\$318,944,987</u>	<u>\$254,337,423</u>

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

### Pension Plan Fiduciary Net Position

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

### (12) OPERATING LEASES

The District leases office equipment under a non-cancelable operating lease expiring on June 30, 2021. Rent expense for the office equipment for 2018 – 2019 was \$7,224.

Future minimum lease payments under these leases are as follows:

#### Year ending June 30,

2020	\$ 7,200
2021	<u>7,200</u>
	<u>\$14,400</u>

### (13) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

#### Monroe Career and Technical Institute

The District and three other school districts in Monroe County participate in the Monroe Career and Technical Institute ("**MCTI**"). MCTI provides vocational-technical training and education to students of the participating school districts and is controlled by a joint board comprised of representative school board members of the participating school districts. District oversight of MCTI operations is the responsibility of the joint board. The District's share of operating costs for MCTI fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2018 – 2019 was \$2,354,887.

#### Monroe County Area Vocational-Technical School Authority

The District and three other school districts in Monroe County participate in joint venture for the operation of the Monroe County Area Vocational-Technical School Authority ("**Authority**"). The Authority oversees acquiring, holding, constructing, improving and maintaining the MCTI school buildings and is controlled by a joint board comprised of representative school board members of the participating school districts in the MCTI. The participating school districts entered into a long-term lease agreement with the Authority to provide rental payments sufficient to retire the Authority's outstanding debt obligations. The agreement expired on November 15, 2016.

Both the MCTI and the Authority prepare financial statements that are available to the public from their administrative offices located at 194 Laurel Lake Road, Bartonsville, Pennsylvania 18321.

#### Colonial Intermediate Unit

The District and twelve other school districts from Northampton, Monroe and Pike counties are participating members of the Colonial Intermediate Unit – 20 ("**IU-20**"). IU-20 is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual operating budget of IU-20 but the participating districts have no ongoing fiduciary interest or responsibility to IU-20. IU-20 is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and state and federal liaison services.

---

# POCONO MOUNTAIN SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2019

---

### (14) CONTINGENCIES AND COMMITMENTS

#### Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District management does not expect any significant adjustments as a result of these examinations.

#### Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters. However, the District believes that the settlement of any outstanding litigation or claims will not materially affect the District's financial position or results of operations. Due to the uncertainty related to litigation and claims and the settlement process, it is at least reasonably possible that the District's assessment of potential losses could change materially in the near term.

### (15) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages during 2018 – 2019. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District administers self-insurance programs to provide for health and workers' compensation insurance and related expenses for eligible employees, spouses and their dependents. Benefit payments plus an administrative charge are made to a third-party administrator, who approves and processes all claims. The District has recorded a current liability in the Internal Service Funds for claims incurred and a noncurrent liability for future estimated payments on existing active claims through June 30, 2019. The current insurance claims payable liability has historically been satisfied within 120 days after June 30, while the noncurrent insurance claim obligation liability is funded for payment by the General Fund as they become due and payable.

The following table presents the components of the self-insurance benefit obligation and the related changes in the benefit obligation at June 30, 2019 and 2018:

	2019		
	<u>Health Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
Insurance claims liability – beginning of year	\$ 1,879,455	\$1,783,286	\$ 3,662,741
Current year insurance claims and changes in estimates	24,473,534	386,992	24,860,526
Insurance claims paid	<u>(25,057,987)</u>	<u>(525,034)</u>	<u>(25,583,021)</u>
Insurance claims liability – end of year	<u>\$ 1,295,002</u>	<u>\$1,645,244</u>	<u>\$ 2,940,246</u>

---

**POCONO MOUNTAIN SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2019

---

	<u>2018</u>		
	<u>Health Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
Insurance claims liability – beginning of year	\$ 2,104,772	\$2,260,283	\$ 4,365,055
Current year insurance claims and changes in estimates	24,833,797	39,787	24,873,584
Insurance claims paid	<u>(25,059,114)</u>	<u>(516,784)</u>	<u>(25,575,898)</u>
Insurance claims liability – end of year	<u>\$ 1,879,455</u>	<u>\$1,783,286</u>	<u>\$ 3,662,741</u>

**(16) SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 20, 2019, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2019 that required recognition or disclosure in the financial statements.