



**Central Montco
Technical High School
Plymouth Meeting,
Pennsylvania
Montgomery County**

Financial Statements
Year Ended June 30, 2017



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CENTRAL MONTCO TECHNICAL HIGH SCHOOL

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INDEPENDENT AUDITOR'S REPORT

**Joint Operating Committee
Central Montco Technical High School
Plymouth Meeting, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Central Montco Technical High School, Plymouth Meeting, Pennsylvania, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Central Montco Technical High School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Central Montco Technical High School, Plymouth Meeting, Pennsylvania, as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Central Montco Technical High School's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 2, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule – General Fund and the schedules of the Technical School's proportionate share of net pension liability and pension plan contributions on pages 3 through 9 and pages 38 through 40 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 October 13, 2017, on our consideration of the Central Montco Technical High School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Central Montco Technical High School's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
October 13, 2017**

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Management's discussion and analysis ("**MD&A**") of the financial performance of Central Montco Technical High School, Plymouth Meeting, Pennsylvania (the "**Technical School**") provides an overview of the Technical School's financial performance for fiscal year ended June 30, 2017. Readers should also review the basic financial statements and related notes to enhance their understanding of the Technical School's financial performance.

TECHNICAL SCHOOL PROFILE

The Technical School is a vocational-technical school, located in Montgomery County, Pennsylvania, serving Colonial, Norristown Area and Upper Merion Area School Districts and consists of approximately 600 students. There are approximately 44 employees at the Technical School including 23 teachers, 3 administrators and 18 support personnel, including secretaries, clerks, maintenance and custodial staff and instructional aides.

The mission of the Technical School is to deliver technical and academic programs that meet the needs of our students and prospective employers. This will be accomplished through a perpetual improvement system that ensures stakeholders an educated, competent individual capable of contributing to the welfare of the community.

FINANCIAL HIGHLIGHTS

- On a government-wide basis, including all governmental activities, the liabilities and deferred inflows of resources of the Technical School exceeded assets and deferred outflows of resources of the Technical School resulting in a deficit in total net position at the close of the 2016-2017 fiscal year of \$2,054,066. During the 2016-2017 fiscal year the Technical School had an increase in total net position of \$607,029.
- The General Fund reported no change in its fund balance and its fund balance was \$300,001 at the conclusion of the 2016-2017 fiscal year.
- At June 30, 2017, all of the General Fund fund balance was unassigned and represented 3.08% of the 2017-2018 General Fund expenditures budget of \$9,755,255.
- The Capital Projects Fund reported a decrease in fund balance of \$156,051, resulting in a fund balance of \$260,021 at June 30, 2017.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

The Statement of Activities presents information showing how the Technical School's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

In the government-wide financial statements, all of the Technical School's activities are classified as governmental activities and include its basic services such as vocational education, support services, maintenance and administration.

The government-wide financial statements can be found on Pages 10 and 11 of this report.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

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

The governmental fund financial statements can be found on Pages 12 through 15 of this report.

Proprietary Funds

The Technical School maintains one proprietary fund – an internal service fund. Internal service funds are used to accumulate and allocate certain costs internally among the Technical School's various functions. The Technical School uses an internal service fund to account for its participation in a consortium with other participating school districts and educational agencies to provide self-insurance programs for health and prescription insurance coverage. Because the internal service fund predominantly benefits governmental functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements provide separate financial information for the Internal Service Fund and can be found on Pages 16 through 18 of this report.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Fiduciary Funds

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

The fiduciary fund financial statements can be found on Pages 19 and 20 of this report.

Notes to the Financial Statements

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

The notes to the financial statements can be found on pages 21 through 37 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the general fund and schedules of net pension liability and pension plan contributions. The required supplementary information can be found on pages 38 through 40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the Technical School's financial condition. At the close of the 2016-2017 fiscal year the Technical School's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$2,054,066. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the Technical School at June 30, 2017 and 2016.

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets	\$ 2,992,302	\$ 3,225,191
Noncurrent assets	<u>18,958,499</u>	<u>19,368,213</u>
Total assets	<u>21,950,801</u>	<u>22,593,404</u>
DEFERRED OUTFLOWS		
Deferred amount on debt refunding	417,500	470,593
Deferred charges - pension	<u>2,324,131</u>	<u>910,042</u>
Total deferred outflows	<u>2,741,631</u>	<u>1,380,635</u>
LIABILITIES		
Current liabilities	2,343,332	2,653,121
Noncurrent liabilities	<u>24,082,061</u>	<u>23,757,415</u>
Total liabilities	<u>26,425,393</u>	<u>26,410,536</u>
DEFERRED INFLOWS		
Deferred credits – pension	<u>321,105</u>	<u>224,598</u>
NET POSITION (DEFICIT)		
Net investment in capital assets	9,351,666	8,536,115
Restricted	260,021	416,072
Unrestricted (deficit)	<u>(11,665,753)</u>	<u>(11,613,282)</u>
Total net position (deficit)	<u>\$ (2,054,066)</u>	<u>\$ (2,661,095)</u>

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

The Technical School's total assets as of June 30, 2017 were \$21,950,801 of which \$2,540,034 or 11.57% consisted of cash and \$18,958,499 or 86.37% consisted of the Technical School's investment in capital assets. The Technical School's total liabilities as of June 30, 2017 were \$26,425,393 of which \$9,520,000 or 36.03% consisted of a lease rental payable, proceeds from which were used to acquire and construct capital assets and \$13,727,241 or 51.95% consisted of the actuarially determined net pension liability.

The Technical School had a deficit in unrestricted net position of \$11,665,752 as of June 30, 2017. The Technical School's unrestricted net position decreased by \$52,471 during 2016-2017 primarily due to change in the Technical School's actuarially determined net pension liability.

A portion of the Technical School's net position reflects its restricted net position which totaled \$260,021 as of June 30, 2017. All of the Technical School's restricted net position is related to amounts restricted for capital expenditures.

The largest portion of the Technical School's net position reflect its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The Technical School uses these capital assets to provide services to students of the Technical School; consequently, these assets are not available for future spending. Although the Technical School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. During 2016-2017, the Technical School's net investment in capital assets increased by \$815,551 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were purchased with funding sources other than long-term debt.

The following table presents condensed information for the *Statement of Activities* of the Technical School for 2017 and 2016:

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
REVENUES		
Program revenues		
Charges for services	\$ 97,253	\$ 112,830
Operating grants and contributions	2,841,209	2,752,940
Capital grants and contributions	224,870	443,331
General revenues		
Receipts from member districts	5,204,956	5,559,424
Receipts from nonmember districts	387,200	484,460
Investment earnings	<u>4,795</u>	<u>3,296</u>
Total revenues	<u>8,760,283</u>	<u>9,356,281</u>
EXPENSES		
Instruction	4,323,635	4,769,720
Instructional student support services	906,260	913,828
Administrative and financial support services	1,343,055	1,320,254
Operation and maintenance of plant services	1,177,472	1,196,192
Student activities	57,246	51,930
Community services	3,706	2,218
Interest and amortization related to long-term debt	<u>341,880</u>	<u>365,455</u>
Total expenses	<u>8,153,254</u>	<u>8,619,597</u>
CHANGE IN NET POSITION (DEFICIT)	<u>\$ 607,029</u>	<u>\$ 736,684</u>

Overall, the Technical School's financial position continues to improve but challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts have a potential to offset those gain in future years. Management of the Technical School continues to aggressively implement cost efficiencies and revenue generating strategies to combat these factors.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

GOVERNMENTAL FUNDS

The governmental fund financial statements provide detailed information of the Technical School's major funds. Some funds are required to be established by State statute while other funds are established by the Technical School to manage monies restricted for a specific purpose. As of June 30, 2017, the Technical School's governmental funds reported a combined fund balance of \$560,022 which is a decrease of \$156,051 from the prior year. The following table summarizes the Technical School's total governmental fund balances as of June 30, 2017 and 2016 and the total 2016 change in governmental fund balances.

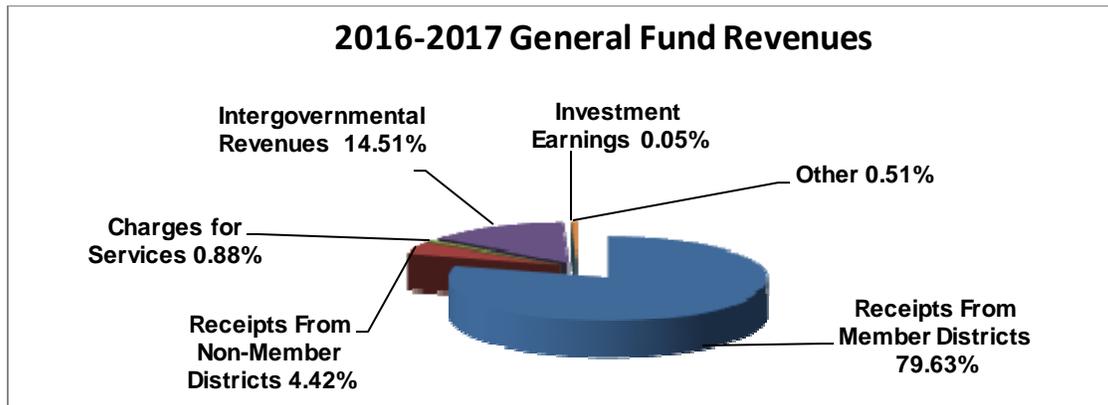
	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>
General Fund	\$300,001	\$300,001	\$ -
Capital Projects Fund	<u>260,021</u>	<u>416,072</u>	<u>(156,051)</u>
	<u>\$560,022</u>	<u>\$716,073</u>	<u>\$(156,051)</u>

GENERAL FUND

The General Fund is the Technical School's primary operating fund. At both June 30, 2017 and 2016, the General Fund fund balance was \$300,001. The General Fund's fund balance is maintained at approximately \$300,000 as approved by the participating school districts. Any annual excess or deficiency above \$300,000 is allocated to each participating school district and recorded as due to or from member school districts at year end.

The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2016-2017 fiscal year.

The Technical School's reliance upon receipts from member districts is demonstrated by the graph below that indicates 79.63% of General Fund revenues are derived from this source.



General Fund Revenues and Other Financing Sources

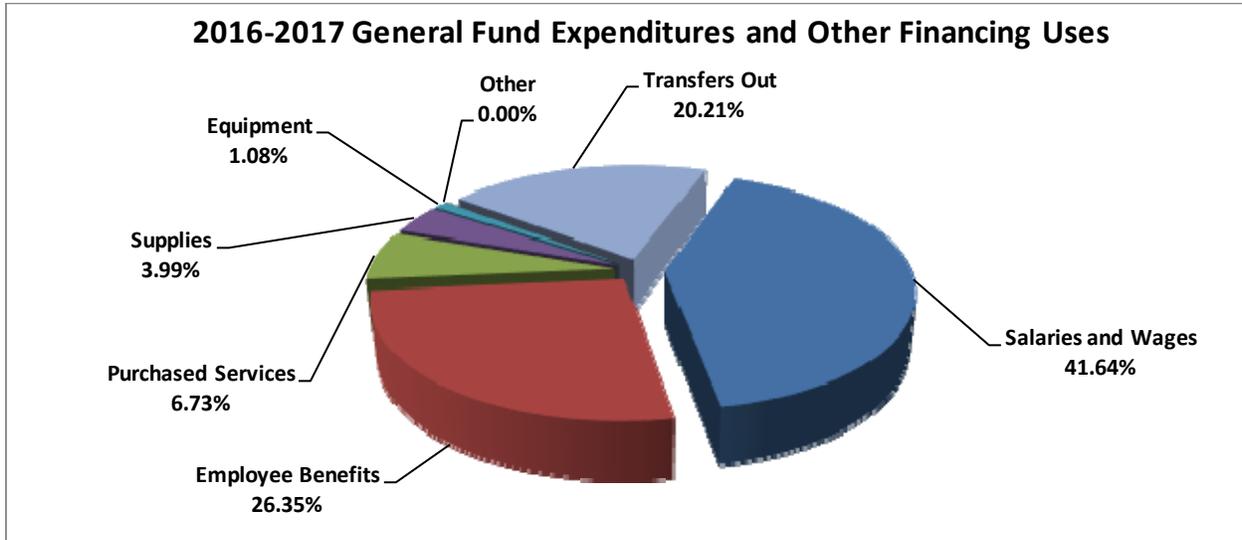
	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Receipts from member districts	\$6,975,131	\$7,223,099	\$(247,968)	(3.43)
Receipts from nonmember districts	387,200	484,460	(97,260)	(20.08)
Charges for services	77,382	86,159	(8,777)	(10.19)
Intergovernmental revenues	1,271,036	1,206,106	64,930	5.38
Investment earnings	4,439	2,921	1,518	51.97
Miscellaneous	<u>44,742</u>	<u>53,159</u>	<u>(8,417)</u>	<u>(15.84)</u>
	<u>\$8,759,930</u>	<u>\$9,055,904</u>	<u>\$(295,974)</u>	<u>(3.27)</u>

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The Technical School is an educational entity and as such is labor intensive.



General Fund Expenditures and Other Financing Uses

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$3,647,691	\$3,663,831	\$ (16,140)	(0.44)
Employee benefits	2,307,988	2,463,313	(155,325)	(6.31)
Purchased services	589,698	561,100	28,598	5.10
Supplies	349,365	356,673	(7,308)	(2.05)
Equipment	94,890	146,915	(52,025)	(35.41)
Other	122	397	(275)	(69.27)
Transfers out	<u>1,770,175</u>	<u>1,863,675</u>	<u>(93,500)</u>	<u>(5.02)</u>
	<u>\$8,759,929</u>	<u>\$9,055,904</u>	<u>\$ (295,975)</u>	<u>(3.27)</u>

Transfers out represent transfers to the Capital Projects Fund to subsidize debt service requirements under the Technical School's lease rental payable and capital expenditures.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for the construction and renovation activity associated with the Technical School's buildings and major equipment purchases. The Capital Projects Fund received the majority of its revenues from the issuance of long term debt, transfers from the General Fund and special assessments to member districts. The Capital Projects Fund fund balance decreased by \$156,051. The remaining fund balance of \$260,021 as of June 30, 2017 is restricted for future capital expenditures.

GENERAL FUND BUDGET INFORMATION

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

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

CAPITAL ASSETS

The Technical School's net investment in capital assets for its governmental activities as of June 30, 2017 amounted to \$18,958,499, net of accumulated depreciation. This net investment in capital assets includes land, site improvements, buildings and building improvements, furniture and equipment and vehicles. The total decrease in the Technical School's investment in capital assets for the current fiscal year was \$409,714 or 2.12%. Current year capital additions were \$422,528 and depreciation expense was \$832,242.

Major capital additions for the current fiscal year included in the following:

- | | |
|--|-----------|
| • Roof Project Phase II | \$356,407 |
| • Instructional and technology equipment | \$ 57,400 |

NONCURRENT LIABILITIES

The Technical School has entered into a lease rental payable arrangement with the State Public School Building Authority to finance renovations, additions and improvements to the Technical School's existing facilities. Payment of the lease rental payable has been guaranteed by participating member districts. The lease rental payable including net premiums was \$10,024,333 at June 30, 2017 and decreased by \$1,278,358 or 11.31% in the current fiscal year.

The Technical School reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. The Technical School's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$13,727,241 as of June 30, 2017. The Technical School's net pension liability increased by \$1,599,241 or 13.19% during the fiscal year.

Other noncurrent liabilities consist of the Technical School's liability for compensated absences which totaled \$330,487 as of June 30, 2017. This liability increased by \$3,763 or 1.15% during the current fiscal year.

FACTORS BEARING ON THE TECHNICAL SCHOOL'S FUTURE

- The Technical School adopted a balanced 2017-2018 budget totaling \$9,755,255.
- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("**House Bill 2497**") into law. The legislation is now known as Act 120 of 2010. House bill 2497 includes a series of actuarial and funding changes to the public school employee's retirement system ("**PSERS**") and benefit reductions for individuals who become new member of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation the employer contribution rate for 2018-2019 is projected at 34.18%. Currently, the employer contribution rate for 2017-2018 is 32.57% which is an increase of 8.46% from the 2016-2017 employer contribution rate of 30.03%. The increase in the employer contribution rate in 2017-2018 is estimated to increase the Technical School's retirement expense by approximately \$91,000, of which the Technical School's share is \$45,500.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Technical School's finances for all those with an interest in the Technical School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Central Montco Technical High School, 821 Plymouth Road, Plymouth Meeting, Pennsylvania 19462.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2017 with comparative totals for 2016

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
CURRENT ASSETS		
Cash	\$ 2,540,034	\$ 2,748,441
Due from nonmember school districts	205,201	289,164
Due from other governments	247,067	187,586
Total current assets	<u>2,992,302</u>	<u>3,225,191</u>
NONCURRENT ASSETS		
Capital assets, net	18,958,499	19,368,213
Total assets	<u>21,950,801</u>	<u>22,593,404</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refunding	417,500	470,593
Deferred charges on proportionate share of pension	2,324,131	910,042
Total deferred outflows of resources	<u>2,741,631</u>	<u>1,380,635</u>
LIABILITIES , DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES		
Due to member school districts	1,382,385	1,345,923
Accounts payable	53,509	30,555
Accrued salaries, payroll withholdings and benefits	864,571	1,230,747
Accrued interest payable	42,867	45,896
Total current liabilities	<u>2,343,332</u>	<u>2,653,121</u>
NONCURRENT LIABILITIES		
Due within one year	1,298,358	1,278,358
Due in more than one year	22,783,703	22,479,057
Total noncurrent liabilities	<u>24,082,061</u>	<u>23,757,415</u>
Total liabilities	<u>26,425,393</u>	<u>26,410,536</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred credits on proportionate share of pension	321,105	224,598
NET POSITION (DEFICIT)		
Net investment in capital assets	9,351,666	8,536,115
Restricted	260,021	416,072
Unrestricted (deficit)	(11,665,753)	(11,613,282)
Total net position (deficit)	<u>\$ (2,054,066)</u>	<u>\$ (2,661,095)</u>

See accompanying notes

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

STATEMENT OF ACTIVITIES

Year ended June 30, 2017 with comparative totals for 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position (Deficit)</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
					<u>2017</u>	<u>2016</u>
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 4,323,635	\$ 97,253	\$ 981,725	\$ 224,870	\$ (3,019,787)	\$ (3,264,973)
Instructional student support services	906,260	-	71,800	-	(834,460)	(835,272)
Administrative and financial support services	1,343,055	-	115,374	-	(1,227,681)	(1,207,187)
Operation and maintenance of plant services	1,177,472	-	97,460	-	(1,080,012)	(1,148,316)
Student activities	57,246	-	4,675	-	(52,571)	(50,750)
Community services	3,706	-	-	-	(3,706)	(2,218)
Interest and amortization related to noncurrent liabilities	341,880	-	1,570,175	-	1,228,295	1,198,220
Total government activities	<u>\$ 8,153,254</u>	<u>\$ 97,253</u>	<u>\$ 2,841,209</u>	<u>\$ 224,870</u>	<u>(4,989,922)</u>	<u>(5,310,496)</u>
GENERAL REVENUES						
Receipts from member districts					5,204,956	5,559,424
Receipts from nonmember districts					387,200	484,460
Investment earnings					4,795	3,296
Total general revenues					<u>5,596,951</u>	<u>6,047,180</u>
CHANGE IN NET POSITION (DEFICIT)					607,029	736,684
NET POSITION (DEFICIT)						
Beginning of year					<u>(2,661,095)</u>	<u>(3,397,779)</u>
End of year					<u>\$ (2,054,066)</u>	<u>\$ (2,661,095)</u>

See accompanying notes

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017 with comparative totals for 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
ASSETS				
Cash	\$ 2,380,013	\$ 160,021	\$ 2,540,034	\$ 2,748,441
Due from other funds	-	100,000	100,000	-
Due from nonmember school districts	205,201	-	205,201	289,164
Due from other governments	<u>247,067</u>	<u>-</u>	<u>247,067</u>	<u>187,586</u>
Total assets	<u>\$ 2,832,281</u>	<u>\$ 260,021</u>	<u>\$ 3,092,302</u>	<u>\$ 3,225,191</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to member school districts	\$ 1,382,385	-	\$ 1,382,385	\$ 1,345,923
Accounts payable	53,509	-	53,509	30,555
Due to other funds	300,000	-	300,000	400,000
Accrued salaries, payroll withholdings and benefits	<u>796,386</u>	<u>-</u>	<u>796,386</u>	<u>732,640</u>
Total liabilities	<u>2,532,280</u>	<u>-</u>	<u>2,532,280</u>	<u>2,509,118</u>
FUND BALANCES				
Restricted to capital projects	-	260,021	260,021	416,072
Unassigned	<u>300,001</u>	<u>-</u>	<u>300,001</u>	<u>300,001</u>
Total fund balances	<u>300,001</u>	<u>260,021</u>	<u>560,022</u>	<u>716,073</u>
Total liabilities and fund balances	<u>\$ 2,832,281</u>	<u>\$ 260,021</u>	<u>\$ 3,092,302</u>	<u>\$ 3,225,191</u>

See accompanying notes

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

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

June 30, 2017

TOTAL GOVERNMENTAL FUND BALANCES	\$ 560,022
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 in the governmental funds balance sheet.	18,958,499
Deferred outflows of resources for deferred amount on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position (deficit).	417,500
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.	2,003,026
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds balance sheet.	(24,082,061)
Accrued interest payable on long-term liabilities is included in the government-wide statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	(42,867)
The Internal Service Fund is used by management to charge the cost of health and prescription insurance premiums and claims to the General Fund. The assets and liabilities of the Internal Service Fund are included in the government activities on the government-wide statement of net position (deficit).	<u>131,815</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (2,054,066)</u>

See accompanying notes

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

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

Year ended June 30, 2017 with comparative totals for 2016

	General Fund	Capital Projects Fund	Totals	
			2017	2016
REVENUES				
Local sources				
Receipts from member school districts	\$ 6,975,131	\$ -	\$ 6,975,131	\$ 7,523,099
Receipts from nonmember school districts	387,200	-	387,200	484,460
Other	101,693	356	102,049	116,125
State sources	1,004,400	-	1,004,400	963,569
Federal sources	291,506	-	291,506	269,026
Total revenues	<u>8,759,930</u>	<u>356</u>	<u>8,760,286</u>	<u>9,356,279</u>
EXPENDITURES				
Current				
Instruction	3,885,752	-	3,885,752	4,198,421
Support services	3,048,248	-	3,048,248	2,944,985
Operation of noninstructional services	55,755	-	55,755	48,527
Facilities acquisition, construction and improvement services	-	356,407	356,407	666,900
Debt service	-	1,570,175	1,570,175	1,563,675
Total expenditures	<u>6,989,755</u>	<u>1,926,582</u>	<u>8,916,337</u>	<u>9,422,508</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,770,175</u>	<u>(1,926,226)</u>	<u>(156,051)</u>	<u>(66,229)</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	-	-	-	(296)
Transfers in	-	1,770,175	1,770,175	1,863,675
Transfers out	(1,770,175)	-	(1,770,175)	(1,863,675)
Total other financing sources (uses)	<u>(1,770,175)</u>	<u>1,770,175</u>	<u>-</u>	<u>(296)</u>
NET CHANGE IN FUND BALANCES	-	(156,051)	(156,051)	(66,525)
FUND BALANCES				
Beginning of year	300,001	416,072	716,073	782,598
End of year	<u>\$ 300,001</u>	<u>\$ 260,021</u>	<u>\$ 560,022</u>	<u>\$ 716,073</u>

See accompanying notes

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

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

Year ended June 30, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (156,051)

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

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

Capital outlay expenditures	\$ 422,528	
Depreciation expense	<u>(832,242)</u>	(409,714)

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

Repayment of lease rental payable	1,205,000	
Amortization of premiums and deferred amount on refunding	<u>20,265</u>	1,225,265

Some expenses are reported in the statement of activities but are not reported as expenditures in the governmental funds because they do not require the use of current financial resources.

Current year change in accrued interest payable	3,029	
Current year change in compensated absences	(3,763)	
Current year change in net pension liability and deferred outflows and inflows	<u>(281,659)</u>	(282,393)

The Internal Service Fund is used by management to charge the cost of health and prescription insurance premiums and claims to the General Fund. The change in net position of the Internal Service Fund is included in the governmental activities on the government-wide statement of activities.

229,922

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ 607,029

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUND

June 30, 2017 with comparative totals for 2016

	<u>Internal Service Fund</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Due from other funds	<u>\$ 200,000</u>	<u>\$ 400,000</u>
Total assets	<u>200,000</u>	<u>400,000</u>
LIABILITIES AND NET POSITION (DEFICIT)		
LIABILITIES		
Insurance claims payable	<u>68,185</u>	<u>498,107</u>
Total liabilities	<u>68,185</u>	<u>498,107</u>
NET POSITION (DEFICIT)		
Unrestricted	<u>\$ 131,815</u>	<u>\$ (98,107)</u>

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) - PROPRIETARY FUND

Year ended June 30, 2017 with comparative totals for 2016

	<u>Internal Service Fund</u>	
	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Charges for services	<u>\$ 756,396</u>	<u>\$ 1,522,211</u>
OPERATING EXPENSES		
Employee benefits	503,044	1,683,978
Purchased professional and technical services	<u>23,430</u>	<u>67,161</u>
Total operating expenses	<u>526,474</u>	<u>1,751,139</u>
CHANGE IN NET POSITION (DEFICIT)	229,922	(228,928)
NET POSITION (DEFICIT)		
Beginning of year	<u>(98,107)</u>	<u>130,821</u>
End of year	<u>\$ 131,815</u>	<u>\$ (98,107)</u>

See accompanying notes

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year ended June 30, 2017 with comparative totals for 2016

	<u>Internal Service Fund</u>	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for assessments made to other fund	\$ 956,396	\$ 1,293,518
Cash payments for insurance claims	(932,966)	(1,226,357)
Cash payments for other operating expenses	<u>(23,430)</u>	<u>(67,161)</u>
Net cash provided by operating activities	<u>-</u>	<u>-</u>
CASH		
Beginning of year	<u>-</u>	<u>-</u>
Ending of year	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 229,922	\$ (228,928)
Adjustments to reconcile operating income to net cash provided by operating activities		
(Increase) decrease in		
Due from other funds	200,000	(400,000)
Prepaid expenses	-	171,307
Increase (decrease) in		
Insurance claims payable	<u>(429,922)</u>	<u>457,621</u>
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2017

	Private- Purpose Fund	Agency
ASSETS		
Cash	\$ 104,714	\$ 109,919
Investments	<u>120,324</u>	<u>-</u>
Total assets	<u>225,038</u>	<u>\$ 109,919</u>
LIABILITIES		
Accounts payable	10,100	-
Due to student groups	<u>-</u>	<u>109,919</u>
Total liabilities	<u>10,100</u>	<u>\$ 109,919</u>
NET POSITION		
Net position held in trust for scholarships	<u>\$ 214,938</u>	

See accompanying notes

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND

Year ended June 30, 2017 with comparative totals for 2016

	Private-Purpose Trust	
	<u>2017</u>	<u>2016</u>
ADDITIONS		
Local contributions	\$ -	\$ 450
Investment income (loss)	<u>(10,836)</u>	<u>25,758</u>
Total additions	<u>(10,836)</u>	<u>26,208</u>
DEDUCTIONS		
Scholarships awarded and fees paid	<u>6,750</u>	<u>6,200</u>
CHANGE IN NET POSITION	(17,586)	20,008
NET POSITION		
Beginning of year	<u>232,524</u>	<u>212,516</u>
End of year	<u>\$ 214,938</u>	<u>\$ 232,524</u>

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Central Montco Technical High School (the "**Technical School**") is a joint venture of three public school Technical Schools in Montgomery County, Pennsylvania, which was formed to provide vocational and technical education programs for students of member districts and various nonmember districts. Member districts consist of the Colonial, Norristown Area and Upper Merion Area School Technical Schools. The Technical School operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the school laws of Pennsylvania. The Technical School operates under the Joint Operating Committee (the "**JOC**") which is comprised of School Board members from each member district.

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

Reporting Entity

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

Basis of Presentation

Government-Wide Financial Statements

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

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

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

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

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Revenue Recognition

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

Expenditure Recognition

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

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Proprietary Funds

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

The Internal Service Fund is used to account for the Technical School's participation in a consortium with other participating school districts and educational agencies to provide self-insurance programs for health and prescription coverage.

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

Fiduciary Funds

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

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value based upon quoted market prices.

Fair Value Measurements of Assets and Liabilities

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

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

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

Receipts from Member Districts

Each participating member district is responsible for its proportionate share of the Technical School's expenditures. Operating expenditures are allocated to each member district in proportion to the average daily membership of students attending the Technical School from each member district. Debt service expenditures are allocated based upon an agreed-upon allocation by the member districts.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the Technical School is depreciated using the straight-line method over the following estimated useful lives: site improvements – 15-30 years, buildings and improvements – 20-40 years, furniture and equipment – 5-20 years and vehicles – 8-20 years.

Impairment of Long-Lived Assets

The Technical School evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the Technical School. No impairment losses were recognized in the year ended June 30, 2017.

Compensated Absences

Technical School policies permit employees to accumulate earned but unused sick days. The liability for this compensated absence is recorded as a noncurrent liability in the government-wide financial statements. The portion of the liability resulting from employee resignations and retirements, if applicable, is reported as a liability in the governmental funds' financial statements.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Long-Term Obligations

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

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

Fund Equity

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

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

Unassigned

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

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Use of Estimates

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Technical School's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the Technical School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Implementation of New Accounting Pronouncements

Effective July 1, 2016, the Technical School adopted the provisions of GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", GASB Statement No. 74 "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", GASB Statement No. 77, "*Tax Abatement Disclosures*"; GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*" and GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*".

The objective of GASB Statement No. 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77 is intended to improve financial reporting by requiring governments that enter into tax abatement agreements to disclose certain information about the agreements. The implementation of GASB Statement No. 77 had no impact on the financial statements of the Technical School for the year ended June 30, 2017.

GASB Statement No. 78 amends the scope and applicability of GASB No. Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria. The implementation of GASB Statement No. 78 had no impact on the financial statements of the Technical School for the year ended June 30, 2017.

The objective of GASB Statement No. 79 is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The implementation of GASB Statement No. 79 had no impact on the financial statements of the Technical School for the year ended June 30, 2017.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

GASB Statement No. 73 establishes requirement for defined benefit pensions that are not within the scope of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions", as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, "Financial Reporting for Pension Plans", and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 74 replaces GASB Statements No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", as amended, and GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", as amended, GASB Statement No. 43, and GASB Statement No. 50, "Pension Disclosures".

New Accounting Pronouncements

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" will be effective for the Technical School for the year ended June 30, 2018. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 80 "Blending Requirements for Certain Component Units-amendment of GASB Statement No. 14" will be effective for the Technical School for the year ended June 30, 2018. GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units".

GASB Statement No. 81 "Irrevocable Split-Interest Agreements" will be effective for the Technical School for the year ended June 30, 2018. GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, GASB Statement No. 81 requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB Statement No. 81 requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB Statement No. 82 "Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73" will be effective for the Technical School for the year ended June 30, 2018. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

The final proposed operating budget must be approved by the Board of School Directors of each participating member districts prior to final adoption by the JOC.

After the legal adoption of the budget, the JOC is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

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

(3) DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2017, the carrying amount of the Technical School's deposits was \$2,754,665 and the bank balance was \$2,777,228. The Technical School is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$250,368 was covered by federal depository insurance, and \$2,526,860 was collateralized by the Technical School's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds.

Investments

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

At June 30, 2017, the Technical School's Scholarship Fund had investments of \$120,324, consisting entirely of common stocks.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Technical School will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Technical School's investments were subject to custodial credit risk as of June 30, 2017.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Interest Rate Risk

The Technical School does not have an investment policy that limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates. The Technical School had no investments subject to interest rate risk as of June 30, 2017.

Credit Risk

The Technical School does not have an investment policy that limits its investments that are not backed by the "full faith and credit" of the federal or state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

Concentration of Credit Risk

The Technical School does not have an investment policy that limits the amount the Technical School may invest in any one issuer. At June 30, 2017, the Technical School had concentrations of investments greater than 5% as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage</u>
Exelon Corporation	Common stock	51.26%
Verizon Communications	Common stock	48.44%

Common stock was valued using Level 1 inputs.

(4) CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 15,432	\$ -	\$ -	\$ 15,432
Capital assets being depreciated:				
Site improvements	549,096	-	272,574	276,522
Buildings and building improvements	28,367,965	356,407	-	28,724,372
Furniture and equipment	3,553,122	66,121	1,994,966	1,624,278
Vehicles	39,244	-	39,244	-
Total capital assets being depreciated	<u>32,509,427</u>	<u>422,528</u>	<u>2,306,784</u>	<u>30,625,171</u>
Less accumulated depreciation for				
Site improvements	(345,692)	(9,244)	(272,574)	(82,363)
Buildings and building improvements	(9,759,615)	(689,053)	-	(10,448,668)
Furniture and equipment	(3,012,095)	(133,945)	(1,994,966)	(1,151,074)
Vehicles	(39,244)	-	(39,244)	-
Total accumulated depreciation	<u>(13,156,646)</u>	<u>(832,242)</u>	<u>(2,306,784)</u>	<u>(11,682,104)</u>
Total capital assets being depreciated, net	<u>19,352,781</u>	<u>(409,714)</u>	<u>-</u>	<u>18,943,067</u>
Governmental activities, net	<u>\$ 19,368,213</u>	<u>\$ (409,714)</u>	<u>\$ -</u>	<u>\$ 18,958,499</u>

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Governmental activities	
Instruction	\$462,906
Instructional student support services	90,053
Administrative and financial support services	146,662
Operation and maintenance of plant services	126,420
Student activities	<u>6,201</u>
Total depreciation expense – governmental activities	<u>\$832,242</u>

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2017 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Capital Projects Fund	\$ 100,000	General Fund	\$ 100,000
Internal Service Fund	<u>200,000</u>	General Fund	<u>200,000</u>
	<u>\$ 300,000</u>		<u>\$ 300,000</u>

Interfund balances between funds represent temporary loans recorded at year-end as a result of the final allocation of expenses.

A summary of interfund transfers for the year ended June 30, 2017 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	<u>\$1,770,175</u>	General Fund	<u>\$1,770,175</u>

Transfers from General Fund to Capital Projects Fund represent transfers to subsidize debt service requirements and capital expenditures.

(6) DUE FROM NONMEMBER SCHOOL DISTRICTS

The amount due from nonmember school districts at June 30, 2017 was calculated as follows:

	<u>Lower Merion</u>
Average daily membership 2016-2017	27,2143
Net operating expenses to be funded	\$ 404,949
Contributions received during 2016-2017	(182,000)
Vocational education subsidy	<u>(17,748)</u>
Due from nonmember schools at June 30, 2017	<u>\$ 205,201</u>

(7) DUE FROM/TO MEMBER SCHOOL DISTRICTS

The amount due to member school Technical Schools at June 30, 2016 was \$1,345,923, of which \$974,302 was applied during the 2016-2017 school year and \$371,621 will be applied during the 2017-2018 school year.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

The amount due to member school districts at June 30, 2017 was calculated as follows:

	<u>Colonial</u>	<u>Norristown Area</u>	<u>Upper Merion Area</u>	<u>Total</u>
% of average daily membership	29.31%	48.43%	22.26%	100.00%
Net operating expenses to be funded	\$ 1,611,222	\$ 2,662,304	\$ 1,223,799	\$ 5,497,325
Capital reserve contribution	70,000	60,000	70,000	200,000
Contributions received during 2016-2017	(1,972,123)	(3,095,302)	(1,348,295)	(6,415,720)
Vocational education subsidy	<u>(81,087)</u>	<u>(154,456)</u>	<u>(56,826)</u>	<u>(292,369)</u>
Due from (to) districts for 2016-2017	(371,988)	(527,454)	(111,322)	(1,010,764)
Due from (to) districts at June 30, 2016	(363,448)	(460,154)	(522,321)	(1,345,923)
Credited to districts during 2016-2017	<u>206,272</u>	<u>316,862</u>	<u>451,168</u>	<u>974,302</u>
Due from (to) districts at June 30, 2017	<u>\$ (529,164)</u>	<u>\$ (670,746)</u>	<u>\$ (182,475)</u>	<u>\$ (1,382,385)</u>

Debt service requirements under the lease rental payable capital projects are funded by the member school districts based on agreed-upon allocations. Contributions received from member districts for debt service and capital projects for the year ended June 30, 2017 were as follows:

	<u>Colonial</u>	<u>Norristown Area</u>	<u>Upper Merion Area</u>	<u>Total</u>
Debt service allocation %	35.00%	30.00%	35.00%	100.00%
Debt service contribution	<u>\$549,561</u>	<u>\$471,053</u>	<u>\$549,561</u>	<u>\$1,570,175</u>
Capital projects allocation %	35.00%	30.00%	35.00%	100.00%
Capital projects contribution	<u>\$ 70,000</u>	<u>\$ 60,000</u>	<u>\$ 70,000</u>	<u>\$ 200,000</u>

(8) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>	<u>Amount Due Within One Year</u>
Governmental activities					
Lease rental payable	\$10,725,000	\$ -	\$ 1,205,000	\$ 9,520,000	\$1,225,000
Premium on lease rental payable	577,691	-	73,358	504,333	73,358
Compensated absences	326,724	3,763	-	330,487	-
Net pension liability (See Note 9)	<u>12,128,000</u>	<u>1,599,241</u>	<u>-</u>	<u>13,727,241</u>	<u>-</u>
Total noncurrent liabilities	<u>\$23,757,415</u>	<u>\$1,603,004</u>	<u>\$ 1,278,358</u>	<u>\$24,082,061</u>	<u>\$1,298,358</u>

Noncurrent liabilities are generally liquidated by the General Fund.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Lease Rental Payable

The Technical School entered into a lease with the State Public School Building Authority (the "**SPSBA**") to finance renovations, additions and improvements to its facilities (the "**project**"). The SPSBA was formed by the Commonwealth of Pennsylvania for the purpose of financing the construction and improvement of public school facilities under the jurisdiction of the Pennsylvania Department of Education. The SPSBA finances projects through the issuance of bonds, the principal and interest of which are paid by the annual lease rental payments from public schools. The SPSBA has no general liability with respect to these obligations and has no beneficial interest in the related assets. Acting solely in an agency capacity, the SPSBA serves as a financing conduit, bringing the ultimate borrower and lender together. The goal of the SPSBA is to make lower cost financings available to public schools.

The lease between the Technical School and the SPSBA provided for the Technical School to lease the real and personal property of the Technical School to the SPSBA, for a term at least as long as the term of the bonds issued to finance the project, and the SPSBA made available to the Technical School the proceeds of the bonds to pay for the costs of financing the project. The SPSBA subleased the leased real and personal property back to the Technical School for rental payments in amounts sufficient to provide for the debt services of the bonds. Each of the participating member districts has pledged its full faith, credit and taxing power for its proportionate share of the rental payments due under the sublease.

On April 10, 2013, the SPSBA issued \$13,060,000 of its Series of 2013 Revenue Bonds (the "**2013 Bonds**"), the proceeds from which were used to advance refund its Series of 2004 Revenue Bonds and to pay for the costs of issuance. Principal payments on the 2013 Bonds are payable annually from May 2015 through May 2024 and interest is payable semiannually at rates ranging from .90% to 4.00%. Simultaneously with the issuance of the 2013 Bonds, the Technical School and SPSBA entered into a lease and sublease agreement identical to the lease and sublease agreements described in the previous paragraph.

These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments as of June 30, 2017 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,225,000	\$ 341,075	\$ 1,566,075
2019	1,260,000	304,325	1,564,325
2020	1,300,000	266,525	1,566,525
2021	1,350,000	214,525	1,564,525
2022	1,410,000	160,525	1,570,525
2023-2024	<u>2,975,000</u>	<u>157,150</u>	<u>3,132,150</u>
	<u>\$9,520,000</u>	<u>\$1,444,125</u>	<u>\$10,964,125</u>

(9) PENSION PLAN

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

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% 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.

Contributions

Member Contributions

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

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

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

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

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Employer Contributions

The contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Technical School were \$1,040,314 for the year ended June 30, 2017.

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

At June 30, 2017, the Technical School reported a liability of \$13,727,241 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2015 to June 30, 2016. The Technical School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the Technical School's proportion was 0.0277 percent, which was a decrease of 0.0003 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Technical School recognized pension expense of \$281,659. At June 30, 2017, the Technical School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ -	\$114,305
Change in assumptions	495,524	-
Net difference between projected and actual investment earnings	765,093	-
Changes in proportions	-	206,800
Difference between employer contributions and proportionate share of total contributions	23,200	-
Contributions subsequent to the measurement date	<u>1,040,314</u>	<u>-</u>
	<u>\$2,324,131</u>	<u>\$321,105</u>

\$1,040,314 reported as deferred outflows of resources related to pensions resulting from Technical School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$160,395
2019	160,395
2020	398,343
2021	<u>243,579</u>
	<u>\$962,712</u>

Actuarial Assumptions

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

Changes in assumptions used in measurement of the total pension liability beginning June 30, 2016:

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

- The investment rate of return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.00% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an 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 modified from the RP-2000 combined healthy annuitant tables (male and female) with age set back 3 years for both males and females to the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale. For disabled annuitants the RP-2000 combined disabled tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ended June 30, 2010. The recommended assumption changes based on this experience study were adopted by the board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

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

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

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Discount Rate

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

Sensitivity of the Technical School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	<u>1% Decrease</u> <u>6.25%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
Technical School's proportionate share of the net pension liability	\$16,792,000	\$13,727,241	\$11,152,000

Pension Plan Fiduciary Net Position

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

(10) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

The Technical School is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

(11) RISK MANAGEMENT

The Technical School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs including workers compensation. For insured programs, there were no significant reductions in insurance coverages during the 2016-2017 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

The Technical School participates in a consortium with other participating school districts and educational agencies from Montgomery and Bucks County to provide self-insurance programs for health and prescription insurance coverage and related expenses for eligible employees, spouses and dependents. Accordingly benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. Since the Technical School has not transferred its risk to the other participants in the consortium, GASB requires that it recognize and measure its claims, liabilities and related expenses. The Technical School accounts for its participation in the consortium in an Internal Service Fund in the accompanying financial statements.

The following table presents the components of the self-insurance claims surplus (liability) and the related changes claims surplus (liability) for the year ended June 30, 2017:

Insurance claims surplus (liability) – beginning of year	\$ (98,107)
Current year insurance claims, fees and changes in estimates	(526,474)
Insurance claims and fees paid	<u>756,396</u>
Insurance claims surplus (liability) – end of year	<u>\$ 131,815</u>

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 13, 2017, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES			
Local sources	\$ 8,344,395	\$ 7,464,024	\$(880,371)
State sources	992,000	1,004,400	12,400
Federal sources	<u>275,000</u>	<u>291,506</u>	<u>16,506</u>
Total revenues	<u>9,611,395</u>	<u>8,759,930</u>	<u>(851,465)</u>
EXPENDITURES			
Instructional services			
Vocational programs	4,194,675	3,848,465	346,210
Other instructional programs	<u>63,200</u>	<u>37,287</u>	<u>25,913</u>
Total instructional services	<u>4,257,875</u>	<u>3,885,752</u>	<u>372,123</u>
Support services			
Pupil support services	693,720	665,034	28,686
Administrative services	878,150	661,799	216,351
Pupil health	96,250	90,895	5,355
Business services	401,250	379,590	21,660
Operation and maintenance of plant services	1,264,600	1,061,198	203,402
Support services - central	<u>188,300</u>	<u>189,732</u>	<u>(1,432)</u>
Total support services	<u>3,522,270</u>	<u>3,048,248</u>	<u>474,022</u>
Operation of noninstructional services			
Student activities	58,575	52,049	6,526
Community services	<u>2,500</u>	<u>3,706</u>	<u>(1,206)</u>
Total operation of noninstructional services	<u>61,075</u>	<u>55,755</u>	<u>5,320</u>
Total expenditures	<u>7,841,220</u>	<u>6,989,755</u>	<u>851,465</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,770,175</u>	<u>1,770,175</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(1,570,175)	(1,770,175)	(200,000)
Budgetary reserve	<u>(200,000)</u>	<u>-</u>	<u>200,000</u>
Total other financing sources (uses)	<u>(1,770,175)</u>	<u>(1,770,175)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE			
Beginning of year	<u>300,001</u>	<u>300,001</u>	<u>-</u>
End of year	<u>\$ 300,001</u>	<u>\$ 300,001</u>	<u>\$ -</u>

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

SCHEDULE OF THE TECHNICAL SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year ended June 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Technical School's proportion of the net pension liability (asset)	0.0277%	0.0280%	0.0280%
Technical School's proportionate share of the net pension liability (asset)	\$13,727,241	\$12,128,000	\$11,083,000
Technical School's covered-employee payroll	\$3,587,600	\$3,600,761	\$3,570,590
Technical School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	383%	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	50%	54%	57%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

CENTRAL MONTCO TECHNICAL HIGH SCHOOL

SCHEDULE OF THE TECHNICAL SCHOOL'S PENSION PLAN CONTRIBUTIONS

Year ended June 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 881,000	\$ 723,000	\$ 558,000
Contributions in relation to the contractually required contribution	<u>910,000</u>	<u>723,000</u>	<u>576,077</u>
Contribution deficiency (excess)	-	-	(18,077)
Technical School's covered-employee payroll	\$3,587,600	\$3,600,761	\$3,570,590
Contributions as a percentage of covered-employee payroll	25%	20%	16%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Joint Operating Committee
Central Montco Technical High School
Plymouth Meeting, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Central Montco Technical High School ("**Technical School**"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Technical School's basic financial statements, and have issued our report thereon dated October 13, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
October 13, 2017**