

Financial Statements

Lower Merion School District
Montgomery County, Pennsylvania

June 30, 2019

Rainer
& Company

A Professional Corporation
Certified Public Accountants

TABLE OF CONTENTS

<u>Title</u>	<u>Page No.</u>
Independent Auditors' Report on Financial Statements	1-2
Management's Discussion and Analysis	3-15

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements:

Statement of Net Position (Deficit)	16
Statement of Activities	17

Fund Financial Statements:

Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Deficit)	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Statement of Net Position (Deficit) - Proprietary Funds	22
Statement of Revenues, Expenses, and Changes in Net Position (Deficit) - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24
Statement of Fiduciary Net Position	25
Statement of Changes in Fiduciary Net Position	26
Notes to the Financial Statements	27-53

Required Supplementary Information:

Budgetary Comparison Schedule - General Fund	54
Schedule of the District's Proportionate Share of the Net Pension Liability	55
Schedule of the District Pension Contributions	56
Schedule of Changes in Net OPEB Liability and Related Ratios	57
Schedule of the District's Proportionate Share of the OPEB - PSERS Liability	58
Schedule of the District's OPEB - PSERS Contributions	59



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INDEPENDENT AUDITORS' REPORT

Board of School Directors
Lower Merion School District
Montgomery County, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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 Lower Merion School District, 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.

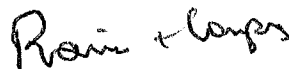
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15, budgetary comparison information on page 54, the schedule of the District's proportionate share of the net pension liability on page 55, the schedule of District's pension contributions on page 56, the schedule of net OPEB liability and related ratios on page 57, the schedule of the District's proportionate share of the OPEB-PSERS liability on page 58, and the schedule of District's OPEB-PSERS contributions on page 59 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2019, on our consideration of Lower Merion 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lower Merion School District's 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 Lower Merion School District's internal control over financial reporting and compliance.



Rainer & Company

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

The discussion and analysis of Lower Merion School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements and the notes to the financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

The trends of prior years indicated that during the fiscal year 2018-19, the Lower Merion School District would experience another year of increased staff for student enrollment growth, benefits for our employees and increased costs for instruction. In the budgeting process for the 2018-19 Budget, the Board of School Directors was able to balance the budget with a .06737 mills increase (\$6.74 per \$10,000 of assessed value) to the taxpayers within the District. Through prudent financial management, the actual expenditures did not increase as much as was anticipated when the budget was prepared. The combination of revenues exceeding the budget and less expenditures than budgeted resulted in the opportunity for the Board to transfer additional funds into the Capital Projects Fund. The fund balance commitment categories are for future pension obligations, postemployment benefit obligations, as well as stabilization of variable rate bonds.

OVERVIEW OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement Number 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

Government-Wide Financial Statements

The first two statements are government-wide financial statements - the Statement of Net Position (Deficit) and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

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

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

Over time, increases or decreases in the District's net assets are an indication of whether its financial health is improving or deteriorating, respectively.

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

Government-Wide Financial Statements (Continued)

To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the performance of the students.

The government-wide financial statements of the District are divided into two categories:

- **Governmental Activities** - All of the District's basic services are included here, such as instruction, administration, and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business-Type Activities** - The District operates a food service operation and charges fees to staff and students to cover the costs of the food service operation.

Fund Level Financial Statements

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental fund statements tell how the District's general services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short and long-term financial information about the activities that the District operates like a business. For this District this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others.

- **Governmental Funds** - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position (Deficit) and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** - These funds are used to account for District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements.
- **Fiduciary Funds** - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE DISTRICT - GOVERNMENT-WIDE STATEMENTS

The District's total net deficit was \$122,364,957 and \$132,582,218 as of June 30, 2019 and 2018, respectively. The following table presents condensed financial information for the net position (deficit) of the District as of June 30, 2019 and 2018.

Schedule of Net Position (Deficit)
Years Ended June 30, 2019 and 2018

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current Assets	\$ 126,107,074	\$ 112,839,705	\$ 2,132,560	\$ 1,941,561	\$ 128,239,634	\$ 114,781,266
Capital Assets	404,533,270	403,928,989	23,099	8,435	404,556,369	403,937,424
Deferred Outflows of Resources	67,916,352	79,867,932	525,115	677,873	68,441,467	80,545,805
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	598,556,696	596,636,626	2,680,774	2,627,869	601,237,470	599,264,495
Current Liabilities	51,866,839	49,486,979	469,709	578,728	52,336,548	50,065,707
Noncurrent Liabilities	655,895,081	673,203,560	3,878,740	4,184,213	659,773,821	677,387,773
Deferred Inflows of Resources	11,391,457	4,351,556	100,601	41,677	11,492,058	4,393,233
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	719,153,377	727,042,095	4,449,050	4,804,618	723,602,427	731,846,713
Net Position (Deficit):						
Invested in Capital Assets,						
Net of Related Debt	187,864,194	169,674,686	23,099	8,435	187,887,293	169,683,121
Restricted: Capital Projects	43,725,923	21,520,049	0	0	43,725,923	21,520,049
Unrestricted	(352,186,798)	(321,600,204)	(1,791,375)	(2,185,184)	(353,978,173)	(323,785,388)
TOTAL NET POSITION (DEFICIT)	\$ (120,596,681)	\$ (130,405,469)	\$ (1,768,276)	\$ (2,176,749)	\$ (122,364,957)	\$ (132,582,218)

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The largest revenues are property taxes, local taxes, and the state basic education subsidy.

The following table presents condensed financial information for the Statement of Activities in a different format to show total revenues for the year. Compared to the prior year, the District's total revenues increased by \$8,256,706 or 3.07%. Property taxes, which include current and interim real estate taxes, increased by \$5,995,686 or 2.77%. Investment earnings increased by \$1,886,877 or 88.86%. Total activities expenses increased by \$9,066,026 or 3.52%.

Statement of Activities
For the Years Ended June 30, 2019 and 2018

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
REVENUES:						
Program Services:						
Charges for Services	\$ 675,078	\$ 622,638	\$ 2,850,314	\$2,711,337	\$ 3,525,392	\$ 3,333,975
Operating Grants and Contributions	31,342,757	29,814,832	995,466	930,650	32,338,223	30,745,482
General Revenues:						
Property Taxes	222,761,064	216,765,378	0	0	222,761,064	216,765,378
Other Taxes	5,015,854	5,299,247	0	0	5,015,854	5,299,247
Grants, Subsidies and						
Contributions Not Restricted	10,999,716	11,245,715	0	0	10,999,716	11,245,715
Investment Earnings	4,010,239	2,123,362	0	0	4,010,239	2,123,362
Miscellaneous Income	83,468	67,851	0	0	83,468	67,851
Loss on Disposal of Capital Assets	(1,694,772)	(798,532)	0	0	(1,694,772)	(798,532)
TOTAL REVENUES	273,193,404	265,140,491	3,845,780	3,641,987	277,039,184	268,782,478
EXPENSES:						
Instruction	\$ 163,858,725	\$ 149,576,326	0	0	163,858,725	149,576,326
Instructional Student Support	19,093,379	20,038,924	0	0	19,093,379	20,038,924
Administrative and Financial Support	16,191,310	16,216,242	0	0	16,191,310	16,216,242
Operation and Maintenance of						
Plant Services	25,747,455	28,375,913	0	0	25,747,455	28,375,913
Pupil Transportation	14,044,306	14,282,944	0	0	14,044,306	14,282,944
Student Activities	5,498,481	5,332,444	0	0	5,498,481	5,332,444
Community Services	237,467	219,108	0	0	237,467	219,108
Interest on Long-Term Debt	6,909,639	8,621,897	0	0	6,909,639	8,621,897
Unallocated Depreciation Expense	11,803,854	11,589,269	0	0	11,803,854	11,589,269
Food Services	0	0	3,437,307	3,502,830	3,437,307	3,502,830
TOTAL EXPENSES	263,384,616	254,253,067	3,437,307	3,502,830	266,821,923	257,755,897
CHANGE IN NET POSITION	\$ 9,808,788	\$ 10,887,424	\$ 408,473	\$ 139,157	\$ 10,217,261	\$ 11,026,581

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

EXPENSES

The following table presents condensed financial information on the expenses of the District by function. The table illustrates both the gross and net costs of services. Unrestricted grants, subsidies, and contributions are deducted to reflect the amount needed to be funded by other revenue sources. The amount needed to be funded by other revenue sources increased by \$1,630,656 or .7% more than the prior year.

Expense Analysis
For the Years Ended June 30, 2019 and 2018

The following table reflects condensed financial activities of the Food Service Program, the only business-type activity of the District.

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Expenses - Governmental Activities:				
Instruction	\$ 163,858,725	\$ 149,576,326	\$ 143,082,714	\$129,813,784
Instructional Student Support	19,093,379	20,038,924	16,898,596	24,153,442
Administrative and Financial Support	16,191,310	16,216,242	14,070,954	14,225,976
Operation and Maintenance of Plant Services	25,747,455	28,375,913	23,834,251	26,645,980
Pupil Transportation	14,044,306	14,282,944	9,634,954	9,922,982
Student Activities	5,498,481	5,332,444	4,894,352	4,789,686
Community Services	237,467	219,108	237,467	219,108
Interest on Long-Term Debt	6,909,639	8,621,897	6,909,639	8,621,897
Unallocated Depreciation Expense	11,803,854	11,589,269	11,803,854	11,589,269
TOTAL EXPENSES	\$ 263,384,616	\$ 254,253,067	231,366,781	229,982,124
Less: Grants, Subsidies and Contributions Not Restricted			<u>(10,999,716)</u>	<u>(11,245,715)</u>
AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES			\$ 220,367,065	\$218,736,409

Business-Type Activities
For the Years Ended June 30, 2019 and 2018

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Expenses - Business-Type Activities:				
Food Services	\$ 3,437,307	\$ 3,502,830	\$ (408,473)	\$ (139,157)

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

THE DISTRICT FUNDS

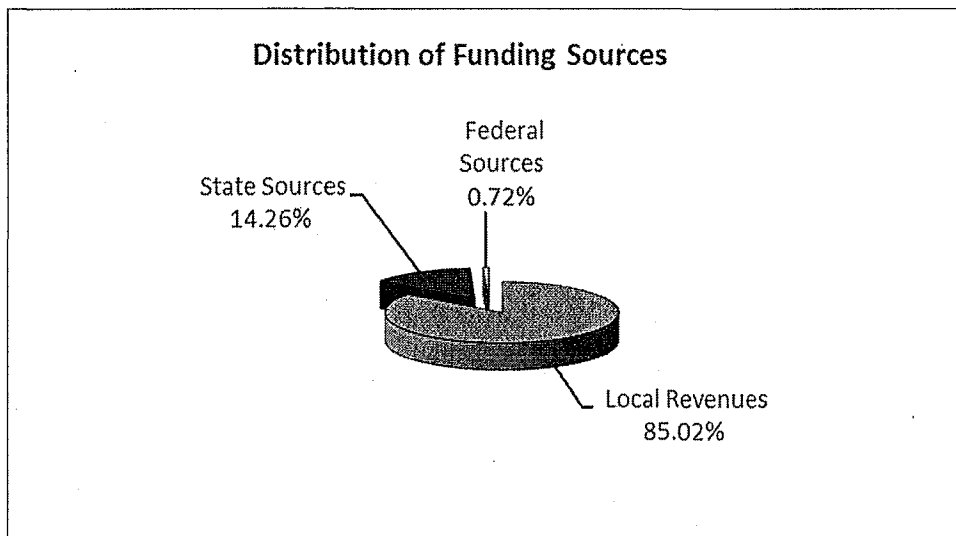
GENERAL FUND

At June 30, 2019, the District reported a total fund balance of \$43,033,339, which consists of \$378,466 as nonspendable fund balance, \$20,800,000 as committed fund balance, \$16,928,673 as assigned fund balance, and \$4,926,200 as unassigned fund balance. This is a decrease of \$13,229,552. The School Board of the Lower Merion School District consciously maintains a fund balance to respond to unforeseen contingencies. This philosophy conforms to the Board's belief that the tax burden should be aligned with both the current and future funding needs of the District. As the School District has experienced unprecedented enrollment growth and the need to expand facilities, the fund balance is necessary to maintain educational programs while, at the same time, responsibly planning for future needs.

Revenues

Revenues totaled \$274,618,002, an increase of \$8,161,037 as compared to the 2017-18 revenues. The following table reflects a comparison of current year revenues with the revenues recognized in the prior year:

	Revenue 2019	% of Total	Increase (Decrease) From 2018	Percentage Increase (Decrease)	Revenue 2018
Local Revenues	\$ 233,469,031	85.02%	\$ 6,702,969	2.96%	\$ 226,766,062
State Sources	39,166,333	14.26%	1,746,816	4.67%	37,419,517
Federal Sources	1,982,638	0.72%	(288,748)	-12.71%	2,271,386
	<u>\$ 274,618,002</u>	<u>100.00%</u>	<u>\$ 8,161,037</u>	<u>3.06%</u>	<u>\$ 266,456,965</u>



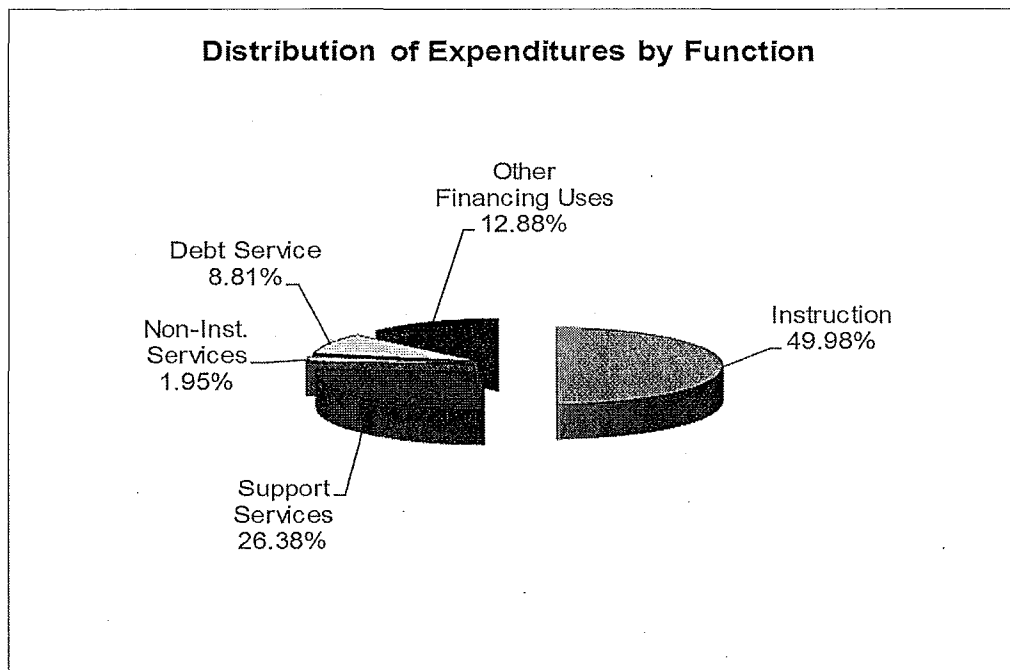
LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

The District balanced the budget by utilizing the fund balance from the previous year and increasing the 2018-19 real estate tax rates from 28.0740 to 28.7477 mills. As a result of the increase in millage and increases in real estate assessments, revenues from current, interim, and delinquent real estate taxes increased by \$5,384,382. The collection rate for current real estate taxes was 97.14%. This compares with 97.20% in 2017-18. Real estate transfer taxes collections decreased by \$287,878. The District experienced an increase in investment revenue of \$1,445,886 for the general fund.

Expenditures

Expenditures, totaling \$287,847,554, increased \$21,390,589 over the 2017-18 expenditures. These expenditures were segregated into various programs depending on the functions of the activity. These programs and the costs associated with each, as well as comparison to the costs incurred in the prior year and the final 2018-19 budget are as follows:

	Expenditures 2019	% of Total	Increase (Decrease) From 2018	Variance with Final Budget - Positive (Negative)
Instruction	\$ 143,877,352	49.98%	\$ 704,322	\$ 3,691
Support Services	75,927,886	26.38%	(646,086)	6,274
Non-Instructional Services	5,627,793	1.95%	346,826	928
Debt Service	25,348,754	8.81%	(320,047)	1,102
Other Financing Uses	37,065,769	12.88%	21,305,574	0
TOTAL EXPENDITURES BY FUNCTION	\$ 287,847,554	100.00%	\$ - 21,390,589	\$ 11,995



LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

The increase in expenditures from 2018-19 is due to increases in various categories. Our pension obligations increased over \$2.4 million from the prior year, as a result of the employer contribution rate increasing from 32.57% to 33.43%. Instructional program costs increased \$704,322 from the prior year as a result of increases in salaries due to the collective bargaining agreement, as well as additional staff and educational materials necessary to accommodate the student enrollment growth. Support pupil personnel and instructional costs increased \$91,164 from last year. Also, the Board approved the transfer of \$34.90 million to the Capital Projects Fund to address future capital needs.

Budget

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted. This is done after the end of the fiscal year in accordance with state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the financial statements.

The Budgetary Reserve includes amounts that will be funded for operating contingencies such as an unpredictable change in the cost of goods and services and the occurrence of events which are vaguely perceptible during the time of the budget process but which nonetheless may require expenditures by the District during the year of operation.

CAPITAL PROJECTS FUND

At June 30, 2019, the District reported a fund balance of \$30,911,180 which is an increase of \$30,911,180 from the prior year. Increases in this fund during 2018-19 include investment earnings of \$202,588 and a \$34,900,000 transfer from the general fund. The capital project fund expended \$4,191,408 for active capital construction projects.

CAPITAL RESERVE FUND

At June 30, 2019, the District reported a fund balance of \$12,814,743, which is a decrease of \$8,705,306 from the prior year. Increases in this fund during 2018-19 include other local revenues of \$10,550, and investment earnings of \$256,443. The capital reserve fund expended \$7,787,421 in support services and \$1,184,878 in capital outlay expenditures.

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

CAPITAL ASSETS

At June 30, 2019, the District's governmental activities and business-type activities had \$404,556,369 invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deletions, and depreciation) of \$618,945 from last year.

The following schedule depicts the change in capital assets for the period July 1, 2018 through June 30, 2019. During this period, the District had the following significant additions in capital assets:

Schedule of Capital Assets

	Beginning Balance	Increase (Decrease)	Ending Balance
<u>Governmental Activities:</u>			
Capital Assets:			
Land	\$ 19,643,123	\$ 2,986,014	\$ 22,629,137
Land Improvements	3,280,303	2,042,019	5,322,322
Buildings	479,006,784	3,383,838	482,390,622
Construction in Process	675,712	529,684	1,205,396
Furniture and Equipment	8,197,528	(268,182)	7,929,346
Transportation	14,938,769	942,468	15,881,237
TOTAL CAPITAL ASSETS	525,742,219	9,615,841	535,358,060
 Accumulated Depreciation for:			
Land Improvements	2,257,105	166,855	2,423,960
Buildings	106,683,836	9,914,155	116,597,991
Furniture and Equipment	6,942,232	(391,907)	6,550,325
Transportation	5,930,057	(677,543)	5,252,514
TOTAL ACCUMULATED DEPRECIATION	121,813,230	9,011,560	130,824,790
 GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 403,928,989	\$ 604,281	\$ 404,533,270
 <u>Business-Type Activities:</u>			
Capital Assets:			
Machinery and Equipment	\$ 119,454	\$ 23,199	\$ 142,653
Accumulated Depreciation for:			
Machinery and Equipment	111,019	8,535	119,554
 BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 8,435	\$ 14,664	\$ 23,099

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

DEBT ADMINISTRATION

As of July 1, 2018, the District had total outstanding bond principal of \$228,740,000. During the year, the District paid principal in the amount of \$17,415,000 resulting in ending outstanding debt as of June 30, 2019 of \$211,325,000.

Other obligations include accrued vacation pay and severance for specific employees of the District. More detailed information about our long-term liabilities is included in the notes to the financial statements.

Debt Service Schedule
June 30, 2019

	Principal Outstanding July 1, 2018	Maturities	Additions (Refinancing)	Principal Outstanding June 30, 2019
General Obligation Note, Series of 1989	\$ 13,900,000	\$ 2,100,000	\$ 0	\$ 11,800,000
General Obligation Bonds, Series A & B of 2009	60,905,000	5,590,000	0	55,315,000
General Obligation Bonds, Series A of 2012	38,405,000	2,805,000	0	35,600,000
General Obligation Bonds, Series of 2013	9,785,000	5,000	0	9,780,000
General Obligation Bonds, Series of 2014	9,855,000	110,000	0	9,745,000
General Obligation Bonds, Series A of 2015	8,920,000	410,000	0	8,510,000
General Obligation Bonds, Series B of 2015	31,870,000	2,725,000	0	29,145,000
General Obligation Bonds, Series of 2016	55,100,000	3,670,000	0	51,430,000
	<u>\$ 228,740,000</u>	<u>\$ 17,415,000</u>	<u>\$ 0</u>	<u>\$ 211,325,000</u>

THE DISTRICT'S FUTURE

The total District enrollment has increased over the last ten school years resulting from out of state move-ins, fewer students enrolling in private schools, and housing turnover resulting in more families with school age children. From 1998 - 2012, the District renovated and expanded all six elementary schools, both middle schools, and built two new high schools, Harriton and Lower Merion. The District has an extensive network infrastructure and a district-wide area network. All schools are connected to the network.

A district-wide facilities and enrollment projection study was completed in 2012. A new enrollment projection study was completed in April 2015 and updated in November 2016 and December 2017. These studies indicate that enrollment will continue to increase in the next decade.

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

Additions at Gladwyne and Penn Valley Elementary Schools were completed in the 2014/15 school year, and additions and alterations at the two middle schools were completed for the 2015/16 school year.

Renovations to the District Administration Building to create additional science classroom space was completed in the fall of 2016. Four temporary classrooms were installed at Penn Wynne Elementary school in the summer of 2016 to accommodate increased enrollment. Six temporary classrooms were installed at Bala Cynwyd Middle School in the summer of 2017 to accommodate increased enrollment.

The School District engaged two demographers to conduct additional enrollment studies in the fall of 2016 in order to assess future needs. The results of these studies have been incorporated into the planning process for dealing with growth throughout the District. The same demographers updated their studies in the fall of 2018.

In 2018-19, the School District entered into agreements of sale to purchase three parcels of land for the construction of a new middle school and athletic fields. The School District engaged an architectural firm to design the new middle school. Construction is scheduled to start in the spring of 2020 and the new building is slated to open in 2022.

STRATEGIC PLAN

Lower Merion School District launched an ambitious, year-long comprehensive planning process in the fall of 2013 to provide a new direction for public education in our community. In recent years, strategic planning in the District had been driven largely by the Pennsylvania Department of Education's strategic planning requirements, and plans were developed to address specific issues and perceived weaknesses. The 2014 Lower Merion School District planning process was designed to be more expansive in scope and significantly more inclusive of our diverse, dynamic community. Thousands of stakeholders contributed to this process, sharing their thoughts, ideas, and dreams for our schools through community surveys, community forums, focus groups, public meetings, and a steering committee of 70 community volunteers.

The result of these collective efforts is our Strategic Plan, *All Forward: Strategic Pathways for Lower Merion School District*. *All Forward* differs greatly from previous District strategic plans, both in content and structure. Rather than a tactical guide with step-by-step instructions, the plan serves as a strategic compass for the next five years and beyond. We designed it to be actionable, inspirational, and accessible to all members of our school community. Five "bold statements of strategic intent" provide the framework of our plan. These statements, crafted by our steering committee, represent where we want to be as a school community and indicate a shift from where we are today in how we define student success, develop curriculum, support professional learning, engage students, and partner with our community. It is important to note that the intent of the plan is not to solve a problem or fix a failure. Rather, it serves as a necessary next step forward in our evolution as one of the finest public school systems in the United States.

Collaboration, innovation, and celebration are consistent themes throughout the plan and characterize the community's work in developing this document. Our plan embraces a collective, intentional, positive approach to change. It is driven by our belief in continuous improvement and an unyielding passion for high-quality public education. It represents our commitment to the children of Lower Merion and Narberth now and forever.

MISSION STATEMENT

Committed to excellence and continuous improvement, the Lower Merion School District strives to ensure that all students achieve their highest level of critical thinking and creativity, that they value

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

themselves and the diversity of others, and that they are knowledgeable, contributing citizens capable of excelling in a rapidly changing world.

This is accomplished by individuals engaging in innovative, active experiences tailored to myriad ways of learning and in partnership with our community.

VISION STATEMENT

Students are our reason for being. We create an environment designed to fulfill the individual learning needs and aspirations of each student. The District develops active partnerships at all levels of our learning community and values the individual contribution of each member.

We view learning as dynamic, innovative, and collaborative. Individuals learn best when their hearts, minds, and spirits are intimately engaged in the learning process.

Enter to learn. Go forth to serve

BELIEFS

Our deepest convictions and values;

We believe that:

- All people have equal intrinsic worth.
- People learn in different ways and at different rates.
- Each person bears responsibility for the well-being of society and the quality of the environment.
- Learning occurs everywhere and is a lifelong pursuit of knowledge, truth, and wisdom.
- High quality public education directly benefits the entire community and is essential for a democratic society.
- The responsibility for learning rests primarily with the individual; however, education is the shared responsibility of the student, home, family, school, and entire community.
- Individuals learn best when actively engaged in the learning process.
- Excellence demands sustained effort.
- All individuals can be successful learners.
- High expectations yield high results.
- Society benefits when individual rights are balanced with social responsibility.
- Ethical conduct is essential to the quality of life.

STRATEGIC PATHWAYS

Pathway 1: Redefining Success - Transform how we define, measure, and report student achievement with a focus on each student's individualized growth and mastery in areas that extend beyond traditional academic indicators.

Pathway 2: Transformative Curriculum - Shift from content areas silos to a connected curriculum that prepares students to transfer knowledge and apply thinking strategies across disciplines.

Pathway 3: A Commitment to Professional Learning - Transform professional learning from a top-down model to one that honors and harnesses our educators' collective wisdom.

LOWER MERION SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2019

Pathway 4: Student-Driven Schools - Adjust our system from one characterized by heavily prescribed requirements to one that affords more self-directed goal setting and positive risk taking – where students navigate their own learning in close partnership with professionals.

Pathway 5: A Spirit of Community - Transform our approach to community outreach from one that is less coordinated to one that strategically leverages and maximizes community resources to strengthen our schools.

FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Victor J. Orlando, Business Manager, Lower Merion School District, 301 East Montgomery Avenue, Ardmore, PA 19003.

LOWER MERION SCHOOL DISTRICT
Statement of Net Position (Deficit)
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and Cash Equivalents	\$ 437,354	\$ 0	\$ 437,354
Investments	103,363,671	1,567,680	104,931,351
Due from Other Governments	11,583,885	149,124	11,733,009
Other Receivables	927,123	60,327	987,450
Property Taxes Receivable, Net	2,509,320	0	2,509,320
Internal Balances	6,907,256	283,834	7,191,090
Inventories	0	71,595	71,595
Prepaid Expenses	378,466	0	378,466
TOTAL CURRENT ASSETS	126,107,075	2,132,560	128,239,635
Capital Assets, Net of Accumulated Depreciation	404,533,270	23,099	404,556,369
TOTAL ASSETS	530,640,345	2,155,659	532,796,004
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources - Accumulated Decrease in Fair Value of Hedging Derivatives	7,138,875	0	7,138,875
Deferred Outflows of Resources - Pension Plan	58,651,327	521,138	59,172,465
Deferred Outflows of Resources - OPEB - PSERS	1,522,956	3,977	1,526,933
Deferred Outflows of Resources - OPEB	603,194	0	603,194
TOTAL DEFERRED OUTFLOWS OF RESOURCES	67,916,352	525,115	68,441,467
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 598,556,697	\$ 2,680,774	\$ 601,237,471
LIABILITIES			
Current:			
Accounts Payable and Other Current Liabilities	\$ 32,919,973	\$ 27,852	\$ 32,947,825
Internal Balances	0	235,911	235,911
Bonds Payable Due Within One Year	17,415,000	0	17,415,000
Unearned Revenues	285,448	205,946	491,394
Accrued Interest	1,246,419	0	1,246,419
TOTAL CURRENT LIABILITIES	51,866,840	469,709	52,336,549
Long-Term:			
Bonds Payable Due After One Year	199,254,076	0	199,254,076
Deferred Instrument - Interest Rate Swap	7,138,875	0	7,138,875
Net Pension Liability	419,626,195	3,729,805	423,356,000
Accrued Post Employment Benefits and Compensated Absences	29,875,935	148,935	30,024,870
TOTAL LONG-TERM LIABILITIES	655,895,081	3,878,740	659,773,821
TOTAL LIABILITIES	707,761,921	4,348,449	712,110,370
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources - Pension Plan	10,501,657	93,343	10,595,000
Deferred Inflows of Resources - OPEB - PSERS	888,743	7,258	896,001
Deferred Inflows of Resources - OPEB	1,057	0	1,057
TOTAL DEFERRED INFLOWS OF RESOURCES	11,391,457	100,601	11,492,058
NET POSITION (DEFICIT)			
Invested in Capital Assets, Net of Related Debt	187,864,194	23,099	187,887,293
Restricted for: Capital Projects	43,725,923	0	43,725,923
Unrestricted	(352,186,798)	(1,791,375)	(353,978,173)
TOTAL NET POSITION (DEFICIT)	(120,596,681)	(1,768,276)	(122,364,957)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	\$ 598,556,697	\$ 2,680,774	\$ 601,237,471

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2019

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 163,858,725	\$ (306,704)	\$ (20,469,307)	\$ 0	\$ (143,082,714)	\$ 0	\$ (143,082,714)
Instructional Student Support	19,093,379	0	(2,194,783)	0	(16,898,596)	0	(16,898,596)
Administrative and Financial Support Services	16,191,310	0	(2,120,356)	0	(14,070,954)	0	(14,070,954)
Operation and Maintenance of Plant Services	25,747,455	(338,271)	(1,574,933)	0	(23,834,251)	0	(23,834,251)
Pupil Transportation	14,044,306	0	(4,409,352)	0	(9,634,954)	0	(9,634,954)
Student Activities	5,498,481	(30,103)	(574,026)	0	(4,894,352)	0	(4,894,352)
Community Services	237,467	0	0	0	(237,467)	0	(237,467)
Interest on Long-Term Debt	6,909,639	0	0	0	(6,909,639)	0	(6,909,639)
Unallocated Depreciation Expense	11,803,854	0	0	0	(11,803,854)	0	(11,803,854)
TOTAL GOVERNMENTAL ACTIVITIES	263,384,616	(675,078)	(31,342,757)	0	(231,366,781)	0	(231,366,781)
Business-Type Activities:							
Food Services	3,437,307	(2,850,314)	(995,466)	0	0	408,473	408,473
TOTAL PRIMARY GOVERNMENT	\$ 266,821,923	\$ (3,525,392)	\$ (32,338,223)	\$ 0	(231,366,781)	408,473	(230,958,308)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, Net					222,761,064	0	222,761,064
Public Utility Realty, Earned Income and Realty							
Transfer Taxes, Levied for General Purposes, Net					5,015,854	0	5,015,854
Grants, Subsidies and Contributions Not Restricted					10,999,716	0	10,999,716
Investment Earnings					4,010,239	0	4,010,239
Loss on Disposal of Capital Assets					(1,694,772)	0	(1,694,772)
Miscellaneous Income					83,468	0	83,468
TOTAL GENERAL REVENUES					241,175,569	0	241,175,569
CHANGE IN NET POSITION (DEFICIT)					9,808,788	408,473	10,217,261
Net Position (Deficit) - July 1, 2018					(130,405,469)	(2,176,749)	(132,582,218)
NET POSITION (DEFICIT) - JUNE 30, 2019					\$ (120,596,681)	\$ (1,768,276)	\$ (122,364,957)

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2019

<u>ASSETS</u>	General Fund	Capital Projects Fund	Capital Reserve Fund	Debt Service Fund	Total Governmental Funds
Cash and Cash Equivalents	\$ 437,354	\$ 0	\$ 0	\$ 0	\$ 437,354
Investments	67,214,414	16,937,650	14,836,283	4,375,324	103,363,671
Taxes Receivable, Net	2,509,320	0	0	0	2,509,320
Due from Other Funds	7,437,958	14,900,000	30,045	0	22,368,003
Due from Other Governments	11,583,885	0	0	0	11,583,885
Other Receivables	911,686	0	10,177	5,260	927,123
Prepaid Expenses	378,466	0	0	0	378,466
TOTAL ASSETS	\$ 90,473,083	\$ 31,837,650	\$ 14,876,505	\$ 4,380,584	\$ 141,567,822
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 3,928,577	\$ 456,470	\$ 2,061,762	\$ 0	\$ 6,446,809
Due to Other Funds	14,990,747	470,000	0	0	15,460,747
Payroll Accruals and Withholdings	26,473,164	0	0	0	26,473,164
Unearned Revenues	285,447	0	0	0	285,447
TOTAL LIABILITIES	45,677,935	926,470	2,061,762	0	48,666,167
Deferred Inflows of Resources:					
Unavailable Revenue - Property Taxes	1,761,809	0	0	0	1,761,809
Fund Balances:					
Nonspendable	378,466	0	0	0	378,466
Committed	20,800,000	0	0	0	20,800,000
Assigned	16,928,673	30,911,180	12,814,743	4,380,584	65,035,180
Unassigned	4,926,200	0	0	0	4,926,200
TOTAL FUND BALANCES	43,033,339	30,911,180	12,814,743	4,380,584	91,139,846
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 90,473,083	\$ 31,837,650	\$ 14,876,505	\$ 4,380,584	\$ 141,567,822

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position (Deficit)
June 30, 2019

Total Fund Balances - Governmental Funds	\$ 91,139,846
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Amounts reported for governmental activities in the statement of net position (deficit) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$523,306,513, and the accumulated depreciation is \$111,502,101.	404,533,270
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Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred.	1,761,808
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	(216,669,076)	
Accrued Interest on the Bonds	(1,246,419)	
Net Pension Liability	(419,626,195)	
Accrued Compensated Absences	(673,651)	
Accrued Other Post-Employment Benefits	(29,202,284)	(667,417,625)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund statements.

Deferred Outflows of Resources - Pension Plan	58,651,327	
Deferred Outflows of Resources - OPEB - PSERS	1,522,956	
Deferred Outflows of Resources - OPEB	603,194	
Deferred Inflows of Resources - Pension Plan	(10,501,657)	
Deferred Inflows of Resources - OPEB - PSERS	(888,743)	
Deferred Inflows of Resources - OPEB	(1,057)	49,386,020

TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	\$ (120,596,681)
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The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	General Fund	Capital Projects Fund	Capital Reserve Fund	Debt Service Fund	Total Governmental Funds
Revenues:					
Local Sources:					
Real Estate Taxes	\$ 223,036,676	\$ 0	\$ 0	\$ 0	\$ 223,036,676
Realty Transfer Tax	4,586,521	0	0	0	4,586,521
Earned Income Taxes	210,719	0	0	0	210,719
Earnings from Investments	3,475,003	202,588	256,443	76,205	4,010,239
Other Local Revenues	2,160,112	0	10,550	0	2,170,662
State Sources	39,166,333	0	0	0	39,166,333
Federal Sources	1,982,638	0	0	0	1,982,638
TOTAL REVENUES	274,618,002	202,588	266,993	76,205	275,163,788
Expenditures:					
Instruction	143,877,352	0	0	0	143,877,352
Support Services	75,927,886	0	7,787,421	0	83,715,307
Non-Instructional Services	5,627,793	0	0	0	5,627,793
Capital Outlay	0	4,191,408	1,184,878	0	5,376,286
Debt Service (Principal and Interest)	25,348,754	0	0	0	25,348,754
TOTAL EXPENDITURES	250,781,785	4,191,408	8,972,299	0	263,945,492
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	23,836,217	(3,988,820)	(8,705,306)	76,205	11,218,296
Other Financing Sources Uses:					
Interfund Transfers Out	(37,065,769)	0	0	0	(37,065,769)
Interfund Transfers In	0	34,900,000	0	2,146,706	37,046,706
TOTAL OTHER FINANCING SOURCES (USES)	(37,065,769)	34,900,000	0	2,146,706	(19,063)
NET CHANGE IN FUND BALANCES	(13,229,552)	30,911,180	(8,705,306)	2,222,911	11,199,233
Fund Balances - July 1, 2018	56,262,891	0	21,520,049	2,157,673	79,940,613
FUND BALANCES - JUNE 30, 2019	\$ 43,033,339	\$30,911,180	\$ 12,814,743	\$ 4,380,584	\$ 91,139,846

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2019

Total Net Change in Fund Balances - Governmental Funds	\$ 11,199,233
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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 as depreciation expense. This is the amount by which depreciation expense for the period exceeds capital outlays.

Capital Outlay	\$ 12,408,135	
Depreciation Expense	<u>(11,803,854)</u>	604,281

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

17,415,000

Bond discounts and premiums are reported as revenues or expenditures in the governmental funds when debt is first issued. In the statement of activities, these costs are deferred and amortized. This is the amount amortization exceeds bond discounts and premiums.

170,227

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

(275,612)

Governmental funds report District pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District Pension Contributions	(40,330,173)	
Cost of Benefits Earned Net of Employee Contributions	<u>19,172,313</u>	(21,157,860)

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

Accrued Post-Employment Benefits and Compensated Absences	\$ 999,631	
Accrued Interest on the Bonds	<u>853,888</u>	1,853,519

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 9,808,788</u></u>
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The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Net Position (Deficit)
Proprietary Funds
June 30, 2019

	<u>Food Services</u>
<u>ASSETS</u>	
Current:	
Investments	\$1,567,680
Other Receivables	60,327
Due from Other Funds	283,834
Due from Other Governments	149,124
Inventories	71,595
TOTAL CURRENT ASSETS	<u>2,132,560</u>
Non-Current:	
Furniture and Equipment	142,653
Less: Accumulated Depreciation	<u>(119,554)</u>
TOTAL NON-CURRENT ASSETS	<u>23,099</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows of Resources - Pension Plan	521,138
Deferred Outflows of Resources - OPEB - PSERS	<u>3,977</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>525,115</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u><u>\$2,680,774</u></u>
<u>LIABILITIES</u>	
Current:	
Accounts Payable and Accrued Liabilities	\$ 27,852
Due to Other Funds	235,911
Unearned Revenues	205,946
TOTAL CURRENT LIABILITIES	<u>469,709</u>
Long-Term:	
Net Pension Liability	3,729,805
Net OPEB-PSERS Liability	<u>148,935</u>
TOTAL LONG-TERM LIABILITIES	<u>3,878,740</u>
TOTAL LIABILITIES	<u>4,348,449</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows of Resources - Pension Plan	93,343
Deferred Inflows of Resources - OPEB - PSERS	<u>7,258</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>100,601</u>
<u>NET POSITION (DEFICIT)</u>	
Invested in Capital Assets	23,099
Unrestricted (Deficit)	<u>(1,791,375)</u>
TOTAL NET POSITION (DEFICIT)	<u>(1,768,276)</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	 <u><u>\$2,680,774</u></u>

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Revenues, Expenses and
Changes in Net Position (Deficit)
Proprietary Funds
For the Year Ended June 30, 2019

		<u>Food Services</u>
Operating Revenues:		
Food Service Revenue		\$ 2,850,314
Cost of Sales:		
Inventories - July 1, 2018	\$ 59,979	
Purchases of Food, Milk and Donated Commodities	1,392,546	
COST OF GOODS AVAILABLE FOR SALE	<u>1,452,525</u>	
Less: Inventories - June 30, 2019	<u>71,595</u>	
TOTAL COST OF SALES		<u>1,380,930</u>
GROSS PROFIT		1,469,384
Operating Expenses:		
Payroll	1,163,627	
Employee Benefits	737,099	
Depreciation	8,535	
Other Operating Expenses	<u>147,116</u>	
TOTAL OPERATING EXPENSES		<u>2,056,377</u>
OPERATING LOSS		(586,993)
Non-Operating Revenues:		
Earnings on Investments	38,737	
Federal Subsidies	671,371	
State Subsidies	<u>285,358</u>	
TOTAL NON-OPERATING REVENUES		<u>995,466</u>
INCREASE IN NET POSITION		408,473
Net Position (Deficit) - July 1, 2018		<u>(2,176,749)</u>
NET POSITION (DEFICIT) - JUNE 30, 2019		<u><u>\$ (1,768,276)</u></u>

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

	<u>Food Services</u>
Cash Flows From Operating Activities:	
Cash Received from Users	\$ 2,854,186
Cash Payments to Employees for Services	(2,118,014)
Cash Payments to Suppliers for Goods and Services	(1,537,510)
NET CASH USED BY OPERATING ACTIVITIES	<u>(801,338)</u>
Cash Flows From Non-Capital Financing Activities:	
State Sources	279,634
Federal Sources	622,515
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>902,149</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition of Fixed Assets	<u>(23,199)</u>
Cash Flows From Investing Activities:	
Purchase of Investments/Deposits to Investment Pools	<u>(77,612)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	0
Cash and Cash Equivalents - July 1, 2018	<u>0</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2019	<u><u>\$ 0</u></u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:

Operating Loss	\$ (586,993)
Adjustments to Reconcile Operating Loss to Net Cash	
Used by Operating Activities:	
Depreciation	8,535
Changes in Assets and Liabilities:	
Receivables	1,765
Inventories	(11,616)
Deferred Outflows of Resources	152,758
Accounts Payable and Accrued Liabilities	(121,345)
Deferred Inflows of Resources	58,924
Net Pension Liability	(454,408)
Net OPEB - PSERS Liability	148,935
Unearned Revenues	2,107
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (801,338)</u></u>

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2019

<u>ASSETS</u>	Employee Trust	Private- Purpose Trusts	Agency Funds
Cash and Cash Equivalents	\$ 0	\$ 0	\$ 413,550
Investments	508,844	131,270	15,102,107
Due from Other Funds	0	0	2,107,084
TOTAL ASSETS	\$ 508,844	\$ 131,270	\$ 17,622,741
 <u>LIABILITIES</u>			
Payroll Withholdings	\$ 0	\$ 0	8,162,493
Due to Other Funds	0	0	9,062,263
Due to Student Groups	0	0	397,985
TOTAL LIABILITIES	\$ 0	\$ 0	\$ 17,622,741
 <u>NET POSITION</u>			
Reserved for Scholarships	\$ 0	\$ 131,270	
Reserved for Employee Benefits	508,844	0	
TOTAL LIABILITIES AND NET POSITION	\$ 508,844	\$ 131,270	

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2019

	<u>Employee Trust</u>	<u>Private- Purpose Trusts</u>
Additions:		
Contributions:		
Gifts and Contributions	\$ 72,528	\$ 0
Investment Income:		
Earnings from Investments	<u>9,829</u>	<u>2,609</u>
TOTAL ADDITIONS	<u>82,357</u>	<u>2,609</u>
Deductions:		
Benefits Paid	49,582	3,000
Investment Management Fees	<u>1,461</u>	<u>0</u>
TOTAL DEDUCTIONS	<u>51,043</u>	<u>3,000</u>
CHANGE IN NET POSITION	31,314	(391)
Net Position - July 1, 2018	<u>477,530</u>	<u>131,661</u>
NET POSITION - JUNE 30, 2019	<u>\$ 508,844</u>	<u>\$ 131,270</u>

The accompanying notes are an integral part of this statement.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 1 - Summary of Significant Accounting Policies

Lower Merion School District's (the District's) financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. Reporting Entity

The District is governed by an elected Board of Directors. Accounting principles generally accepted in the United States of America require that the financial statements present the District and its component units, entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the District's operations and so data from these units are required to be combined with data of the primary District. Each discretely presented component unit, on the other hand, is required to be reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the District. Based on the application of these principles, there are no component units presented in the District's financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only a portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major government funds:

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

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets other than those financed by enterprise operations.

Capital Reserve Fund - The Capital Reserve Fund is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for future capital projects.

The District reports the following major proprietary funds:

Food Service Fund - The Food Service Fund (an Enterprise Fund) is used to account for the operations of the District's school cafeterias that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the cost of providing goods or services to the school population on a continuing basis will be recovered or financed primarily through user charges.

Additionally, the District reports the following fund types:

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, or other governments. These include private-purpose trust funds and agency funds. Private-purpose trust funds account for resources, including both principal and earnings, which must be expended in accordance with a trust agreement, and are accounted for in essentially the same manner as proprietary funds. Agency funds are purely custodial and thus do not involve measurement of the results of operations.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. School districts also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

For purposes of the statements of cash flows of proprietary funds, cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

Deposits and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds consistent with sound business practices in the following types of investments:

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

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

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/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of any allowance for uncollectibles. There is no property tax receivable allowance at June 30, 2019.

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied on July 1 and payable in the following periods:

Discount Period - July 1 to August 31 - 2% of Gross Levy

Flat Period - September 1 to October 31

Penalty Period - October 31 to Collection - 10% of Gross Levy

Inventories

Inventories in the Food Service Fund consist of government donated commodities which were valued at estimated fair market value at donation, and purchased commodities and supplies, both valued at cost using the first-in first-out (FIFO) method.

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. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

Land Improvements	20 Years
Buildings	25-50 Years
Furniture and Equipment	5-20 Years
Transportation	10-25 Years

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

Deferred Outflows of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in the government-wide and proprietary funds statement of net position. The District reports deferred outflow of resources related to the deferred amount related to the accumulated decrease in the fair value of hedging derivatives. The District also reports deferred outflows of resources for contributions made to the District's defined benefit pension plans and other post employment benefit plans between the measurement date of the net pension and OPEB liabilities from those plans and the end of the District's fiscal year. No deferred outflows of resources affect the governmental funds financial statements in the current fiscal year.

Deferred Inflows of Resources

The District's statements of net position and its governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported in the District's various statements of net position for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected no later than 60 days after the end of District's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

Compensated Absences

The District's vacation policy provides that administrative employees may carry over vacation time with the approval of the Superintendent. Employees accrue vacation at rates which vary with length of service or job classification. Vacation must be taken in the year subsequent to when it was earned. If separation of service occurs in the year subsequent to earning, then the unused balance of what was earned in the prior year is paid at separation. The liability at June 30 represents vacation earned at that date that will be taken in the subsequent year.

Accrued Severance Pay

Employees that have completed at least ten years of credited School District service that retire under the normal PSERS guidelines shall be eligible for a severance benefit. The benefit the personnel can receive ranges from \$50 up to \$150 for each day of unused sick leave and is available to pay for medical, dental, vision, life insurance, prescriptions, and long-term care insurance. Severance pay is generally liquidated by the General Fund.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred in both the government-wide and fund financial statements.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

Long-Term Obligations (Continued)

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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Bond issuance costs are expensed in the year they are incurred in both the government-wide and fund financial statements.

Government-Wide and Proprietary Fund Net Position

Government-wide and proprietary fund net position are divided into three components:

Invested in Capital Assets, Net of Related Debt - Consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted for: Capital Projects - Consists of the capital projects fund fund-balance that is restricted by the District for capital outlays.

Unrestricted - Consists of all other net position reported in this category.

Governmental Fund Balances

The District has adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions as of July 1, 2010. The intention of the statement is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The statement establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts that can be used only for specific purposes because of state or federal laws, or externally imposed by grantors or creditors.

Committed - Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors resolution. This includes the budget reserve account. In addition, committed amounts cannot be uncommitted except by removing the constraints through the same type of action.

Assigned - Amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

Governmental Fund Balances (Continued)

The Board of Directors establishes (and modifies and rescinds) fund balance commitments by passage of a resolution. The District's policy is to first apply an expenditure toward restricted fund balances followed by committed fund balances and then to assigned fund balances before using unassigned fund balances.

NOTE 2 - Budgetary Information

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

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

1. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the District offices to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The Business Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. Budgeted amounts are as originally adopted, or as amended by the School Board.

NOTE 3 - Deposits and Investments

Deposits - At year end, the total carrying amount of the District's checking, savings, and certificates of deposit (including trust and agency funds) was \$850,903, and the corresponding bank balance was 850,896.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. Of the bank balance, \$750,000 was covered by federal depository insurance. The remaining balances were uninsured and covered by collateral held by the institution's trust department on a pooled basis not in the name of the District.

Investments - Statutes authorize the District to invest in U.S. Government Agency Bonds, time or share accounts, or institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan 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.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 3 - Deposits and Investments (Continued)

All funds in the Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and Pennsylvania Treasurer's Investment Program are invested in accordance with Section 440.1 of the School Code. These funds operate and are authorized under the Intergovernmental Cooperation Act of 1972. Each school district owns a prorata share of each investment or deposit which is held in the name of the Fund. Certificates of deposit or other fixed-term investments purchased by the District through the Fund's administrator are purchased in the name of the District.

Custodial Credit Risk - Investments - For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District has no investment subject to custodial credit risk.

Interest Rate Risk - The District has no formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District has no investment policy that would limit its investment choices to certain credit ratings. The Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and the Pennsylvania Treasurer's Investment Program have AAA Standard & Poor's credit ratings.

Concentration of Credit Risk - The District investment policy states that unless covered by federal deposit insurance, the aggregate amount of deposits in any financial institution shall not exceed the lesser of two-tenths of 1% of the assets of that institution or \$40,000,000 unless fully collateralized by the assets of the institution pledges in the name of the District at market value.

	<u>Credit Rating</u>	<u>Fair Value</u>
<u>Pooled Investments:</u>		
Pennsylvania School District Liquid Asset Fund:		
General Fund Accounts	AAA	\$ 61,432,098
Capital Reserve Fund Account	AAA	8,620,574
Food Service Fund Account	AAA	191,002
Debt Service Fund	AAA	4,375,324
Trust and Agency Account	AAA	15,233,377
TOTAL		<u>89,852,375</u>
Pennsylvania Local Government Investment Trust:		
General Fund Accounts	AAA	4,752,451
Capital Projects Fund Account	AAA	16,937,650
Capital Reserve Fund Account	AAA	6,215,411
Food Service Fund Account	AAA	1,376,678
Trust and Agency Account	AAA	508,844
TOTAL		<u>29,791,034</u>
Pennsylvania Treasurer's Investment Program:		
General Fund Accounts	AAA	1,029,865
Capital Reserve Fund Account	AAA	298
TOTAL		<u>1,030,163</u>
TOTAL POOLED INVESTMENT		<u>\$ 120,673,572</u>

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 4 - Hedging Derivative Instruments

As of June 30, 2019 the District was party to a contract for a derivative instrument. The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2019, classified by type, and the change in fair value of the derivative instrument for the year then ended as reported in the 2019 financial statements is as follows (amounts in thousands):

<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2019</u>		<u>Notional</u>
<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Governmental activities				
Cash flow hedges:				
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ 1,058	Debt \$ (7,139)	\$ 55,315

Fair value - The swap had a negative fair value of \$7,138,875 at June 30, 2019. The fair value of the interest rate swap is derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions.

Objectives and terms - As a means of minimizing interest rate fluctuations, the District entered into an interest rate swap in connection with its \$102 million Series of 2009 adjustable rate general obligation bonds. The intention of the swap was to effectively change the District's variable interest rate on the notes to a synthetic fixed rate of 4.041%.

Terms - The swap agreement terminates on April 1, 2027, but will be subject to earlier termination by the School District. The swap's notional amount of \$60,905,000 represents the notes' total balance outstanding as of the effective date of the swap on February 1, 2009 and is structured to match the principal schedule of the notes. Under the swap, the District pays interest at a fixed rate of 4.041% in exchange for the counterparty's agreement to pay interest at a floating rate equal to the Securities Industry and Financial Markets Association (SIFMA) Swap Index Rate which is designed to match the variable market rate on the bonds. The bond's variable-rate (Market Rate) is determined by the remarketing agent in accordance with defined interest rate adjustment dates, interest rate determination or reset dates, and interest rate periods.

Credit risk - As of June 30, 2019, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and Aa3 by Moody's as of June 30, 2019.

Basis risk - The District is exposed to basis risk on its pay-fixed interest rate swaps because the variable-rate payments received by the District on these hedging derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable-rate debt, which is remarketed every 30 days. As of June 30, 2019, the SIFMA swap index was 1.90 percent and the Market Rate on the bonds was 1.85 percent.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 5 - Taxes Receivable

Taxes receivable as of year end for the District's individual major funds and nonmajor fiduciary funds in the aggregate are as follows:

	General	Nonmajor and Other Funds	Total
Real Estate Taxes	\$ 2,032,204	\$ 0	\$ 2,032,204
Local Services Taxes	36,525	0	36,525
Transfer Taxes	440,591	0	440,591
NET TAXES RECEIVABLE	\$ 2,509,320	\$ 0	\$ 2,509,320

At the end of the current fiscal year, the District reported deferred inflows of resources, related to unavailable real estate and earned income tax revenue, in the amount of \$2,047,256 in the governmental funds.

NOTE 6 - Interfund Receivables, Payables, and Transfers

	Interfund Receivables	Interfund Payables
General Fund	\$ 7,437,958	\$ 14,990,747
Capital Reserve Fund	30,045	0
Capital Projects Fund	14,900,000	470,000
Agency Fund	2,107,084	9,062,263
Food Service Fund	283,834	235,911
	\$ 24,758,921	\$ 24,758,921
	Transfer to Other Funds	Transfer From Other Funds
General Fund	\$ 37,065,769	\$ 0
Capital Reserve	0	0
Capital Projects	0	34,900,000
Debt Service Fund	0	2,146,706
Student Activities Fund (Agency Fund)	0	19,063
	\$ 37,065,769	\$ 37,065,769

The general fund makes interfund transfers to the capital reserve fund to provide funds for future capital outlay, to the debt service fund for future debt service, and to the student activities fund to provide funds for student extra-curricular activities.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 7 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets:				
Land	\$ 19,643,123	\$ 2,986,014	\$ 0	\$ 22,629,137
Land Improvements	3,280,303	2,042,019	0	5,322,322
Buildings	479,006,784	3,383,838	0	482,390,622
Construction in Progress	675,712	1,205,394	(675,710)	1,205,396
Furniture and Equipment	8,197,528	581,089	(849,271)	7,929,346
Transportation	14,938,769	3,904,552	(2,962,084)	15,881,237
TOTAL CAPITAL ASSETS	525,742,219	14,102,906	(4,487,065)	535,358,060
Accumulated Depreciation for:				
Land Improvements	2,257,105	166,855	0	2,423,960
Buildings	106,683,836	9,914,155	0	116,597,991
Furniture and Equipment	6,942,232	450,960	(842,597)	6,550,325
Transportation	5,930,057	1,272,154	(1,949,697)	5,252,514
TOTAL ACCUMULATED DEPRECIATION	121,813,230	11,803,854	(2,792,294)	130,824,790
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$403,928,989	\$ 2,299,052	\$ (1,694,771)	\$ 404,533,270
Business-Type Activities:				
Capital Assets:				
Machinery and Equipment	\$ 119,454	\$ 23,199	\$ 0	\$ 142,653
Accumulated Depreciation for:				
Machinery and Equipment	111,019	8,535	0	119,554
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 8,435	\$ 14,664	\$ 0	\$ 23,099

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

Governmental Activities - Unallocated	\$11,803,854
Business-Type Activities	8,535
TOTAL	\$11,812,389

LOWER MERION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 - Bonds Payable

	Principal Outstanding July 1, 2018	Maturities	Additions (Refinancing)	Principal Outstanding June 30, 2019
General Obligation Note Series of 1989	\$ 13,900,000	\$ 2,100,000	\$ 0	\$ 11,800,000
General Obligation Bonds, Series A & B of 2009	60,905,000	5,590,000	0	55,315,000
General Obligation Bonds, Series A of 2012	38,405,000	2,805,000	0	35,600,000
General Obligation Bonds, Series of 2013	9,785,000	5,000	0	9,780,000
General Obligation Bonds, Series of 2014	9,855,000	110,000	0	9,745,000
General Obligation Bonds, Series A of 2015	8,920,000	410,000	0	8,510,000
General Obligation Bonds, Series B of 2015	31,870,000	2,725,000	0	29,145,000
General Obligation Bonds, Series of 2016	<u>55,100,000</u>	<u>3,670,000</u>	<u>0</u>	<u>51,430,000</u>
TOTAL	228,740,000	17,415,000	0	211,325,000
Less: Deferred Amounts:				
Issuance Premium (Discounts)	11,007,868	(679,248)	0	10,328,620
Refunding Deferred Charge	<u>(5,493,565)</u>	<u>509,021</u>	<u>0</u>	<u>(4,984,544)</u>
LONG-TERM DEBT	<u>\$234,254,303</u>	<u>\$17,244,773</u>	<u>\$ 0</u>	<u>\$216,669,076</u>

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 8 - Bonds Payable (Continued)

	<u>Current Outstanding Principal</u>
General Obligation Note, Series of 1989. Original principal amount of \$30,000,000, maturing August 1, 2023. The note was advanced by Emmaus General Authority under the Bond Pool Program. Interest is charged at a variable rate equal to the Weekly Rate of the underlying bonds plus .35%. The rate at June 30, 2018 was 1.06%.	\$ 11,800,000
General Obligation Bonds, Series A & B of 2009. Original principal amount of \$102,350,000, maturing April 1, 2027, bearing interest at a variable rate equal to the Weekly Rate of the underlying bonds. The rate at June 30, 2018 was 1.11%.	55,315,000
General Obligation Bonds, Series A 2012. Original principal amount of \$47,015,000, maturing November 12, 2028, bearing interest from 2.00% to 5.00%. Interest is paid semi-annually on May 15 and November 15.	35,600,000
General Obligation Bonds, Series 2013. Original principal amount of \$9,810,000, maturing November 15, 2024, bearing interest from 1.00% to 2.00%. Interest is paid semi-annually on May 15 and November 15.	9,780,000
General Obligation Bonds, Series 2014. Original principal amount of \$9,980,000, maturing November 15, 2025, bearing interest from 2.00% to 2.35%. Interest is paid semi-annually on May 15 and November 15.	9,745,000
General Obligation Bonds, Series A of 2015. Original principal amount of \$9,700,000, maturing September 1, 2034, bearing interest from 3.00% to 3.125% Interest is paid semi-annually on March 1 and September 1.	8,510,000
General Obligation Bonds, Series B of 2015. Original principal amount of \$31,880,000, maturing September 1, 2028, bearing interest from 2.00% to 5.00%. Interest is paid semi-annually on March 1 and September 1.	29,145,000
General Obligation Bonds, Series 2016. Original principal amount of \$55,665,000, maturing September 15, 2032, bearing interest from 2.00% to 5.00%. Interest is paid semi-annually on March 15 and September 15.	<u>51,430,000</u>
TOTAL	<u>\$ 211,325,000</u>

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 8 - Bonds Payable (Continued)

The annual requirements to amortize all debts outstanding as of June 30, 2019, are as follows:

<u>Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2020	\$ 6,516,586	\$ 18,920,000	\$ 25,436,586
2021	5,765,267	21,155,000	26,920,267
2022	4,990,990	22,690,000	27,680,990
2023	4,133,592	23,725,000	27,858,592
2024	3,268,876	24,680,000	27,948,876
2025-2029	8,051,351	77,615,000	85,666,351
2030-2034	1,492,310	21,880,000	23,372,310
2035	10,313	660,000	670,313
TOTAL MATURITIES	\$ 34,229,285	\$ 211,325,000	\$ 245,554,285

Swap Payments and Associated Debt

Hedging derivative instrument payments and hedged debt - As of June 30, 2019, aggregate debt service requirements of the District's debt and net receipts/payments on associated hedging derivative instruments are as follows. These amounts assume that current interest rates on variable-rate bonds and current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note 4 for information on derivative instruments.

	<u>Bonds with Associated Derivatives</u>		<u>Interest Rate</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Swap, Net</u>	<u>Totals</u>
2020	5,840,000	1,443,954	1,239,774	8,523,728
2021	6,110,000	1,284,360	1,117,305	8,511,665
2022	6,395,000	1,117,365	989,197	8,501,562
2023	6,700,000	942,518	855,178	8,497,696
2024	7,025,000	567,118	714,818	8,306,936
2025-2027	23,245,000	228,832	1,155,275	24,629,107
	\$ 55,315,000	\$ 5,584,147	\$ 6,071,547	\$ 66,970,694

NOTE 9 - Accrued Post-Employment Benefits and Compensated Absences

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>
Accrued Compensated Absences	\$ 801,646	\$ 0	\$ 127,995	\$ 673,651
Accrued Other Post-Employment Benefits	30,025,855	220,670	895,306	29,351,219
TOTAL	\$30,827,501	\$ 220,670	\$1,023,301	\$ 30,024,870

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 10 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

The District is currently in litigation with former employees of the District regarding wrongful discharge from employment, with taxpayers contesting real estate assessments, and with parents of students regarding educational and disciplinary issues. The amount, if any, of awards or settlements cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

In August 2016 the District received an injunction from the Court of Common Pleas of Montgomery County arising out of a complaint filed by certain plaintiffs regarding past and current real estate tax increases. As part of the injunction, the Court has enjoined the District from enforcing or collecting a real estate tax increase for the fiscal year 2016-17 of over 2.4% than was in effect for the prior fiscal year. The District previously adopted a budget for the 2016-17 fiscal year which included a real estate tax increase of 4.44%. On August 31, 2016, the District formally filed an appeal to the Court's decision. The Commonwealth Court denied the District's appeal on procedural grounds and never addressed the merits of the appeal. The District filed an Application for Allowance of Appeal to the Pennsylvania Supreme Court on July 10 2017. On December 11, 2018, the Supreme Court reversed the Commonwealth Court decision and sent the case back to the Commonwealth Court for consideration of the merits of the appeal. In the meantime, the attorney-plaintiff filed a petition to remove the members of the District's School Board from office with the Montgomery County Court of Common Pleas. He has subsequently attempted to withdraw that petition.

NOTE 11 - Employee Retirement Systems and Pension Plans

Pensions

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

Plan description

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

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 11 - Employee Retirement Systems and Pension Plans (Continued)

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Member Contributions

1. 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.
2. 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.
3. 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.
4. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 11 - Employee Retirement Systems and Pension Plans (Continued)

Employer Contributions

The school districts' 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 \$40,688,465 for the year ended 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 \$423,356,000 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 the System's 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 .8819%, which was a decrease of .0109% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized pension expense of \$25,473,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience	\$ 3,408,000	\$ 6,553,000
Changes in assumptions	7,888,000	0
Net difference between projected and actual investment		
Earnings	2,075,000	0
Changes in proportions	5,113,000	4,042,000
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	40,688,465	0
	<u>\$ 59,172,465</u>	<u>\$ 10,595,000</u>

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 11 - Employee Retirement Systems and Pension Plans (Continued)

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date of \$40,688,465 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year ended June 30:

2019	\$ 10,740,000
2020	4,380,000
2021	(5,613,000)
2022	(1,618,000)
Total	<u>\$ 7,889,000</u>

Changes in Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the System's total pension 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 – 7.25% (includes inflation of 2.75%).
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 11 - Employee Retirement Systems and Pension Plans (Continued)

<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%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 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 presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-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	\$524,781,000	\$423,356,000	\$337,598,000

Pension plan fiduciary net position

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

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 12 - Other Post-Employment Benefits

The District provides post-retirement health care benefits (medical, dental, prescription, vision) to its administrative personnel who retire under normal PSERS guidelines or elect early retirement at age 55 with 25 years of service. The District contributes toward the cost of single health coverage, and the amount of the contribution is based upon the employee's years of service. The District's contribution rate ranges from 50% for employees with 5 years of service to 100% for employees with 15 or more years of service. The lifetime maximum that the District will pay for a retiree's coverage shall not exceed the employee's highest annual salary while working at the District.

The health insurance plan is a single employer, defined benefit OPEB plan. The medical and prescription drug benefits are administered through Independence Blue Cross. Dental and Vision benefits are administered through Delta Dental and Davis Vision, respectively. Separate financial statements are not issued for the plan. The term life insurance is purchased from PSBA (Pennsylvania School Board Association) Insurance Trust.

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 Plan Membership

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

Active Participants	1,546
Vested Former Participants	0
Retired Participants	653
	<u>2,199</u>

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. In the July 1, 2018 actuarial valuation, the following actuarial assumptions were used:

Interest	2.98%
Actuarial Cost Method	Entry Age Normal
Salary Increases	An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75 to 0%

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 12 - Other Post-Employment Benefits (Continued)

Annual OPEB Cost and NET OPEB Liability:

The District's annual other Post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 13 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the District's OPEB liability.

Net OPEB Liability:

Balance as of July 1, 2018	\$ 11,835,855
Service Cost	834,823
Interest Expense	386,365
Difference Between Expected and Actual Experience	(1,466,637)
Changes in Assumptions	(22,993)
Estimated Contributions	(603,194)

NET OPEB LIABILITY AS OF JUNE 30, 2019 \$ 10,964,219

For the year ended June 30, 2019, the District recognized OPEB expense of \$1,034,808. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to net OPEB liability from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Changes in assumptions	\$ 0	\$ 1,057
Benefit payments subsequent to the measurement date	603,194	0
	<u>\$ 603,194</u>	<u>\$ 1,057</u>

The deferred outflows of resources related to the OPEB liability resulting from District contributions subsequent to the measurement date of \$603,194 will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year ended June 30:

2019	\$ 176
2020	176
2021	176
2022	176
2023	176
Thereafter	177
Total	<u>\$ 1,057</u>

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 12 - Other Post-Employment Benefits (Continued)

Sensitivity of the District's proportionate share of the net pension 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 pension 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>1.98%</u>	<u>Current Discount Rate</u> <u>2.98%</u>	<u>1% Increase</u> <u>3.98%</u>
Net OPEB Liability	\$ 12,013,409	\$ 10,964,219	\$ 10,048,995

Sensitivity of the District's proportionate share of the net pension liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability, calculated using the healthcare cost trend rate of 5.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.5%) or 1-percentage point higher (6.5%) than the current rate:

	<u>1% Decrease</u> <u>4.5%</u>	<u>Current Rate</u> <u>5.5%</u>	<u>1% Increase</u> <u>6.5%</u>
Net OPEB Liability	\$10,135,693	\$10,964,219	\$11,929,068

NOTE 13 - Other Post-Employment Benefits (PSERS)

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 provision of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

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
-

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 13 - Other Post-Employment Benefits (PSERS) (Continued)

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 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 \$1,035,933 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$18,387,000 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 .8819%, which was a decrease of .0109% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized OPEB expense of \$829,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience	\$ 114,000	\$ 0
Changes in assumptions	291,000	697,000
Net difference between projected and actual investment		
Earnings	31,000	0
Changes in proportions	55,000	199,001
Difference between employer contributions and proportionate share of total contributions	0	0
Contributions subsequent to the measurement date	1,035,933	0
	<u>\$ 1,526,993</u>	<u>\$ 896,001</u>

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 13 - Other Post-Employment Benefits (PSERS) (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (PSERS) (Continued)

The deferred outflows of resources related to OPEB - PSERS resulting from District contributions subsequent to the measurement date of \$1,035,933 will be recognized as a reduction of the net OPEB - PSERS liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB - PSERS pensions will be recognized in the OPEB - PSERS expense as follows:

Year ended June 30:

2019	\$	85,000
2020		85,000
2021		85,000
2022		90,000
2023		94,000
Thereafter		(34,000)
Total	\$	<u>405,000</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 per age 65 at 50%
- Eligible retiree will elect to participate post age 65 at 70%

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 13 - Other Post-Employment Benefits (PSERS) (Continued)

Actuarial Assumptions (Continued)

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 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-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.

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>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>	

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

Discount Rate (Continued)

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.

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 13 - Other Post-Employment Benefits (PSERS) (Continued)

Sensitivity of the District's proportionate share of the net OPEB - PSERS liability to changes in the 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, retiree's 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 its health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB Liability - PSERS	\$ 18,384,000	\$ 18,387,000	\$ 18,390,000

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

The following presents the net OPEB liability, calculated using the healthcare cost trend rate of 5.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.5%) or 1-percentage point higher (6.5%) than the current rate:

	<u>1% Decrease 1.98%</u>	<u>Current Rate 2.98%</u>	<u>1% Increase 3.98%</u>
Net OPEB Liability - PSERS	\$ 20,911,000	\$ 18,387,000	\$ 16,292,000

OPEB - PSERS plan fiduciary net position

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

LOWER MERION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 14 - Deficit Net Position

A deficit of \$124,361,401 exists in the District-wide net position as of June 30, 2019 (the net pension deficit for governmental activities as of June 30, 2019 is \$122,593,125 and the net position deficit for business-type activities as of June 30, 2019 is \$1,768,276). The deficit is a result of the District's adoption of Government Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, as well as Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

NOTE 15 - Fund Balances - General Fund

Nonspendable:			
Prepaid Expenses			\$ 378,466
Committed:			
Future PSERS Obligations	15,300,000		
Future Postemployment Healthcare Benefits	5,000,000		
Rate Stabilization of Variable Interest Rate Bonds	500,000	20,800,000	
Assigned		16,928,673	
Unassigned		4,926,200	
TOTAL			<u>\$ 43,033,339</u>

NOTE 16- Subsequent Events

The District has evaluated subsequent events through December 23, 2019, which represents the date the financial statements were available to be issued.

In July 2019, the District purchased land located at 1860 Montgomery Avenue in Villanova to accommodate field space for the new middle school. The sale price was \$12,000,000.

In August 2019, the District purchased land located at 1835 County Line Road in Villanova to accommodate field space for the new middle school. The sale price was \$9,950,000.

In August 2019, the District issued General Obligation Bonds, Series of 2019, in the principal amount of \$24,470,000 for the purpose of funding a portion of a new middle school and a new athletic fields and improvements to related facilities and grounds.

In August 2019, the District issued General Obligation Bonds, Series A of 2019, in the principal amount of \$18,950,000 for the purpose of refunding the General Obligation Bonds, Series of 2013, and the General Obligation Bonds, Series of 2014.

In November 2019, the District remarketed the General Obligation Bonds Series A & B of 2009 and terminated the interest rate swap agreement.

LOWER MERION SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Local Revenues	\$ 228,737,074	\$ 228,737,074	\$233,469,031	\$ 4,731,957
State Program Revenues	39,003,004	39,003,004	39,166,333	163,329
Federal Program Revenues	1,458,679	1,458,679	1,982,638	523,959
TOTAL REVENUES	<u>269,198,757</u>	<u>269,198,757</u>	<u>274,618,002</u>	<u>5,419,245</u>
Expenditures:				
Regular Programs	107,346,353	100,142,353	100,139,182	3,171
Special Programs	46,267,537	42,176,037	42,176,030	7
Vocational Programs	525,000	368,200	368,200	0
Other Instructional Programs	1,091,398	1,194,453	1,193,940	513
Pupil Personnel Services	10,483,188	9,822,888	9,822,851	37
Instructional Staff Services	7,121,169	6,321,169	6,319,290	1,879
Administrative Services	13,976,539	14,122,539	14,122,306	233
Pupil Health	4,098,061	3,672,861	3,670,182	2,679
Business Services	1,328,577	1,776,577	1,776,236	341
Operation and Maintenance of				
Plant Services	18,924,950	19,207,950	19,207,154	796
Student Transportation Services	14,392,298	13,758,098	13,757,903	195
Central and Other Support Services	7,486,878	7,252,078	7,251,964	114
Student Activities	5,552,721	5,390,721	5,390,326	395
Community Services	220,000	238,000	237,467	533
Debt Service	26,057,398	25,349,856	25,348,754	1,102
TOTAL EXPENDITURES	<u>264,872,067</u>	<u>250,793,780</u>	<u>250,781,785</u>	<u>11,995</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>4,326,690</u>	<u>18,404,977</u>	<u>23,836,217</u>	<u>5,431,240</u>
Other Financing Uses:				
Budgetary Reserve	(800,000)	0	0	0
Interfund Transfers Out	(22,187,482)	(37,065,769)	(37,065,769)	0
Refunds of Prior Years' Revenues	0	0	0	0
TOTAL OTHER FINANCING USES	<u>(22,987,482)</u>	<u>(37,065,769)</u>	<u>(37,065,769)</u>	<u>0</u>
NET CHANGE IN FUND BALANCES	<u>\$ (18,660,792)</u>	<u>\$ (18,660,792)</u>	<u>(13,229,552)</u>	<u>\$ 5,431,240</u>
Fund Balance - July 1, 2018			56,262,891	
FUND BALANCE - JUNE 30, 2019			<u>\$ 43,033,339</u>	

LOWER MERION SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2019

<u>Year Ended</u>	<u>District's Proportion of the Net Pension Liability (Asset)</u>	<u>District's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>District's Covered Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2014	0.8504%	\$ 336,594,000	\$ 108,521,471	310.16%	54.49%
June 30, 2015	0.8798%	381,089,000	113,197,880	336.66%	57.24%
June 30, 2016	0.8892%	440,659,000	115,166,003	382.63%	54.36%
June 30, 2017	0.8928%	440,940,000	118,860,782	370.97%	50.14%
June 30, 2018	0.8819%	423,356,000	118,766,849	356.46%	51.84%

LOWER MERION SCHOOL DISTRICT
Schedule of the District's Pension Contributions
For the Year Ended June 30, 2019

<u>Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Excess/ (Deficiency)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2014	\$ 16,941,000	\$ (16,941,000)	\$ 0	\$ 108,521,471	15.61%
June 30, 2015	22,717,000	(22,717,000)	0	113,197,880	20.07%
June 30, 2016	28,289,000	(28,289,000)	0	115,166,003	24.56%
June 30, 2017	34,492,626	(34,492,626)	0	118,860,782	29.02%
June 30, 2018	40,688,466	(40,688,466)	0	118,860,782	34.23%

LOWER MERION SCHOOL DISTRICT

Schedule of Changes in Net OPEB Liability and Related Ratios (Unaudited)

For the Year Ended June 30, 2019

Total OPEB Liability:		
Service Cost	\$	834,823
Interest		386,365
Changes of Benefit Terms		0
Differences Between Expected and Actual Experience		(1,466,637)
Changes of Assumptions		(22,993)
Benefit Payments		(603,194)
NET CHANGE IN TOTAL POLICE PENSION LIABILITY		(871,636)
Total Net OPEB Liability - Beginning	\$	11,835,855
TOTAL NET OPEN LIABILITY - ENDING	\$	10,964,219
Covered Employee Payroll	\$	114,511,540
Net OPEB Liability as a Percentage of Covered Employee Payroll		9.57%

LOWER MERION SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the OPEB - PSERS Liability
For the Year Ended June 30, 2019

<u>Year Ended</u>	<u>District's Proportion of the Net OPEB - PSERS Liability (Asset)</u>	<u>District's Proportionate Share of the Net OPEB - PSERS Liability (Asset)</u>	<u>District's Covered Payroll</u>	<u>Net OPEB - PSERS Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of the Total OPEB - PSERS Liability</u>
June 30, 2018	0.8819%	\$ 18,387,000	\$ 118,766,849	15.48%	51.84%

LOWER MERION SCHOOL DISTRICT
Schedule of the District's OPEB - PSERS Contributions
For the Year Ended June 30, 2019

<u>Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Excess/ (Deficiency)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	\$ 980,441	\$ (980,441)	\$ 0	\$ 118,860,782	0.82%