

PENNSBURY SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2014



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Certified Public Accountants and Business Consultants

■ INTRODUCTION SECTION

PENNSBURY SCHOOL DISTRICT

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Directors
Pennsbury School District
Bucks County, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Pennsbury School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Pennsbury School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Pennsbury School District as of June 30, 2014, 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.

To the Board of Directors
Pennsbury School District
Bucks County, Pennsylvania

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, budgetary comparison information on pages 47 and 48 and postemployment benefits other than pension funding progress on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pennsbury School District's basic financial statements. The schedule of expenditures of federal and certain state awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal and certain state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and certain state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014, on our consideration of the Pennsbury School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pennsbury School District's internal control over financial reporting and compliance.



Oaks, Pennsylvania
December 1, 2014

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

PURPOSE

This section of the Pennsbury School District's (the "District") basic financial statements is intended to provide an overview and an objective analysis of the Pennsbury School District's financial activities for the year ended June 30, 2014. This analysis is based on currently known facts, decisions and conditions.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis introduces the District's basic financial statements. The basic financial statements include three kinds of reports. The first part contains District-wide financial statements. The second part contains fund financial statements. The third contains notes to the basic financial statements. The District also includes additional information to supplement the basic financial statements, such as this discussion and analysis.

The title and a brief description of each of the basic financial statements follow. Page number references for respective statements are also shown.

The Statement of Net Position reports assets, liabilities and net position for the District, including governmental activities and business-type activities (page 13).

The Statement of Activities reports the District's expenses, revenues, depreciation and other changes in net position during the year. This report focuses on the net cost of individual functions with reconciliation between the beginning net position and the ending net position (page 14).

The Balance Sheet, Governmental Funds, reports assets, liabilities and fund balance for the General Fund and Capital Projects Fund (page 15).

The Reconciliation of Total Governmental Funds Balances to Net Position of Governmental Activities explains the differences in Governmental Funds balances reported on the Balance Sheet, Governmental Funds, and the total net position reported on the Statement of Net Position and Statement of Activities (page 16).

The Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds, reports the revenues, expenditures and changes in fund balances for the General Fund and Capital Projects Fund (page 17).

The Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities provides a reconciliation of the changes in fund balances reported on the Statement of Revenues, Expenditures and Changes in Fund Balances to the changes in net position as reported on the Statement of Activities (pages 18 and 19).

The Statement of Net Position, Proprietary Funds, reports assets, liabilities and net position for Proprietary Funds (page 20).

The Statement of Revenues, Expenses and Changes in Net Position, Proprietary Funds, reports the revenues, expenditures and changes in net position for the Food Service Fund, Community Service Fund and the Aquatics Fund (page 21).

PENNSBURY SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
 YEAR ENDED JUNE 30, 2014

CONDENSED FINANCIAL INFORMATION

A few financial statistics are addressed below to provide a snapshot overview of the District's finances for the year ended June 30, 2014. Prior year data and changes are included in order to provide some perspective on the current year data.

Assets

Assets are items of value owned by the District. Examples of these would include cash, investments, equipment and real property.

	June 30, 2014	June 30, 2013	<u>Difference</u>
ASSETS			
Capital	\$ 108,557,183	\$ 113,102,707	\$ (4,545,524)
Other	51,008,827	44,561,093	6,447,734
TOTAL ASSETS	\$ 159,566,010	\$ 157,663,800	\$ 1,902,210

Capital assets are reported at acquisition cost less accumulated depreciation in the District-wide financial statements. The accumulated depreciation and resulting asset value do not, in most cases, reflect the current market economic value of capital assets. Asset values are often higher, especially in the case of real property like school buildings and major equipment like school buses.

The decrease in capital assets is attributed primarily to depreciation in the current year exceeding capital cost.

The increase in other assets is attributed primarily to an increase in cash and cash equivalents and payments due from other governments for grants and other funding.

Deferred Outflows of Resources

	June 30, 2014	June 30, 2013	<u>Difference</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	\$ 4,429,578	\$ 4,701,028	\$ (271,450)

A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition prices. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

Liabilities

Liabilities are the financial obligations of the District. Examples of liabilities are accounts payable, accrued salaries and benefits, long-term debt and accrued compensated absences.

	June 30, 2014	June 30, 2013	<u>Difference</u>
LIABILITIES			
Long-term	\$ 158,734,741	\$ 155,456,134	\$ 3,278,607
Other	33,904,054	32,476,587	<u>1,427,467</u>
TOTAL LIABILITIES	\$ 192,638,795	\$ 187,932,721	\$ 4,706,074

The increase in long-term debt is attributed primarily to the issuance of new debt.

The increase in other liabilities is primarily due to increased accounts payable and accrued salaries and benefits at year-end.

Deferred Inflows of Resources

	June 30, 2014	June 30, 2013	<u>Difference</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues, property taxes	\$ <u>2,496,912</u>	\$ 2694,937	\$ 198,025

Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenues from property taxes are recorded as such.

Net Position

The difference between total assets and total liabilities results in a number which is the total net position in the District-wide statement of net position.

	June 30, 2014	June 30, 2013	<u>Difference</u>
NET POSITION	\$ (28,643,207)	\$ (25,567,893)	\$ (3,075,314)

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

A few points should be kept in mind when considering the value of net position.

First, the accumulated depreciation of fixed assets, mostly school buildings, amounts to \$151,772,789, up from \$142,936,616 in the previous year. This number reflects the fact that some of the District's older school buildings are fully depreciated. While all Pennsbury schools are serviceable and safe, capital investment is necessary to extend the useful lives of some schools. The School Board has embarked upon a program to do just that. Renovations have been completed at Quarry Hill Elementary School, Penn Valley Elementary School, Manor Elementary School, Walt Disney Elementary School, Oxford Valley Elementary School, Makefield Elementary School, Eleanor Roosevelt Elementary School and Pennsbury High School West. Also, renovations are being considered for Pennwood Middle School and Charles Boehm Middle School.

Second, almost all capital assets are funded by the proceeds of a bond issue or a short-term note. Bond issues are normally amortized over a 20-year period. Short-term notes are generally amortized over a five- to ten-year period. When capital assets are acquired, they are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. The years of depreciation vary depending on the classification of the asset. Land improvements, buildings and building improvements are depreciated over 20 years.

Furniture, fixtures and equipment are depreciated between 5 and 20 years, depending on the estimated useful life of the assets. Vehicles are depreciated over eight years using a salvage value of zero. The depreciation time period of capital assets typically matches the amortization period of the borrowed capital used for their purchase. This is done to prevent the obligation of paying for assets after they have been fully depreciated. In some cases, however, our fixed assets are depreciating quicker than the repayment of principal. This is occurring for most of the fixed assets purchased with the proceeds from the 2004 Bond Issue and the 2004A Emmaus Variable Rate Issue. The bulk of the principal payments on these two issues is scheduled to be paid in future years, beginning in 2022. This debt structure was implemented in order to maintain overall level debt service for the District. We anticipate that assets purchased with these proceeds will continue to depreciate quicker than the repayment of debt principal until after the large principal payments are made.

Third, assets in the form of cash and cash equivalents amount to \$38,166,260. This must be viewed in light of intended uses of this cash, such as payment of salaries, contracted services and construction. This cash should not be confused with unassigned fund balance.

Fourth, although net position is reported as a deficit of \$(28,643,207), Pennsbury remains in good financial condition. The year-end General Fund unassigned fund balance of \$5,833,429 is considered ample to guard against revenue shortfalls and the need for emergency expenditures. The District has also committed an additional \$5,724,451 for contingencies for PSERS, Capital Projects and Self Insurance. Another indication of the District's financial health is this year's Moody's rating of Aa2. This rating reflects the District's very strong wealth and income indicators, good well-embedded management policies and moderate debt levels.

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

Total Program Revenue

General Fund revenue is categorized as being from three major sources. Specifically, these categories are local, state, federal and other. A summary of these revenue sources follows.

	June 30, 2014	June 30, 2013	<u>Difference</u>
Local	\$ 133,783,989	\$ 133,259,390	\$ 524,599
State	38,888,637	36,332,262	2,556,375
Federal	1,687,187	1,857,055	(169,868)

The primary source of revenue for the year ended June 30, 2014, remains local, which was 76.7% of the total revenue budget. The largest single source of revenue is Real Estate Taxes, which is about 93.5% of the total local revenue budget.

The state share of revenue amounted to 22.3% of the revenue budget for the year ended June 30, 2014, and the federal share of revenue was 1.0%.

The District's capital projects and capital equipment needs are supported primarily by debt capital and interest on invested cash.

Proprietary Fund revenue is generated primarily from the sale of meals and services.

Program Expenditures

General Fund expenditures can be categorized in terms of major programs, that is, the general purposes of the expenditures. The two major examples are instruction and support services. A summary of General Fund major program expenditures follows.

	June 30, 2014	<u>June 30, 2013</u>	<u>Difference</u>
Instruction	\$ 113,989,021	\$ 112,805,491	\$ 1,183,530
Support services	48,132,174	46,652,917	1,479,257
Non-instructional services	1,259,727	1,268,976	(9,249)
Facilities acquisition and improvement		15,195	(15,195)
Debt service	11,433,974	12,203,358	(769,384)
Debt issuance cost	122,082	329,475	(207,393)
Other	54,999	14,205	40,794

The primary purpose of expenditures was for instruction at 65.2%. Most of the instructional expenditures were for the salary and benefits of instructional staff, about 54.1% of total expenditures.

Expenditures for capital projects were provided almost entirely from the Capital Projects Fund, primarily the 2011 and 2013 bond issues.

PENNSBURY SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
 YEAR ENDED JUNE 30, 2014

Fund Balance

Fund balance in the balance sheet (Governmental Funds) is the difference between revenue and expenditures at the end of the year, combined with the fund balance from the beginning of the year. In other words, fund balance is the accumulated savings in a fund. Nonspendable fund balance reflects funds that are legally earmarked for a specific future use and are not available for appropriation. Restricted fund balance reflects funds that are earmarked for a specific purpose because of state or federal laws or externally imposed conditions by a grantor or creditor and are not available for appropriation. Committed fund balance reflects funds that the Board has taken formal action to earmark for a specific purpose and are not available for appropriation. Assigned fund balance reflects amounts that the Board or Administration has informally earmarked for a specific purpose. Although committed fund balance and assigned fund balance represent planned needs or actions, they are not legally or contractually required and can be changed by the Board if the need arises. Unassigned fund balance represents funds that have not been included in Nonspendable, Restricted, Committed, or Assigned Fund Balance and is available for appropriation. A more detailed reporting of the General Fund - Fund Balance is noted below.

	June 30,	
	<u>2014</u>	<u>2013</u>
Nonspendable	\$ 308,546	\$ 566,722
Committed	6,874,451	9,549,809
Unassigned	<u>5,833,429</u>	<u>3,360,616</u>
TOTAL FUNDBALANCE	\$ <u>13,016,426</u>	\$ <u>13,477,147</u>

For the year ended June 30, 2014, the fund balance decreased \$460,721 compared to the prior year. Expressed as a percentage of the 2013-2014 budget, total fund balance was 7.3%, and unassigned fund balance was 3.3%. The decrease in fund balance is primarily due to unfavorable health benefit claims experience for the school year. The District has developed a financial strategy for fund balance and attempts to maintain a reasonable fund balance to protect against revenue receipt shortfalls and/or emergency expenditure needs.

Significant Events and Risks

During the upcoming fiscal years, there are several events and risks, which may have a significant financial impact on the District.

The Taxpayer Relief Act (Act 1) enacted in June 2006 is still in effect. In accordance with Act 1, property tax increases are limited to an inflationary index that is determined and reported by the Pennsylvania Department of Education (PDE) in September of each year. The District cannot increase the tax rate beyond the index unless either the increase is approved by the voters in the school district at a public referendum or allowable exceptions outlined in the Act are approved by the PDE or Court of Common Pleas. The District does not currently levy an earned or personal income tax, but under the law, may consider placing a referendum question on the general election ballot in November of each odd-numbered year seeking approval to levy such tax for the purpose of funding homestead and farmstead exclusions as allowable under the law. For the last several years of Act 1, the District's tax rate increase has been below the index even though approved exceptions under the Act would have allowed tax rate increases above the index. Last year the District did not apply for exceptions or increase real estate taxes.

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

The real estate tax installment payments required under Act 1 have had virtually no effect on the District's cash flow. This is due primarily to the low participation in installment payments, low interest rates and the forfeit of the 2% discount if the installment plan is selected.

The District insures employee health care on a self-funded basis. Costs associated with this arrangement have been significantly lower than a premium-based plan, and the District has had good claims experience the past few years. There still is, however, an increased expenditure risk associated with high cost cases. In other words, if there is an unusually high number of such cases, the District will have unusually high medical benefits costs as was the case in 2013-2014. While stop loss insurance provides some protection, the risk still remains.

Energy costs have been very volatile over the past few years and have been a budgetary challenge. In addition, deregulation of electricity began January 1, 2011, in Pennsylvania. In an attempt to manage future energy costs, the District has contracted with an energy consultant to advise and assist the District with locking-in future energy prices. This action, coupled with energy conservation and joint purchasing of diesel fuel, gasoline and heating oil through the Bucks County Intermediate Unit enable the District to better manage this expenditure.

The Public School Employees Retirement System (PSERS) is a defined benefit pension plan for Pennsylvania school employees. The employers' share of retirement contributions has traditionally been funded half by the Commonwealth and half by the District. PSERS projections indicate that if the established process for funding retirement contributions continues, significant increases in the employers' contribution rates will be needed in the future.

The following table shows recent year employer's contribution rates and amounts and the projection for the upcoming year.

<u>Fiscal Year</u>	<u>Rate*</u>	<u>Amount</u>
2010-2011	5.64%	\$ 5,239,176 (actual)
2011-2012	8.65%	7,945,117 (actual)
2012-2013	12.36%	11,167,798 (actual)
2013-2014	16.93%	15,188,624 (actual)
2014-2015	21.40% (budgeted)	19,879,282 (budgeted)

*Percent of PSERS qualified salaries and wages.

Interest rate risk remains a consideration because the District depends on interest earnings on invested cash. Interest rates over the last year have made the projection of this revenue riskier than in years past. Due to the fact that interest rates have remained at a low level for an extended period of time, we have again reduced the upcoming year's budget for this revenue item. It is our hope that the investment rates will improve and investment earnings will increase in the future.

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

The Keystone Opportunity Improvement Zone (KOIZ) that was established at the former U.S. Steel Fairless Works site, now known as the Keystone Industrial Port Complex (KIPC), was designated as an eco-industrial park by the Environmental Protection Agency. This designation brought together a wide variety of manufacturing and service-oriented businesses, all of which are looking to enhance their environmental and economic performances by collaborating with each other and KIPC on the management of waste, energy, water and raw materials. We anticipate a strong, vital tax base when these properties become taxable in the 2019-2020 school year.

We are beginning to see development of the MATRIX property in Lower Makefield Township. A bank and a pharmacy have been constructed and both opened in 2010. The first phase of an age restricted development consisting of 279 homes has been completed and additional phases are expected to follow.

There is a significant risk of increased expenditures to support unfunded federal and state mandates. The No Child Left Behind Act has created requirements for remedial instruction, new instructional programs and increased assessments of students. These programs and their costs are likely to increase. Additionally, the Individuals with Disabilities Education Improvement Act has created increased demands on the District's Special Education expenditure budget.

The District is typically faced with the challenge of complying with mandated cost increases and generating adequate revenue to cover those costs. This challenge has become increasingly more difficult in light of all the uncertainties in today's economy. Nevertheless, the District is committed to improving the efficiency of school operations where they are administratively feasible and educationally prudent.

Finally, the District's School Board, administration and staff remain strongly committed to the District's long traditions of high quality education and sound financial management.

PENNSBURY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 37,889,434	\$ 276,826	\$ 38,166,260
Taxes receivable	3,119,907		3,119,907
Internal balances	218,105	(218,105)	
Due from other governments	7,376,146	185,661	7,561,807
Other receivables	891,440	18,546	909,986
Inventories	200,320	128,497	328,817
Other assets	922,050		922,050
Capital assets			
Land and site improvements	9,958,816		9,958,816
Buildings and building improvements	192,852,144		192,852,144
Furniture and equipment	55,119,910	2,399,102	57,519,012
Accumulated depreciation	<u>(149,671,126)</u>	<u>(2,101,663)</u>	<u>(151,772,789)</u>
TOTAL ASSETS	<u>158,877,146</u>	<u>688,864</u>	<u>159,566,010</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	4,429,578		4,429,578
LIABILITIES			
Accounts payable	2,207,988	66,013	2,274,001
Accrued salaries and benefits	22,276,619		22,276,619
Unearned revenue	145,364	82,147	227,511
Other current liabilities	6,712,206		6,712,206
Accrued interest	2,413,717		2,413,717
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	5,870,000		5,870,000
Compensated absences	243,385		243,385
Lease purchase obligations	184,076		184,076
Portion due or payable after one year			
Bonds payable	122,170,000		122,170,000
Bond premiums and discounts, net	5,598,750		5,598,750
Notes payable	20,000,000		20,000,000
Compensated absences	2,586,559		2,586,559
Lease purchase obligations	768,438		768,438
Net OPEB obligation	<u>1,313,533</u>		<u>1,313,533</u>
TOTAL LIABILITIES	<u>192,490,635</u>	<u>148,160</u>	<u>192,638,795</u>
NET POSITION			
Net investment in capital assets	(41,901,942)	297,439	(41,604,503)
Unrestricted	<u>12,718,031</u>	<u>243,265</u>	<u>12,961,296</u>
TOTAL NET POSITION	<u>\$ (29,183,911)</u>	<u>\$ 540,704</u>	<u>\$ (28,643,207)</u>

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction				
Regular programs	\$ 74,196,679	\$ 350,901	\$ 7,756,922	\$
Special programs	32,630,493		8,880,021	
Vocational education	6,753,754		180,637	
Other instructional programs	1,325,019		72,586	
Support services				
Pupil personnel services	6,399,788		507,990	
Instructional staff services	3,900,297		211,535	
Administration services	9,276,091		656,929	
Pupil health services	2,618,146		390,888	
Business services	2,078,311		126,645	
Operation and maintenance of plant services	14,811,647	369,169	778,668	
Student transportation services	8,151,310		2,404,119	
Central services	2,491,698		155,468	
Other services	121,848			
Operation of non-instructional services				
Student activities	1,113,922	87,656	74,207	
Community services	196,517			
Facilities acquisition, construction and improvement services	7,498,491			
Debt service	4,146,230			753,301
TOTAL GOVERNMENTAL ACTIVITIES	177,710,241	807,726	22,196,615	753,301
BUSINESS-TYPE ACTIVITIES				
Food service	3,319,452	2,149,871	1,157,310	
Community services	175,771	198,637		
TOTAL BUSINESS-TYPE ACTIVITIES	3,495,223	2,348,508	1,157,310	
TOTAL DISTRICT ACTIVITIES	\$ 181,205,464	\$ 3,156,234	\$ 23,353,925	\$ 753,301

GENERAL REVENUES

Taxes

Property taxes, levied for general purposes

Public utility taxes

Grants and contributions not restricted to specific programs

Investment earnings

Loss on sale of capital assets

Miscellaneous

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Totals
\$ (66,088,856)	\$	\$ (66,088,856)
(23,750,472)		(23,750,472)
(6,573,117)		(6,573,117)
(1,252,433)		(1,252,433)
(5,891,798)		(5,891,798)
(3,688,762)		(3,688,762)
(8,619,162)		(8,619,162)
(2,227,258)		(2,227,258)
(1,951,666)		(1,951,666)
(13,663,810)		(13,663,810)
(5,747,191)		(5,747,191)
(2,336,230)		(2,336,230)
(121,848)		(121,848)
(952,059)		(952,059)
(196,517)		(196,517)
(7,498,491)		(7,498,491)
(3,392,929)		(3,392,929)
(153,952,599)		(153,952,599)
	(12,271)	(12,271)
	22,866	22,866
	10,595	10,595
(153,952,599)	10,595	(153,942,004)
130,850,785		130,850,785
165,627		165,627
19,450,577		19,450,577
74,991	11	75,002
(56,915)		(56,915)
381,614		381,614
(1,701)	1,701	
150,864,978	1,712	150,866,690
(3,087,621)	12,307	(3,075,314)
(26,096,290)	528,397	(25,567,893)
\$ (29,183,911)	\$ 540,704	\$ (28,643,207)

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2014

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 33,951,749	\$ 3,937,685	\$ 37,889,434
Taxes receivable	3,119,907		3,119,907
Due from other funds	292,122		292,122
Due from other governments	7,376,146		7,376,146
Other receivables	891,440		891,440
Inventories	200,320		200,320
Other assets	<u>922,050</u>		<u>922,050</u>
TOTAL ASSETS	\$ <u>46,753,734</u>	\$ <u>3,937,685</u>	\$ <u>50,691,419</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 2,177,380	\$ 30,608	\$ 2,207,988
Due to other funds		74,017	74,017
Unearned revenue	74,191		74,191
Accrued salaries and benefits	22,276,619		22,276,619
Other payables	<u>6,712,206</u>		<u>6,712,206</u>
TOTAL LIABILITIES	<u>31,240,396</u>	<u>104,625</u>	<u>31,345,021</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues, property taxes	<u>2,496,912</u>		<u>2,496,912</u>
FUND BALANCES			
Nonspendable			
Inventories	200,320		200,320
Prepaid expenses	108,226		108,226
Committed to			
PSERS contingency	3,724,451		3,724,451
Self-insurance contingency	1,000,000		1,000,000
Capital projects	1,000,000		1,000,000
Fund balance appropriation	1,150,000		1,150,000
Unassigned	<u>5,833,429</u>	<u>3,833,060</u>	<u>9,666,489</u>
TOTAL FUND BALANCES	<u>13,016,426</u>	<u>3,833,060</u>	<u>16,849,486</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>46,753,734</u>	\$ <u>3,937,685</u>	\$ <u>50,691,419</u>

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 16,849,486
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land and site improvements	9,958,816
Buildings and building improvements	192,852,144
Furniture and equipment	55,119,910
Accumulated depreciation	(149,671, 126)
Deferred amount on refunding	4,429,578
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(2,413,717)
Bonds payable	(128,040,000)
Bond premiums and discounts	(5,598,750)
Notes payable	(20,000,000)
Compensated absences	(2,829,944)
Lease purchase obligations	(952,514)
Net OPES obligation	(1,313,533)
<p>Some of the District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>	<u>2,425,739</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>(29,183,911)</u>

See accompanying notes to the basic financial statements.

**PENNSBURY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Local sources	\$ 133,783,989	\$ 6,316	\$ 133,790,305
State sources	38,888,637	50,000	38,938,637
Federal sources	1,687,187		1,687,187
TOTAL REVENUES	174,359,813	56,316	174,416,129
EXPENDITURES			
Current			
Instruction	113,989,021	5,756	113,994,777
Support services	48,132,174	1,401,654	49,533,828
Operation of non-instructional services	1,259,727		1,259,727
Capital			
Facilities acquisition, construction and improvement services		3,633,394	3,633,394
Debt service			
Principal	5,250,000		5,250,000
Interest	6,183,974		6,183,974
Debt issuance cost	122,082	127,599	249,681
Refund of prior year revenues	54,999		54,999
TOTAL EXPENDITURES	174,991,977	5,168,403	180,160,380
DEFICIENCY OF REVENUES OVER EXPENDITURES	(632,164)	(5,112,087)	(5,744,251)
OTHER FINANCING SOURCES (USES)			
Bond issue proceeds		8,500,000	8,500,000
Refunding bonds issued	7,305,000		7,305,000
Premium on refunding bonds issued	78,454		78,454
Payment to refunded bond escrow agent	(7,261,373)		(7,261,373)
Bond premium		194,698	194,698
Proceeds from capital leases		1,149,638	1,149,638
Transfers in	47,811		47,811
Transfers out		(49,512)	(49,512)
Proceeds from sale of fixed assets	1,551		1,551
TOTAL OTHER FINANCING SOURCES (USES)	171,443	9,794,824	9,966,267
NET CHANGE IN FUND BALANCES	(460,721)	4,682,737	4,222,016
FUND BALANCES AT BEGINNING OF YEAR	13,477,147	(849,677)	12,627,470
FUND BALANCES AT END OF YEAR	\$ 13,016,426	\$ 3,833,060	\$ 16,849,486

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARD \$ 4,222,016

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$9,311,092) exceeded capital outlays (\$4,832,039) in the current period. (4,479,053)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues decreased by this amount this year. 198,025

Repayment of bond and capital lease principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position. 13,015,000

Bond and capital lease proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the statement of net position. This is the amount of bond and capital lease proceeds received in the current period. (16,954,638)

Bond premiums provide current financial resources to Governmental Funds, while discounts and costs of issuance are uses of current financial resources in Governmental Funds. In the statement of net position, bond premiums and costs of issuance are deferred and amortized. 562,817

In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave), special termination benefits (early retirement) and other postemployment benefits--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid). (47,425)

Interest on long-term debt in the statement of activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 579,914

SUBTOTAL ADJUSTMENTS FORWARD \$ (7,125,360)

PENNSBURY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARDED	\$ 4,222,016
SUBTOTAL ADJUSTMENTS FORWARDED	(7,125,360)
The net effect of various transactions involving capital assets (i.e., sales, gains on dispositions) is to decrease net position.	(58,466)
Repayment of capital lease principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	362,397
The net change in the asset for the net OPES obligation is reported in the government-wide statements but not in the Governmental Funds statements.	<u>(488,208)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (3,087,621)

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Enterprise Funds		Total Proprietary Funds
	Food Service Fund	Other Enterprise Funds	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 49,363	\$ 227,463	\$ 276,826
Due from other governments	185,661		185,661
Other receivables	18,546		18,546
Inventories	<u>128,497</u>		<u>128,497</u>
TOTAL CURRENT ASSETS	<u>382,067</u>	<u>227,463</u>	<u>609,530</u>
CAPITAL ASSETS			
Furniture and equipment	2,399,102		2,399,102
Accumulated depreciation	<u>(2,101,663)</u>		<u>(2,101,663)</u>
TOTAL CAPITAL ASSETS	<u>297,439</u>		<u>297,439</u>
TOTAL ASSETS	<u>\$ 679,506</u>	<u>\$ 227,463</u>	<u>\$ 906,969</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Due to other funds	\$ 31,315	\$ 186,790	\$ 218,105
Unearned revenue	82,147		82,147
Other current liabilities	<u>66,013</u>		<u>66,013</u>
TOTAL CURRENT LIABILITIES	<u>179,475</u>	<u>186,790</u>	<u>366,265</u>
NET POSITION			
Net investment in capital assets	297,439		297,439
Unrestricted	<u>202,592</u>	<u>40,673</u>	<u>243,265</u>
TOTAL NET POSITION	<u>500,031</u>	<u>40,673</u>	<u>540,704</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 679,506</u>	<u>\$ 227,463</u>	<u>\$ 906,969</u>

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Enterprise Funds		
	Food Service Fund	Other Enterprise Funds	Total Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ <u>2,149,871</u>	\$ <u>198,637</u>	\$ <u>2,348,508</u>
OPERATING EXPENSES			
Salaries	1,239,248	139,828	1,379,076
Employee benefits	334,488	12,290	346,778
Purchased professional and technical service		9,736	9,736
Purchased property service	95,292		95,292
Other purchased service	121,058	5,694	126,752
Supplies	1,471,849	8,223	1,480,072
Depreciation	51,103		51,103
Other operating expenses	<u>6,414</u>		<u>6,414</u>
TOTAL OPERATING EXPENSES	<u>3,319,452</u>	<u>175,771</u>	<u>3,495,223</u>
OPERATING INCOME (LOSS)	<u>(1,169,581)</u>	<u>22,866</u>	<u>(1,146,715)</u>
NONOPERATING REVENUES			
Interest and investment revenue		11	11
Federal sources	1,076,256		1,076,256
State sources	<u>81,054</u>		<u>81,054</u>
TOTAL NONOPERATING REVENUES	<u>1,157,310</u>	<u>11</u>	<u>1,157,321</u>
INCOME (LOSS) BEFORE TRANSFERS	(12,271)	22,877	10,606
TRANSFERS IN	49,512		49,512
TRANSFERS OUT		<u>(47,811)</u>	<u>(47,811)</u>
CHANGE IN NET POSITION	37,241	(24,934)	12,307
NET POSITION AT BEGINNING OF YEAR	<u>462,790</u>	<u>65,607</u>	<u>528,397</u>
NET POSITION AT END OF YEAR	<u>\$ 500,031</u>	<u>\$ 40,673</u>	<u>\$ 540,704</u>

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2014

	Enterprise Funds		Total Proprietary Funds
	Food Service Fund	Other Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 2,134,331	\$ 202,707	\$ 2,337,038
Payments to employees	(1,564,212)		(1,564,212)
Payments to suppliers	<u>(1,680,626)</u>	<u>(2,472)</u>	<u>(1,683,098)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(1,110,507)</u>	<u>200,235</u>	<u>(910,272)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds		(47,811)	(47,811)
Transfers from other funds	49,512		49,512
Federal sources	915,445		915,445
State sources	81,054		81,054
Miscellaneous		<u>11</u>	<u>11</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>1,046,011</u>	<u>(47,800)</u>	<u>998,211</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition, construction and improvements of capital assets	(43,098)		(43,098)
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on investments		<u>11</u>	<u>11</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(107,594)	152,435	44,841
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	<u>156,957</u>	<u>75,028</u>	<u>231,985</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>49,363</u>	\$ <u>227,463</u>	\$ <u>276,826</u>

PENNSBURY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2014

	Enterprise Funds		Total Proprietary Funds
	Food Service Fund	Other Enterprise Funds	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (1,169,581)	\$ 22,866	\$ (1,146,715)
Adjustments to reconcile operating income {loss} to net cash provided (used) by operating activities			
Depreciation	51,103		51,103
Donated foods	160,811		160,811
(Increase) decrease in			
Due from other governments	8,140		8,140
Other receivables	(5,302)		(5,302)
Inventories	464		464
Increase (decrease) in			
Due to other funds	(155,428)	177,369	21,941
Unearned revenue	(10,238)		(10,238)
Other current liabilities	9,524		9,524
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (1,110,507)	\$ 200,235	\$ (910,272)
SUPPLEMENTAL DISCLOSURES			
Noncash activities			
Donated foods	\$ 160,811	\$	\$ 160,811

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2014

	<u>Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 29,464	\$ <u>1,226,078</u>
LIABILITIES		
Due to student groups	<u> </u>	\$ <u>1,226,078</u>
NET POSITION		
Held in trust for benefits and other purposes	\$ 29,464	

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2014

	Trust Fund
ADDITIONS	
Contributions	\$ 2,006
Investment earnings	<u>3,426</u>
TOTAL ADDITIONS	5,432
DEDUCTIONS	
Scholarships awarded	<u>7,950</u>
CHANGE IN NET POSITION	(2,518)
NET POSITION AT BEGINNING OF YEAR	<u>31,982</u>
NET POSITION AT END OF YEAR	\$ 29,464

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities and functions for which the District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the District's ability to impose its will over a component unit or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the District. In addition, component units can be other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading. This report presents the activities of the Pennsbury School District. The District is not a component unit of another reporting entity nor does it have any component units.

Bucks County Technical School (the "Technical School") is a joint venture of the District. The Technical School is a separate legal entity that unites six school districts located in Bucks County, Pennsylvania, and is not reported as part of the District's reporting entity. The purpose of the joint venture is to provide job training to students located in the Bucks County area and to share the costs associated with providing such training. Through a contractual arrangement with other participants, the District pays the Technical School for training given to District students. The financial report of the Technical School may be obtained by contacting the Technical School.

Basis of Presentation and Accounting

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Funds financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

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

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The 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 District's Enterprise Funds are charges to customers for sales and services. Operating expenses of the Enterprise Funds include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Trust Funds are reported using the economic resources measurement focus.

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

Fund Accounting

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

Governmental Funds

General Fund - This is the general operating fund of the District. All activities of the District are accounted for through this fund except for those required to be accounted for in another fund. This fund is reported as a major fund.

Capital Projects Fund - This fund accounts for financial resources used to acquire or construct major capital projects. The revenue in this fund comes from the sale of bonds/notes or from capital appropriations from the General Fund under the Capital Reserve Fund provisions of the Pennsylvania School Code. This fund is reported as a major fund.

Proprietary Funds

Food Service Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The fund accounts for all revenues, food purchases and costs and expenses for the food service program. This fund is reported as a major fund.

Community Service Fund and Aquatics Fund - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The funds account for all revenues and costs and expenses of the community service program and the aquatics program.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

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

Cash and Cash Equivalents

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

Short-Term Interfund Receivables/Payables

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

Inventories and Prepaid Items

Inventories of the General Fund, which consist primarily of supplies, are valued at cost on the first-in, first-out basis. Inventories of the Food Service Fund are valued at the lower of cost, determined by the first-in, first-out method, or market except for donated inventories, which are valued at average fair market value.

Prepaid expenses record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventory and prepaid expenses are similarly reported in government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The District defines a capital asset as an asset with an initial, individual cost equal to or greater than \$2,500 or purchased with debt proceeds and must also have an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	Years
Land improvements, building and building improvements	20
Furniture, fixtures and equipment	5-20
Vehicles	8

Long-Term Obligations

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

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

Compensated Absences

District employees accumulate sick time in accordance with their applicable contracts. Compensated absences are reported as accrued in the government-wide, Proprietary Funds and Fiduciary Fund financial statements. Governmental Funds report only matured compensated absences payable to currently terminated employees and are included in accrued salaries and benefits.

The District has a contractual agreement whereby unused vacation of administrative staff up to a maximum of seven days is placed into a tax-sheltered annuity account for each employee at the end of each fiscal year. Deposits are calculated by multiplying unused vacation days by the employee's per diem rate.

Deferred Outflows/Inflows of Resources

For the year ended June 30, 2013, the District adopted new accounting guidance, implementing GASS Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has several types of items, which arises only under a modified accrual basis that qualifies for reporting in this category. Accordingly, the item, unavailable revenues, is reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes, state grants and federal programs. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

GASB Statement No. 54

The District previously adopted GASB Statement No. 54, which redefined how fund balances of the Governmental Funds are presented in the financial statements. Fund balances are classified as follows:

- *Nonspendable* - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* - Amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by granters or creditors.
- *Committed* - Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors. This includes the budget reserve account.
- *Assigned* - Amounts that are intended to be used for a specific purpose, as expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.
- *Unassigned* - All amounts not included in other spendable classifications.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The details of the fund balances are included in the Governmental Funds balance sheet (page 15). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of Directors. The District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are Hmitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, granters, or laws or regulations of other governments.

Use of Estimates

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

NOTE B- CASH

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The carrying value is \$39,421,802. As of June 30, 2014, \$38,039,730 of the District's bank balance of \$40,830,290 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the District's name; however, these funds are collateralized in accordance with Act 72. \$ 1,914,308

Uninsured funds with Pennsylvania School District Liquid Asset Fund (PSDLAF) and Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, they are rated by a nationally recognized statistical rating organization and are subject to an independent annual audit. \$ 36,125,422

Interest Rate Risk - The District's investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE C - TAXES - REAL ESTATE AND OTHER

The School Board is authorized by state law to levy property taxes for District operations, capital improvements and debt service. Property taxes are based on assessed valuations of real property within the District.

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

Discount period July 1 to September 4 - 2% of gross levy
 Face period September 5 to November 1
 Penalty period November 2 to collection - 10% of gross levy
 Lien date January 15

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

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014, consisted of taxes, interest, other revenue and intergovernmental grants and entitlements. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of accounts receivable by fund is as follows:

	<u>General Fund</u>	<u>Food Service Fund</u>
Realestate taxes	\$ 3,119,907	\$
Due from other governments	7,376,146	185,661
Other receivables	<u>891,440</u>	<u>18,546</u>
	<u>\$ 11,387,493</u>	<u>\$ 204,207</u>

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE E - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014, is as follows:

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 31,315
General Fund	Other Enterprise Funds	186,790
General Fund	Capital Projects Fund	<u>74,017</u>
		\$ 292,122

The amounts between the Food Service Fund and the General Fund are General Fund monies used to pay the expenditures of the Food Service Fund.

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Enterprise Funds	\$ 47,811
Food Service Fund	Capital Projects Fund	<u>49,512</u>
		\$ 97,323

The District typically uses Capital Projects Fund monies to purchase equipment for the Food Service Fund.

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE F - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land and site improvements	\$ 9,943,816	\$ 15,000	\$	\$ 9,958,816
Capital assets being depreciated				
Buildings and building improvements	190,621,491	2,230,653		192,852,144
Furniture and equipment	53,118,012	2,586,386	(584,488)	55,119,910
TOTAL CAPITAL ASSETS BEING DEPRECIATED	243,739,503	4,817,039	(584,488)	247,972,054
Accumulated depreciation				
Buildings and building improvements	(84,849,100)	(2,238,815)		(87,087,915)
Furniture and equipment	(56,036,956)	(7,072,277)	526,022	(62,583,211)
TOTAL ACCUMULATED DEPRECIATION	(140,886,056)	(9,311,092)	526,022	(149,671,126)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	102,853,447	(4,494,053)	(58,466)	98,300,928
	112,797,263	(4,479,053)	(58,466)	108,259,744
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	2,356,004	43,098		2,399,102
Accumulated depreciation	(2,050,560)	(51,103)		(2,101,663)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	305,444	(8,005)		297,439
CAPITAL ASSETS, net	\$ 113,102,707	\$ (4,487,058)	\$ (58,466)	\$ 108,557,183

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE F - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

INSTRUCTION	
Regular programs	\$ 145,127
Special programs	6,297
Vocational education	2,728
Other instructional programs	144
SUPPORT SERVICES	
Pupil personnel services	2,223
Instructional staff services	788,727
Library services	4,448
Administration services	9,971
Pupil health services	2,784
Business services	27,461
Operation and maintenance of plant services	362,033
Student transportation services	637,652
Central services	26,369
NON-INSTRUCTIONAL SERVICES	
Athletics	49,740
Site acquisitions	915
Existing site improvements	172,196
Building acquisitions, new	12,200
Building acquisitions, replacement	<u>7,060,077</u>
	\$ <u>9,311,092</u>
FOOD SERVICE FUND	\$ <u>51,103</u>

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE G - LEASES

Capital Leases

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

The assets acquired through capital leases are as follows:

Transportation equipment	\$ 961,457
Computer equipment	1,149,638
Accumulated depreciation	<u>(841,705)</u>
	\$ 1,269,390

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

Year Ending June 30,	
2015	\$ 200,422
2016	200,421
2017	200,422
2018	200,422
2019	200,421
Amount representing interest	(49,594)
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	\$ 952,514

NOTE H - LONG-TERM DEBT

General Obligation Bonds and Notes

The District has issued various general obligation serial bonds and notes to finance capital projects and for advance refundings of bonds.

The District has \$128,040,000 of bonds payable at June 30, 2014. During the year, the District made principal payments of \$13,015,000 and interest payments of \$5,412,445 related to the bond issues outstanding.

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE H M LONGTERM DEBT (Continued)

Current Refunding - November 7, 2013 - The District issued \$7,305,000 of general obligation bonds to currently refund a portion of the District's outstanding General Obligation Bonds, Series of 2008, fund the costs of an arbitrage rebate or yield reduction payment relating to the project financed with the proceeds of the 2008 Bonds and pay the costs of issuing the bonds. This current refunding was undertaken to reduce total debt service payments over the life of the bonds by approximately \$1,193,502.

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

<u>Year Ending June 30.</u>	<u>Face Value</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 5,870,000	\$ 5,870,000	\$ 5,238,659
2016	6,420,000	6,420,000	4,999,671
2017	7,570,000	7,570,000	4,735,434
2018	7,880,000	7,880,000	4,421,050
2019	8,165,000	8,165,000	4,143,244
2020 to 2024	26,690,000	26,690,000	16,015,243
2025 to 2029	44,825,000	44,825,000	8,357,884
Thereafter	<u>20,620,000</u>	<u>20,620,000</u>	<u>1,426,039</u>
	<u>\$ 128,040,000</u>	<u>\$ 128,040,000</u>	<u>\$ 49,337,224</u>

The District has \$20,000,000 of notes payable at June 30, 2014.

Annual debt service requirements to maturity for general obligation notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$	\$ 800,000
2016		800,000
2017		800,000
2018		800,000
2019		800,000
2020 to 2024	<u>20,000,000</u>	<u>2,746,667</u>
	<u>\$ 20,000,000</u>	<u>\$ 6,746,667</u>

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 1- CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>
GENERAL OBLIGATION BONDS AND NOTES		
Bonds		
Series of 2004	2.625% to 5.250%	08/01/2025
Series of 2006	3.500% to 5.250%	06/30/2022
Series of 2008	2.000% to 4.550%	08/01/2025
Series of 2009	2.500% to 5.000%	08/15/2014
Series A of 2009	1.050% to 4.125%	08/01/2029
Series of 2010	.900% to 4.000%	08/01/2030
Series of 2011	.450% to 3.750%	08/01/2031
Series of 2012	.400% to 5.000%	08/01/2026
Series of 2013	.300% to 4.000%	8/01/2033
Series of 2013A	1.000% to 3.100%	8/1/2025
TOTAL GENERAL OBLIGATION BONDS		
Notes, Series of 2004	Variable	08/01/2023
Deferred amount, bond premium and discounts, net		
TOTAL GENERAL OBLIGATION BONDS AND NOTES		
COMPENSATED ABSENCES		
CAPITAL LEASES		
NET OPEB OBLIGATION		
TOTAL LONG-TERM LIABILITIES		

<u>Beginning Balance</u>	<u>Additions</u>	<u>Accreted Discount</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ 1,895,000	\$	\$	\$ (920,000)	\$ 975,000	\$ 975,000
40,255,000			(1,640,000)	38,615,000	1,700,000
7,765,000			(7,765,000)		
5,305,000			(2,600,000)	2,705,000	2,705,000
9,985,000			(5,000)	9,980,000	5,000
18,350,000			(5,000)	18,345,000	5,000
9,965,000			(40,000)	9,925,000	40,000
31,730,000			(5,000)	31,725,000	5,000
	8,500,000		(35,000)	8,465,000	100,000
	<u>7,305,000</u>			<u>7,305,000</u>	<u>335,000</u>
125,250,000	15,805,000		(13,015,000)	128,040,000	5,870,000
20,000,000				20,000,000	
6,433,017	273,152		(1,107,419)	5,598,750	
151,683,017	<u>16,078,152</u>		(14,122,419)	153,638,750	5,870,000
2,782,519	283,215		(235,790)	2,829,944	243,385
165,273	1,149,638		(362,397)	952,514	184,076
<u>825,325</u>	<u>488,208</u>			<u>1,313,533</u>	
\$ 155,456,134	\$ <u>17,999,213</u>	\$	\$ (14,720,606)	\$ <u>158,734,741</u>	\$ <u>6,297,461</u>

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE J - NONCANCELABLE LEASE OBLIGATION

In November 1995, the Bucks County Technical School Authority (the "Authority") issued school revenue bonds in the aggregate amount of \$27,260,000 for a new technical school and renovations on the old technical school. The bonds are secured under a trust indenture between the Authority and Wachovia National Bank by a pledge of, and are payable solely from, lease rentals payable by the Authority's member school districts, which includes the District, under an assignment of the lease. Thus, the District is obligated for a portion of the above amount. Each member school district's portion of the debt is based on a calculation of the apportionment of the lease rental among the member school districts made to create an equal millage impact upon all member school districts, which is effective for five years. This apportionment is then adjusted every five years thereafter until the lease expires or all payments are made. The Authority refinanced the bonds in 2005. The District made rental payments of \$864,737 for the year ended June 30, 2014, of which \$668,648 represented principal payments.

Shown below are the District's lease payments for the next five years based on the apportionment that is binding through fiscal year 2016:

<u>Year Ending June 30,</u>	Principal	Interest	<u>Administrative Fees</u>	<u>Totals</u>
2015	\$ 698,611	\$ 158,943	\$ 6,308	\$ 863,862
2016	734,882	123,106	6,308	864,296
2017	762,642	88,751	6,308	857,701
2018 to 2019	<u>1,637,552</u>	<u>58,217</u>	<u>6,308</u>	<u>1,702,077</u>
	<u>\$ 3,833,687</u>	<u>\$ 429,017</u>	<u>\$ 31,540</u>	<u>\$ 4,294,244</u>

NOTE K - DEFERRED INFLOWS OF RESOURCES

General Fund

Real estate taxes collected within 60 days of the close of the fiscal year are recorded as current revenues. The noncurrent portion of real estate taxes receivable is recorded as deferred inflows of resources until such time as it becomes available. Program grants received prior to the incurrence of qualifying expenditures are recorded as deferred inflows of resources.

At June 30, 2014, deferred inflows of resources consisted of delinquent taxes receivable of \$2,496,912.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE L - PENSIONS

The Government Accounting Standards Board (GASS) requires that state and local governmental employers disclose in their notes to financial statements, certain information about the public employee retirement systems to which they contribute. PSERS is providing the following information in accordance with GASS to assist the employers in the preparation of their annual financial statements.

Plan Description

Name of Plan: Public School Employees' Retirement System (the "System").

Type of Plan: Governmental cost-sharing multiple-employer defined benefit plan.

Benefits: Retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments, healthcare insurance premium assistance to qualifying annuitants.

Authority. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-8535).

Annual Financial Report: The System issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 North 5th Street, Harrisburg, PA 17101-1905. The CAFR is also available on the publications page of the PSERS website.

Funding Policy

Authority. The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth.

Contribution Rates

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.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE L- PENSIONS (Continued)

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

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2014, the rate of employer's contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16.00% for pension benefits and .93% for healthcare insurance premium assistance.

The District's contribution to PSERS for the years ended June 30, 2014, 2013 and 2012, was \$15,188,624, \$11,167,798 and \$7,945,117, respectively, equal to the required contribution for each year.

NOTE M - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The District provides medical and dental insurance benefits to eligible retired employees, spouses and dependents through a single-employer defined benefit plan. The benefits, benefits level, employee contribution and employer contribution are administered by District Board Members and can be amended by the District through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone financial report. The District does not have any current contracts that offer postemployment benefits. The activity of the plan is reported in the District's General Fund.

Funding Policy

The District negotiates the contribution percentage between the District and employees through union contracts and its personnel policy. The required contribution rates of the employer and the members vary depending on the applicable agreement. The District currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the District.

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE M " OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan are as follows:

Normal cost	\$ 476,147
Amortization of unfunded actuarial accrued liability	554,582
Interest	<u>21,427</u>
ANNUAL REQUIRED CONTRIBUTION (ARC)	1,052,156
Interest on net OPEB obligation	37,140
Adjustment to ARC	(50,668)
ANNUAL OPEB EXPENSE	1,038,628
Net OPEB contributions during the year	(550,420)
INCREASE IN NET OPEB OBLIGATION	488,208
Net OPEB obligation at beginning of year	<u>825,325</u>
NET OPEB OBLIGATION AT END OF YEAR	\$ 1,313,533

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 1,321,874	78%	\$ 354,293
2013	1,317,874	64%	825,325
2014	1,038,628	53%	1,313,533

Funded Status and Funding Progress

As of July 1, 2013, the actuarial accrued liability for benefits was \$9,033,524 and the actuarial value of assets was \$0, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$82,412,250, and the ratio of the UAAL to the covered payroll was 10.96%.

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 49, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.0% initially, reduced by decrements of .5% to an ultimate rate of 5.5% after five years. Both rates included a 3.0% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UML is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2013, was 14 years.

NOTE N - NONSPENDABLE FUND BALANCE

At June 30, 2014, the District segregated the ending fund balance of the General Fund for standard fund balance reserves as follows:

Inventories	\$ 200,320
Prepaid expenses	<u>108,226</u>
	\$ 308,546

PENNSBURY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE O - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance except for employee health care, which is insured by the District as explained below.

The District insures for employee health care on a cost-plus basis. The District also has commercial insurance for health care claims that exceed \$110,000 on any one individual in any one plan year.

Liabilities for health care cost are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The claims liability is calculated based on management's judgment of reasonable reserves for payment lags and catastrophic events. The claims liability is reported as part of other payables in the General Fund.

Changes in the program's claims liability for the year ended June 30, 2014, are presented below:

<u>Balance June 30, 2013</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance June 30, 2014</u>
\$ <u>6,501,034</u>	\$ <u>17,947,155</u>	\$ <u>(18,156,349)</u>	\$ <u>6,291,840</u>

Independence Blue Cross is the administrator of the District's healthcare plan. The District also maintains \$813,824 in an escrow account to indemnify Blue Cross in the event that the District terminates the plan or does not pay its claims. This escrow amount is reported as a prepaid asset in the General Fund.

NOTE P - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

In addition to the pension benefits described in Note L, the District provided early retirement incentives to all professional and administrative employees who met specific age and year of service requirements through June 30, 2003. The benefits were adopted as part of the employment contracts negotiated between the unions and the School Board. The benefits offered are cash bonus payments to be applied to health insurance coverage. For the fiscal year ended June 30, 2014, there were ten participants, and the expense related to the benefits totaled approximately \$8,442.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE Q - LITIGATION AND OTHER MATTERS

The District is a defendant in several actions related to tax billings, assessment valuations and labor grievances. In the opinion of the District's officials, the ultimate outcome of these actions will not have a material adverse effect on the District's financial statements.

NOTE R - SUBSEQUENT EVENTS

In September 2014, the District approved the issuance of General Obligation Bonds, Series of 2014, in the aggregate amount not to exceed \$9,600,000. Bond proceeds are to be used for financing capital projects of the District.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSBURY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 133,451,029	\$ 133,451,029	\$ 133,783,989	\$ 332,960
State sources	39,154,403	39,154,403	38,888,637	(265,766)
Federal sources	<u>2,138,568</u>	<u>2,138,568</u>	<u>1,687,187</u>	<u>(451,381)</u>
TOTAL REVENUES	<u>174,744,000</u>	<u>174,744,000</u>	<u>174,359,813</u>	<u>(384,187)</u>
EXPENDITURES				
Instruction	114,823,233	114,850,852	113,989,021	861,831
Support services	49,511,085	50,197,839	48,132,174	2,065,665
Operation of non-instructional services	1,346,818	1,346,818	1,259,727	87,091
Debt service	12,462,864	11,748,491	11,433,974	314,517
Debt issuance cost			122,082	(122,082)
Refund of prior year revenues			<u>54,999</u>	<u>(54,999)</u>
TOTAL EXPENDITURES	<u>178,144,000</u>	<u>178,144,000</u>	<u>174,991,977</u>	<u>3,152,023</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(3,400,000)</u>	<u>(3,400,000)</u>	<u>(632,164)</u>	<u>2,767,836</u>
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued			7,305,000	7,305,000
Premium on refunding bonds issued			78,454	78,454
Payment to refunded bond escrow agent			(7,261,373)	(7,261,373)
Transfers in			47,811	47,811
Proceeds from sale of fixed assets			<u>1,551</u>	<u>1,551</u>
TOTAL OTHER FINANCING SOURCES (USES)			<u>171,443</u>	<u>171,443</u>
NET CHANGE IN FUND BALANCE	(3,400,000)	(3,400,000)	(460,721)	2,939,279
FUND BALANCE AT BEGINNING OF YEAR	<u>13,477,147</u>	<u>13,477,147</u>	<u>13,477,147</u>	
FUND BALANCE AT END OF YEAR	<u>\$ 10,077,147</u>	<u>\$ 10,077,147</u>	<u>\$ 13,016,426</u>	<u>\$ 2,939,279</u>

See accompanying note to the budgetary comparison schedule.

PENNSBURY SCHOOL DISTRICT

NOTE TO THE BUDGETARY COMPARISON SCHEDULE YEAR ENDED JUNE 30, 2014

NOTE A - BUDGETARY INFORMATION

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

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

1. Prior to May 31, the District Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
2. A public hearing is conducted to obtain taxpayer comments.
3. On or before June 30, the budget is legally enacted through passage of a resolution.
4. Legal budgetary control is maintained by the School Board at the department level. Transfers between departments, whether between funds or within a fund, or revisions that alter total revenues and expenditures of any fund must be approved by the School Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control.
5. Budgetary data are included in the District's management information system and are employed as a management control device during the year.
6. The budget for the General Fund is adopted substantially on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

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

PENNSBURY SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2014

SCHEDULE OF FUNDING PROGRESS

Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Liability (AAL)	(c) Unfunded AAL (UAAL) (bHa)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2009 July 1,	\$	\$ 11,243,782	\$ 11,243,782	0%	\$ 84,776,986	13.26%
2011		11,674,790	11,674,790	0%	82,935,959	14.08%
2013		9,033,524	9,033,524	0%	82,412,250	10.96%

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

To the Board of Directors
Pennsbury School District
Bucks County, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Pennsbury School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Pennsbury School District's basic financial statements, and have issued our report thereon dated December 1, 2014.

Internal Control Over Financial Reporting

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

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

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

To the Board of Directors
Pennsbury School District
Bucks County, Pennsylvania

Compliance and Other Matters

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

Purpose of this Report

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

Maullie LLP

Oaks, Pennsylvania
December 1, 2014

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors
Pennsbury School District
Bucks County, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Pennsbury School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Pennsbury School District's major federal programs for the year ended June 30, 2014. Pennsbury School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Pennsbury School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Pennsbury School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Pennsbury School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

To the Board of Directors
Pennsbury School District
Bucks County, Pennsylvania

Report on Internal Control Over Compliance

The management of the Pennsbury School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Pennsbury School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pennsbury School District's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maullio LLP

Oaks, Pennsylvania
December 1, 2014

SUPPLEMENTARY INFORMATION • MAJOR FEDERAL
AWARD PROGRAMS AUDIT

PENNSBURY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Granter/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date
U.S. DEPARTMENT OF EDUCATION				
Passed through the Pennsylvania Department of Education				
Title I		84.010	013-130331	July 11, 2012.to September 30, 2013
Title I		84.010	013-140331	July 5, 2013to September 30, 2014
Title II		84.367	020-120331	July 21, 2011 to September 30, 2012
Title II		84.367	020-130331	July 11, 2012 to September 30, 2013
Title II		84.367	020-140331	July 5, 2013to September 30, 2014
Title III		84.365	010-120331	July 21, 2011 to September 30, 2012
Title III		84.365	010-130331	July, 11, 2012to September 30, 2013
Title III		84.365	010-140331	July 5, 2013 to September 30, 2014
Passed through the Bucks County Intermediate Unit				
IDEA		84.027	062-13-0-022 1	July 1,2012 to June 30, 2013
IDEA		84.027	062-14-0-022 A	July 1, 2013 to June 30, 2014
Passed through the Bucks County Intermediate Unit				
IDEA - Section 619		84.173	131-12-0-022	July 1,2012 to June 30, 2013
IDEA - Section 619		84.173	131-13-0-022	July 1,2013 to June 30, 2014
SUBTOTAL FORWARD				

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	Accrued or (Deferred) Revenue at July 1, 2013	Revenue Recognized	<u>Expenditures</u>	Accrued or (Deferred) Revenue at June 30, 2014
\$ 702,439	\$ 126,829	\$ 82,800	\$ 44,029	\$ 44,029	\$
630,478	380,919		477,702	477,702	96,783
271,338	18,003	18,003			
272,839	54,213	(10,209)	100,564	100,564	36,142
260,372	208,536		218,412	218,412	9,876
53,720	5,723	5,723			
51,306	6,841	(3,610)	37,814	37,814	27,363
34,916	32,588		16,831	16,831	(15,757)
1,922,586	1,251,839	1,251,839			
1,844,653	361,136		1,884,653	1,884,653	1,523,517
5,781	5,781	5,781			
7,688			7,688	7,688	<u>7,688</u>
	\$ <u>2,452,408</u>	\$ <u>1,350,327</u>	\$ 2,787,693	\$ 2,787,693	\$ <u>1,685,612</u>

PENNSBURY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date
U.S. DEPARTMENT OF EDUCATION				
SUBTOTAL FORWARDED				
Passed through the County of Bucks:				
Pennsylvania Commission on Crime &				
Delinquency				
T.R.A.C.K.		16.523		July 1, 2013 to June 30, 2014
TOTAL FORWARD				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through the Pennsylvania				
Department of Public Welfare				
Medical Assistance ACCESS		93.778	N/A	July 1, 2012 to June 30, 2013
Medical Assistance ACCESS		93.778	N/A	July 1, 2013 to June 30, 2014
TOTAL FORWARD				
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Pennsylvania				
Department of Education				
Breakfast Program		10.553	N/A	July 1, 2012 to June 30, 2013
National School Lunch Program		10.555	N/A	July 1, 2012 to June 30, 2013
National School Lunch Program - FFVP		10.582	N/A	July 1, 2012 to June 30, 2013
National School Lunch Program		N/A	N/A	July 1, 2012 to June 30, 2013
Breakfast Program		N/A	N/A	July 1, 2012 to June 30, 2013
Breakfast Program		10.553	N/A	July 1, 2013 to June 30, 2014
National School Lunch Program - FFVP		10.582	N/A	July 1, 2013 to June 30, 2014
National School Lunch Program		N/A	N/A	July 1, 2013 to June 30, 2014
SUBTOTAL FORWARD				

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2013</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2014</u>
	\$ 2,452,408	\$ 1,350,327	\$ 2,787,693	\$ 2,787,693	\$ 1,685,612
10,000	<u>10,000</u>	<u> </u>	<u>10,000</u>	<u>10,000</u>	<u> </u>
	<u>2,462,408</u>	<u>1,350,327</u>	<u>2,797,693</u>	<u>2,797,693</u>	<u>1,685,612</u>
	30,300	30,300			
100,785	<u>45,461</u>	<u> </u>	<u>100,785</u>	<u>100,785</u>	<u>55,324</u>
	<u>75,761</u>	<u>30,300</u>	<u>100,785</u>	<u>100,785</u>	<u>55,324</u>
N/A	21,939	21,939			
N/A	152,480	152,480			
N/A	3,926	3,926			
N/A	13,692	13,692			
N/A	1,764	1,764			
NA	78,147		99,186	99,186	21,039
N/A	11,111		12,496	12,496	1,385
NIA	<u>59,814</u>	<u> </u>	<u>73,059</u>	<u>73,059</u>	<u>13,245</u>
	<u>\$ 342,873</u>	<u>\$ 193,801</u>	<u>\$ 184,741</u>	<u>\$ 184,741</u>	<u>\$ 35,669</u>

PENNSBURY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date
U.S. DEPARTMENT OF EDUCATION				
TOTAL FORWARDED				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
TOTAL FORWARDED				
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Pennsylvania Department of Education				
SUBTOTAL FORWARDED				
National School Lunch Program		10.555	N/A	July 1, 2013 to June 30, 2014
Breakfast Program		N/A	N/A	July 1, 2013 to June 30, 2014
Passed through the Commonwealth of Pennsylvania Department of Agriculture				
National School Lunch Program		10.555	N/A	July 1, 2013 to June 30, 2014
TOTAL U.S. DEPARTMENT OF AGRICULTURE				
TOTAL FEDERAL AND CERTAIN STATE AWARDS				
LESS STATE SHARE				
TOTAL FEDERAL AWARDS				

Footnotes:

- (a) Total amount of foods received from the Department of Agriculture.
- (b) Beginning inventory at July 1, 2013.
- (c) Total amount of foods used.
- (d) Ending inventory at June 30, 2014.

Source Codes:

I = Indirect Funding

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

Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2013	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at <u>June 30, 2014</u>
	\$ <u>2,462,408</u>	\$ <u>1,350,327</u>	\$ <u>2,797,693</u>	\$ <u>2,797,693</u>	\$ <u>1,685,612</u>
	<u>75,761</u>	<u>30,300</u>	<u>100,785</u>	<u>100,785</u>	<u>55,324</u>
	342,873	193,801	184,741	184,741	35,669
N/A	655,465		803,762	803,762	148,297
N/A	6,301		7,995	7,995	1,694
N/A	<u>150,572</u> (a)	<u>(92,385)</u> (b)	<u>160,811</u> (c)	<u>160,811</u>	<u>(82,146)</u> (d)
	1,155,211	101,416	1,157,309	<u>1,157,309</u>	103,514
	3,693,380	1,482,043	4,055,787	4,055,787	1,844,450
	(81,571)	(15,456)	(81,054)	(81,054)	<u>(14,939)</u>
	\$ <u>3,611,809</u>	\$ <u>1,466,587</u>	\$ <u>3,974,733</u>	\$ <u>3,974,733</u>	\$ <u>1,829,511</u>

PENNSBURY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2014

NOTE A - GENERAL

The accompanying schedule of expenditures of federal and certain state awards presents the activity of all federal financial assistance programs of the Pennsbury School District. The District reporting entity is defined in Note A to the District's basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

NOTE B - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal and certain state awards is presented using the modified accrual basis of accounting, which is described in Note A to the District's basic financial statements.

NOTE C - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The following is a reconciliation of revenue per the schedule of expenditures of federal and certain state awards to the basic financial statements:

GENERAL FUND	
Local sources*	\$ 1,894,653
Federal sources	1,003,825
 FOOD SERVICE FUND	
Federal sources	1,076,255
TOTAL FEDERAL ASSISTANCE	3,974,733
 FOOD SERVICE FUND	
State sources	<u>81,054</u>
TOTAL FEDERAL AND STATE AWARDS	\$ 4,055,787

*IDEA, T.R.A.C.K. grants

PENNSBURY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

A. SUMMARY OF AUDITORSt RESULTS

- 1. The auditors' report expresses an unmodified opinion on the financial statements of the Pennsbury School District.
- 2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
- 3. No instances of noncompliance material to the financial statements of the Pennsbury School District were disclosed during the audit.
- 4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with OMB Circular A-133.
- 5. The auditors' report on compliance for the major award programs for the Pennsbury School District expresses an unmodified opinion.
- 6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- 7. The programs tested as major programs include:

<u>Program</u>	<u>CFDA</u>
IDEA	84.027
Title I	84.010
Title IJ	84.367

- 8. The threshold used for distinguishing Types A and B programs was \$300,000.
- 9. Pennsbury School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

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

None.

PENNSBURY SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

None.