

**METHACTON SCHOOL DISTRICT**

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**FINANCIAL STATEMENTS  
AND SINGLE AUDIT**

For the Year Ended June 30, 2013

# METHACTON SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of School Directors  
METHACTON SCHOOL DISTRICT  
Norristown, 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 METHACTON SCHOOL DISTRICT, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the METHACTON SCHOOL DISTRICT as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 11 and pages 49 through 51, respectively, be presented to supplement the basic financial statements. Such information, although not a required 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 METHACTON SCHOOL DISTRICT's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal and state awards are 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 November 8, 2013, on our consideration of the METHACTON 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 METHACTON SCHOOL DISTRICT's internal control over financial reporting and compliance.

November 8, 2013

MAJOR & MASTRO, LLC  
Montgomeryville, Pennsylvania  
*Certified Public Accountants*

Handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, slightly slanted style.

# METHACTON SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2013

### INTRODUCTION

Our discussion and analysis of Methacton School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2013.

### FINANCIAL HIGHLIGHTS

- The assets of the Methacton School District exceeded its liabilities at the close of the 2013 fiscal year by \$17,932,760. Total current assets exceed current liabilities by \$997,597. This compares with net position of \$17,505,243 (as adjusted) and current assets exceeding current liabilities by \$1,972,647 (as adjusted) at the close of the 2012 fiscal year.
- As of the close of the current fiscal year, unassigned fund balance for the General Fund was \$4,368,123 or 4.76 percent of the total general fund expenditures. Unassigned fund balance at the end of the 2012 fiscal year was \$3,100,883.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Methacton School District's basic financial statements. The Methacton School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of net position presents information on all of the Methacton School District's assets and liabilities, with the difference between the two reported as net position.

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

Both of the government-wide financial statements distinguish functions of the Methacton School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Methacton School District include general operations of public education.

## METHACTON SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Methacton School District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Reserve Fund, both of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Methacton School District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Methacton School District maintains one proprietary fund which is Food Service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Food Service function.

## METHACTON SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Methacton School District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Methacton School District's assets and deferred outflows of resources exceeded liabilities by a total of \$17,932,760 at the close of the fiscal year ending June 30, 2013. Assets and deferred outflows of resources exceeded liabilities by \$17,505,243 at the close of the fiscal year ended June 30, 2012.

The following table reflects the current and prior year's information:

#### METHACTON SCHOOL DISTRICT's Net Position

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 18,612,934	\$ 16,272,699	\$ 513,677	\$ 682,652	\$ 19,126,611	\$ 16,955,351
Capital assets	113,497,790	116,524,191			113,497,790	116,524,191
Total assets	<u>\$ 132,110,724</u>	<u>\$ 132,796,890</u>	<u>\$ 513,677</u>	<u>\$ 682,652</u>	<u>\$ 132,624,401</u>	<u>\$ 133,479,542</u>
Deferred outflows of resources	<u>\$ 583,548</u>	<u>\$ 135,521</u>	<u>\$</u>	<u>\$</u>	<u>\$ 583,548</u>	<u>\$ 135,521</u>
Long-term liabilities						
outstanding	\$ 97,146,175	\$ 101,127,116	\$	\$	\$ 97,146,175	\$ 101,127,116
Other liabilities	17,615,337	14,300,052	593,784	761,560	18,209,121	15,061,612
Total liabilities	<u>\$ 114,761,512</u>	<u>\$ 115,427,168</u>	<u>\$ 593,784</u>	<u>\$ 761,560</u>	<u>\$ 115,355,296</u>	<u>\$ 116,188,728</u>
Net Position:						
Invested in capital assets, net of related debt	\$ 15,819,681	\$ 14,907,612	\$	\$	\$ 15,819,681	\$ 14,907,612
Restricted	1,995,524	2,846,140			1,995,524	2,846,140
Unrestricted	117,555	(248,509)	(80,107)	(78,908)	37,448	(327,417)
Total Net Position (deficit)	<u>\$ 17,932,760</u>	<u>\$ 17,505,243</u>	<u>\$ (80,107)</u>	<u>\$ (78,908)</u>	<u>\$ 17,852,653</u>	<u>\$ 17,426,335</u>

## METHACTON SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

**Governmental activities.** Governmental activities increased the Methacton School District's net position by \$427,517 and \$1,900,948 (as adjusted) for the years ending June 30, 2013 and 2012, respectively. Key elements of this increase are displayed below.

**Business-type Activities.** Business Type activities, comprised of the District's Food Service Fund, decreased the District's net position by \$1,199 for the year ended June 30, 2013 compared to a \$20,864 decrease in the District's net position for the year ended June 30, 2012. Key elements are displayed below.

### METHACTON SCHOOL DISTRICT'S Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Revenues:</b>						
Program Revenues						
Charges for Services	\$ 476,755	\$ 455,764	\$ 1,144,027	\$ 1,315,889	\$ 1,620,782	\$ 1,771,653
Operating Grants	9,871,844	9,437,689	301,468	275,442	10,173,312	9,713,131
General Revenues:						
Taxes	71,915,189	70,183,747			71,915,189	70,183,747
Grants, not restricted to specific programs	8,602,731	8,761,609			8,602,731	8,761,609
Investment Income	14,213	16,604	285	629	14,498	17,233
Gain (loss) on sale of assets	1,600	300			1,600	300
Miscellaneous Income	426,116	225,455			426,116	225,455
Transfers						
Total Revenues	<u>91,308,448</u>	<u>89,081,168</u>	<u>1,445,780</u>	<u>1,591,960</u>	<u>92,754,228</u>	<u>90,673,128</u>
<b>Expenses:</b>						
Instruction	55,576,511	53,850,112			55,576,511	53,850,112
Support Services	30,571,957	27,983,953			30,571,957	27,983,953
Operation of Non- Instructional Services	1,350,801	1,377,832			1,350,801	1,377,832
Interest on Long-term Debt	3,381,662	3,968,323			3,381,662	3,968,323
Food Service			1,446,979	1,612,824	1,446,979	1,612,824
Total Expenses	<u>90,880,931</u>	<u>87,180,220</u>	<u>1,446,979</u>	<u>1,612,824</u>	<u>92,327,910</u>	<u>88,793,044</u>
Change in Net Position	427,517	1,900,948	(1,199)	(20,864)	426,318	1,880,084
Beginning Net Position	<u>17,505,243</u>	<u>15,604,295</u>	<u>(78,908)</u>	<u>(58,044)</u>	<u>17,426,335</u>	<u>15,546,251</u>
Ending Net Position	<u>\$ 17,932,760</u>	<u>\$ 17,505,243</u>	<u>\$ (80,107)</u>	<u>\$ (78,908)</u>	<u>\$ 17,852,653</u>	<u>\$ 17,426,335</u>

# METHACTON SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Methacton School District utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Methacton School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Methacton School District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Methacton School District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,368,123. This unreserved fund balance represents 4.76% of total general fund expenditures.

General Fund revenues of the Methacton School District came from four basic sources. The largest source was provided by local funding totaling \$74,212,587 (81.1%), and \$71,818,437 (80.9%), for the years ended June 30, 2013 and 2012 respectively, of which \$72,074,371 and \$69,888,579 were tax revenues. State funding amounted to \$16,796,242 (18.4%) and \$16,175,652 (18.2%), federal funding amounted to \$456,333 (.5%) and \$790,050 (.9%), for the years ending June 30, 2013 and 2012, respectively.

State and Federal funding continue to provide a relatively small percentage (18.9%) of total District revenue. This compels the Methacton School District to rely primarily on the local tax levying powers provided by the Pennsylvania Public School Code and the Local Tax Enabling Act (Act 511 of 1965) to fund the revenue shortfall in order to operate the School District.

General Fund expenditures of the District fall into four major categories and are summarized below for the years ended June 30, 2013 and 2012:

	Expenditures		Expenditures	
	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>
Instruction	\$ 53,315,785	58.0%	\$ 50,953,634	57.3%
Support Service	28,056,789	30.5%	26,079,723	29.3%
Non-Instructional	1,282,953	1.4%	1,314,261	1.5%
Debt Service	9,199,572	10.1%	10,518,367	11.9%
<b>TOTAL</b>	<u>\$ 91,855,099</u>	<u>100.0%</u>	<u>\$ 88,865,985</u>	<u>100.0%</u>

## METHACTON SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

**Capital Funds.** The Capital Projects Funds have a total fund balance of \$1,995,524 and \$3,062,809 for the years ended June 30, 2013 and 2012, comprised of Construction Funds \$221,989 and \$216,700, and the Capital Reserve Fund \$1,773,535 and \$2,846,109 respectively.

**Proprietary funds.** The Methacton School District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Proprietary Funds had negative net position of \$80,107 and \$78,908 for the years ended June 30, 2013 and 2012 respectively.

### GENERAL FUND BUDGETARY HIGHLIGHTS

The Methacton School District's expenditures and other financing uses for the fiscal year ended June 30, 2013 of \$91,855,099 were lower than the final budget of \$94,333,111 by a total of \$2,478,012. This is primarily the result of savings realized in the following areas: Budgetary reserve was not utilized, savings in debt service payments due to the restructuring of debt, transfer of Title I D expenditures to Montgomery County Intermediate Unit.

The District's revenues and other financing sources for the fiscal year ended June 30, 2013 were lower than the adopted budget by \$67,861 primarily due to lower subsidy payments from the state for reimbursable school construction projects due to debt restructuring, and elimination of Title I D funding under federal funds.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets.** The Methacton School District's investment in capital assets for its governmental activities, net of accumulated depreciation, amounts to \$113,497,790 and \$116,524,191 as of June 30, 2013 and 2012 respectively. The investment in capital assets includes land, site improvements, buildings, building improvements, and machinery and equipment.

## METHACTON SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

#### METHACTON SCHOOL DISTRICT'S Capital Assets

	Governmental Activities	
	2013	2012
Land	\$ 1,564,425	\$ 1,564,425
Construction in progress		
Site improvements	2,619,040	2,365,782
Buildings and improvements	144,874,674	144,545,028
Machinery and equipment	21,847,875	20,800,310
Accumulated depreciation	<u>(57,408,224)</u>	<u>(52,751,354)</u>
	<u>\$ 113,497,790</u>	<u>\$ 116,524,191</u>

More detailed information about the Methacton School District's capital assets can be found in footnotes to the financial statements section of this report.

**Long-term debt.** At the end of the current fiscal year, the Methacton School District had total bonded debt outstanding of \$78,365,000 as well as notes payable of \$17,260,000 and capital lease obligations of \$1,276,576.

The Methacton School District maintains a rating of Aa2 with a negative outlook from Moody's for general obligation debt.

Additional information on the Methacton School District's long-term debt can be found in the footnotes to the financial statements section of this report.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Employee salary costs continue to increase. Salaries for 2013-2014 will increase for administrative staff (2.00%), support staff (3.00%), Teamsters Union Local 384 (2.50%), and professional staff (1.97%). The professional staff increase was based on a new four-year agreement approved by the Methacton School District's Board of School Directors on September 24, 2013.

Employee health benefit costs for 2013-14 are anticipated to increase 4.73%.

# **METHACTON SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Methacton School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Methacton School District, Director of Business and Operations, 1001 Kriebel Mill Road, Eagleville, PA 19403-1047.

METHACTON SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 13,717,422	\$ 455,111	\$ 14,172,533
Taxes receivable, net	3,144,643		3,144,643
Due from other governments	1,587,850	41,686	1,629,536
Other receivables	81,585	1,811	83,396
Prepaid assets	72,702		72,702
Inventories		15,069	15,069
Other assets	8,732		8,732
Total Current Assets	<u>18,612,934</u>	<u>513,677</u>	<u>19,126,611</u>
Noncurrent Assets:			
Capital assets:			
Land	1,564,425		1,564,425
Site improvements	2,619,040		2,619,040
Buildings and building improvements	144,874,674		144,874,674
Machinery and equipment	21,847,875		21,847,875
Accumulated depreciation	(57,408,224)		(57,408,224)
Total Noncurrent Assets	<u>113,497,790</u>		<u>113,497,790</u>
<b>TOTAL ASSETS</b>	<u>132,110,724</u>	<u>513,677</u>	<u>132,624,401</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	<u>583,548</u>		<u>583,548</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	1,339,414	84,122	1,423,536
Accrued salaries and benefits	2,848,521		2,848,521
Internal balances	(481,595)	481,595	-
Payroll deductions and withholding	4,955,118		4,955,118
Accrued interest	745,628		745,628
Unearned revenue	5,587	6,588	12,175
Escrow for taxes	1,147,395		1,147,395
Other current liabilities		21,479	21,479
Portion due or payable within one year			
Bonds payable	3,255,000		3,255,000
Notes payable	3,145,000		3,145,000
Capital lease obligation	529,143		529,143
Accumulated compensated absences	126,126		126,126
Total Current Liabilities	<u>17,615,337</u>	<u>593,784</u>	<u>18,209,121</u>
Long-term Liabilities:			
Portion due or payable after one year			
Bonds payable in future years	75,110,000		75,110,000
Notes payable in future years	14,115,000		14,115,000
Bond discount and premiums	1,360,081		1,360,081
Capital lease obligation payable in future years	747,433		747,433
Other post-employment benefits	3,417,262		3,417,262
Accumulated compensated absences	2,396,399		2,396,399
Total Long-term Liabilities	<u>97,146,175</u>	<u>-</u>	<u>97,146,175</u>
<b>TOTAL LIABILITIES</b>	<u>114,761,512</u>	<u>593,784</u>	<u>115,355,296</u>
<b>NET POSITION (DEFICIT)</b>			
Net investment in capital assets	15,819,681		15,819,681
Restricted for			
Capital projects	1,995,524		1,995,524
Unrestricted	117,555	(80,107)	37,448
<b>TOTAL NET POSITION (DEFICIT)</b>	<u>\$ 17,932,760</u>	<u>\$ (80,107)</u>	<u>\$ 17,852,653</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>GOVERNMENTAL ACTIVITIES</b>						
Instruction						
Regular programs	\$ 37,502,446	\$ 54,884	\$ 2,334,948	\$ (35,112,614)	\$	\$ (35,112,614)
Special programs	14,187,251		4,197,313	(9,989,938)		(9,989,938)
Vocational programs	2,923,039		101,809	(2,821,230)		(2,821,230)
Other instructional programs	802,003	66,325	385,365	(350,313)		(350,313)
Adult education programs	161,772	230,217	4,373	72,818		72,818
Support services						
Pupil personnel services	3,443,064		192,868	(3,250,196)		(3,250,196)
Instructional staff services	1,970,378		106,418	(1,863,960)		(1,863,960)
Administration services	5,668,270		59,084	(5,609,186)		(5,609,186)
Pupil health	1,021,823		359,229	(662,594)		(662,594)
Business services	1,108,500		52,179	(1,056,321)		(1,056,321)
Operation and maintenance of plant services	8,134,185		271,056	(7,863,129)		(7,863,129)
Student transportation services	7,707,282		1,675,497	(6,031,785)		(6,031,785)
Central services	1,439,985		53,849	(1,386,136)		(1,386,136)
Other support services	78,470			(78,470)		(78,470)
Operation of non-instructional services						
Student activities	1,346,956	125,329	77,856	(1,143,771)		(1,143,771)
Community services	3,845			(3,845)		(3,845)
Interest on long-term debt	3,381,662			(3,381,662)		(3,381,662)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>90,880,931</b>	<b>476,755</b>	<b>9,871,844</b>	<b>(80,532,332)</b>		<b>(80,532,332)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Food service	1,446,979	1,144,027	301,468		(1,484)	(1,484)
	<u>\$ 92,327,910</u>	<u>\$ 1,620,782</u>	<u>\$ 10,173,312</u>			
<b>GENERAL REVENUES</b>						
Property taxes, levied for general purposes				64,604,022		64,604,022
Earned income, per capita, occupation and amusement taxes				6,394,060		6,394,060
Transfer taxes				917,107		917,107
Grants and entitlements not restricted to specific programs				8,602,731		8,602,731
School facility rental				98,089		98,089
Investment earnings				14,213	285	14,498
Miscellaneous				328,027		328,027
Gain (loss) on sale of assets				1,600		1,600
<b>TOTAL GENERAL REVENUES</b>				<b>80,959,849</b>	<b>285</b>	<b>80,960,134</b>
<b>CHANGE IN NET POSITION (DEFICIT)</b>				<b>427,517</b>	<b>(1,199)</b>	<b>426,318</b>
<b>NET POSITION (DEFICIT) AT BEGINNING OF YEAR</b>						
As Previously Reported				18,824,484	(78,908)	18,745,576
Adjustment (See Note 13)				(1,319,241)	-	(1,319,241)
<b>BALANCE AT BEGINNING OF YEAR, AS RESTATED</b>				<b>17,505,243</b>	<b>(78,908)</b>	<b>17,426,335</b>
<b>NET POSITION (DEFICIT) AT END OF YEAR</b>				<b>\$ 17,932,760</b>	<b>\$ (80,107)</b>	<b>\$ 17,852,653</b>

See accompanying notes to the basic financial statements

**METHACTON SCHOOL DISTRICT**

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2013

	General Fund	Capital Reserve Fund	Nonmajor Funds	Totals
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,658,546	\$ 1,849,332	\$ 209,544	\$ 13,717,422
Taxes receivable, net of allowance of \$761,112	3,144,643			3,144,643
Due from other governments	1,587,850			1,587,850
Interfund receivables	490,327		12,445	502,772
Prepaid assets	72,702			72,702
Other receivables	66,876	14,709		81,585
<b>TOTAL ASSETS</b>	<b>\$ 17,020,944</b>	<b>\$ 1,864,041</b>	<b>\$ 221,989</b>	<b>\$ 19,106,974</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Interfund payables	\$ 12,445	\$	\$	\$ 12,445
Accounts payable	1,248,908	90,506		1,339,414
Payroll deductions and withholdings	4,955,118			4,955,118
Accrued salaries and benefits	2,848,521			2,848,521
Compensated absences	126,126			126,126
Unearned revenue	5,587			5,587
Escrow for taxes	1,147,395			1,147,395
<b>TOTAL LIABILITIES</b>	<b>10,344,100</b>	<b>90,506</b>	<b>-</b>	<b>10,434,606</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - real estate taxes	1,039,673			1,039,673
Unavailable revenue - earned income taxes	422,811			422,811
Unavailable revenue - other taxes	291,940			291,940
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,754,424</b>	<b>-</b>	<b>-</b>	<b>1,754,424</b>
<b>FUND BALANCES</b>				
Nonspendable:				
Prepaid expenditures	72,702			72,702
Interfund advances	481,595			
Assigned				
Capital projects		1,773,535	221,989	1,995,524
Unassigned	4,368,123			4,368,123
<b>TOTAL FUND BALANCES</b>	<b>4,922,420</b>	<b>1,773,535</b>	<b>221,989</b>	<b>6,917,944</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 17,020,944</b>	<b>\$ 1,864,041</b>	<b>\$ 221,989</b>	<b>\$ 19,106,974</b>

See accompanying notes to the basic financial statements

**METHACTON SCHOOL DISTRICT**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2013

TOTAL GOVERNMENTAL FUND BALANCES	\$ 6,917,944
Amounts reported for governmental activities on the statement of net position are different because of the following:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	113,497,790
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	1,754,424
Deferred charges on refunding are recorded as other financing uses in the Governmental funds, the statement of net position includes these amounts as deferred outflows of resources.	583,548
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Accrued interest	(745,628)
Bonds and notes payable	(95,625,000)
Bond premiums and discounts	(1,360,081)
Capital lease obligation	(1,276,576)
Other post-employment benefits	(3,417,262)
Accumulated compensated absences	<u>(2,396,399)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 17,932,760</u>

**METHACTON SCHOOL DISTRICT**

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

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Capital Reserve Fund	Nonmajor Funds	Totals
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Local sources	\$ 74,212,587	\$ 771	\$ 98	\$ 74,213,456
State sources	16,796,242			16,796,242
Federal sources	456,333			456,333
Other Financing Sources:				
Bond premiums			625,689	625,689
Proceeds from bond refunding			28,255,000	28,255,000
Proceeds from capital lease	1,248,488			1,248,488
Interfund transfers		33		33
Proceeds from sale of capital assets	1,600			1,600
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b>92,715,250</b>	<b>804</b>	<b>28,880,787</b>	<b>121,596,841</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Instruction	53,315,785			53,315,785
Support services	28,056,789	22,960	560,312	28,640,061
Operation of non-instructional services	1,282,953			1,282,953
Facilities acquisition, construction, and improvement services		1,050,418	17,426	1,067,844
Debt service				
Principal	6,012,272			6,012,272
Interest	3,187,300		19,267	3,206,567
Other Financing Uses:				
Interfund transfers			33	33
Bond discounts			132,595	132,595
Payment to refund bonds			28,145,865	28,145,865
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<b>91,855,099</b>	<b>1,073,378</b>	<b>28,875,498</b>	<b>121,803,975</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>860,151</b>	<b>(1,072,574)</b>	<b>5,289</b>	<b>(207,134)</b>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>4,062,269</b>	<b>2,846,109</b>	<b>216,700</b>	<b>7,125,078</b>
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 4,922,420</b>	<b>\$ 1,773,535</b>	<b>\$ 221,989</b>	<b>\$ 6,917,944</b>

See accompanying notes to the basic financial statements

**METHACTON SCHOOL DISTRICT**

**RECONCILIATION OF GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2013

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (207,134)

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense and capital outlays:

Capital outlay	1,696,969
Depreciation expense	(4,723,370)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in Governmental Funds. (159,183)

Repayment of bond and note principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position. 5,840,000

Repayment of capital lease obligations is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position. 540,384

Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds. 25,449

Other post-employment benefits do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds. (559,786)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds. This transaction has no impact on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.

Amortization of bond premium/discount	17,790
Capital lease obligation	(1,248,488)
Refunding bonds issued	(28,748,094)
Payment to refund bonds	27,753,547

Interest is reported as an expenditure when due in the Governmental Funds, but is accrued on outstanding debt on the statement of activities. 199,433

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 427,517

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

STATEMENT OF NET POSITION  
PROPRIETARY FUND

JUNE 30, 2013

	<u>Enterprise Fund</u>
	Food
	<u>Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 455,111
Due from other governments	41,686
Other receivables	1,811
Inventories	<u>15,069</u>
TOTAL CURRENT ASSETS	<u>513,677</u>
TOTAL ASSETS	<u>513,677</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Interfund payables	481,595
Accounts payable	84,122
Unearned revenue	6,588
Deposits	<u>21,479</u>
TOTAL CURRENT LIABILITIES	<u>593,784</u>
NET POSITION (DEFICIT)	
Unrestricted	<u>(80,107)</u>
TOTAL NET POSITION (DEFICIT)	<u><u>\$ (80,107)</u></u>

See accompanying notes to the basic financial statements

**METHACTON SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUND**

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Enterprise Fund</u> Food Service Fund
OPERATING REVENUES	<u>\$ 1,144,027</u>
OPERATING EXPENSES	
Purchased professional and technical services	1,389,860
Supplies	54,054
Purchased services	2,785
Other operating expenses	<u>280</u>
TOTAL OPERATING EXPENSES	<u>1,446,979</u>
OPERATING LOSS	<u>(302,952)</u>
NONOPERATING REVENUES	
Earnings on investments	285
State sources	27,239
Federal sources	<u>274,229</u>
TOTAL NONOPERATING REVENUES	<u>301,753</u>
CHANGE IN NET POSITION	(1,199)
NET POSITION (DEFICIT) AT BEGINNING OF YEAR	<u>(78,908)</u>
NET POSITION (DEFICIT) AT END OF YEAR	<u><u>\$ (80,107)</u></u>

See accompanying notes to the basic financial statements

**METHACTON SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Fund
	Food Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 1,266,524
Payments to suppliers	(1,617,197)
Payments for other operating expenses	(280)
	(350,953)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State sources	27,262
Federal sources	270,388
	297,650
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Earnings on investments	285
	285
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	
<b>NET DECREASE IN CASH</b>	(53,018)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	508,129
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 455,111
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (302,952)
Adjustments to reconcile operating loss to net cash used by operating activities	
(Increase) Decrease in assets:	
Accounts receivable	119,798
Inventory	1,119
Increase (decrease) in liabilities:	
Accounts payable	(171,617)
Deposits	2,699
	(350,953)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	\$ (350,953)
 Schedule of noncash noncapital financing activities	
Donated commodities received	\$ 52,935
Donated commodities used	\$ 51,794

See accompanying notes to the basic financial statements

**METHACTON SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS**

JUNE 30, 2013

	<u>Scholarship Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 68,936	\$ 334,640
<b>TOTAL ASSETS</b>	<u>\$ 68,936</u>	<u>\$ 334,640</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Interfund payable	\$	\$ 8,732
Accounts payable		14,000
Due to student organizations		311,908
<b>TOTAL LIABILITIES</b>	-	334,640
<b>NET POSITION</b>		
Reserved for scholarships	68,936	
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 68,936</u>	<u>\$ 334,640</u>

See accompanying notes to the basic financial statements

**METHACTON SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Scholarship Funds</u>
ADDITIONS	
Contributions	\$ 7,190
Investment income	<u>65</u>
TOTAL ADDITIONS	7,255
DEDUCTIONS	
Fees paid and scholarships awarded	<u>9,324</u>
CHANGE IN NET POSITION	(2,069)
NET POSITION AT BEGINNING OF YEAR	<u>71,005</u>
NET POSITION AT END OF YEAR	<u><u>\$ 68,936</u></u>

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Methacton School District is located in Fairview Village, Pennsylvania. This District's tax base consists of the Townships of Lower Providence and Worcester.

The Methacton School District is a unit established, organized, and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on a local level, the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the School Law Code of the same (Article II; Act 150, July 8, 1968).

The Methacton School District is governed by a board of nine school directors who are residents of the school district and who are elected every two years, on a staggered basis, for a four year term.

The Board of School Directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person residing in such district, between the ages of six and twenty-one years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any schools herein provided, or to pay any school indebtedness which the school district is required to pay, or to pay any indebtedness that may at any time hereafter, be created by the school district, the board of school directors are vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual State appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949, as amended.

The financial statements of METHACTON SCHOOL DISTRICT (the District) are prepared in accordance with the accounting system and procedures prescribed for school districts by the Commonwealth of Pennsylvania, Department of Education, which conforms to generally accepted accounting principles of the United States of America as applicable to governmental units.

The most significant of the District's accounting policies are described below:

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Financial Reporting Entity

In evaluating the District as a reporting entity, management has addressed all potential component units for which the District may or may not be financially accountable, and, as such, be includable within the District's financial statements. In accordance with Statement of Governmental Accounting Standards Board (GASB) No. 14, as amended by GASB No. 39, the District is financially accountable if it appoints a voting majority of the organization governing board (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the District. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on this criteria, there have been no component units defined within our reporting entity.

Joint Ventures

The District is a participating member of the North Montco Area Vocational-Technical School (NMAVTS). The NMAVTS is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the NMAVTS's annual operating budget. Each participating district pays a pro-rata share of the NMAVTS's operating costs based on the number of students attending the NMAVTS for each District. The District's share of the NMAVTS's operating costs for 2012-2013 was \$1,164,717.

On dissolution of the North Montco Area Vocational Technical School, the net position of NMAVTS will be shared on a pro-rata basis of each participating district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the district does not have an equity interest in NMAVTS as defined by GASB Statement No. 14, as amended by GASB No. 39, except a residual interest in net position upon dissolution that should not be reflected in the financial statements. Complete financial statements for the NMAVTS can be obtained from the NMAVTS's administrative office.

## METHACTON SCHOOL DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### Jointly Governed Organizations

The District is a participating member of the Montgomery County Intermediate Unit (MCIU). The MCIU is run by a joint committee consisting of members from each participating District. No participating district appoints a majority of the joint committee.

The board of directors of each participating district must approve MCIU's annual operating budget. The MCIU is a self-sustaining organization that provides services from fees to participating districts. As such, the District has no on-going financial interest or responsibility in the MCIU. The MCIU contracts with participating districts to supply special education services, computer services, and as a conduit for certain federal programs.

##### New Accounting Pronouncements Implemented

During the current year the School District implemented GASB Statements No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65 *Items Previously Reported as Assets and Liabilities*. The effect of these statements is incorporating deferred inflows and outflows of resources and the renaming of "Net Assets" to "Net Position". The effect of implementing this change is disclosed in Note 13 – Change in Accounting Principle.

##### 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 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 Fund 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. 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

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

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 Fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single 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 30 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 judgements, 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,

## METHACTON SCHOOL DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### Basis of Presentation and Accounting, continued

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.

All Proprietary Funds 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 total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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

Fiduciary 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.

##### Governmental Funds

Governmental Funds are those through which most governmental functions of the District are financed. The District has presented the following major governmental funds:

##### **General Fund**

The General Fund is for the general operations of the District and all financial transactions not required to be accounted for in another fund.

##### **Capital Reserve Fund**

The Capital Reserve Fund is a Capital Projects Fund, which accounts for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes.

**METHACTON SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Proprietary Funds

**Enterprise Fund**

The Enterprise Fund accounts for the District's Food Service operations. It is financed and operated in a manner similar to a private business enterprise. The fund accounts for all revenues, food purchases, costs, and expenses for the food service program on the accrual method of accounting. This method recognizes expenses when incurred and revenues when earned. All proprietary activities are accounted for using GASB pronouncements as established by GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*.

Fiduciary Fund Type

**Trust and Agency Funds**

These funds are used to account for assets held by the district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and highly-liquid investments with original maturities of less than 90 days.

Investments are stated at fair value, the amount at which a financial instrument could be exchanged in a current transaction between parties, other than in a forced or liquidation sale. This method of valuation is in compliance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Intergovernmental Receivables/Payables

During the course of operations, numerous transactions occur between government units for payment of services and subsidy payments. These receivables and payables are classified as intergovernmental receivables/payables on the balance sheet.

Inventories

Inventories of the Food Service Fund are valued at the lower of cost or market.

Capital Assets

Capital assets, which includes land, site improvements, buildings, building improvements, machinery and equipment, and vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

The District defines capital assets as assets with an estimated useful life in excess of one year and an initial, individual cost equal to or greater than \$5,000. Management has elected to include certain homogeneous asset categories with individual assets that cost more than \$2,500, \$10,000 in the aggregate, as composite groups for financial reporting purposes. Depreciation has been calculated on each class of depreciable property using the straight-line method.

Estimated useful lives are as follows:

	<u>Years</u>
Site improvements	5-45
Buildings and building improvements	10-45
Machinery and equipment	5-45
Vehicles	6-10

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences

**Sick Leave**

Under the District's various bargaining agreements and plans, professional and eligible support personnel accumulate unused sick days from year to year based on their classification. These accumulated sick days are non-vesting during the employee's tenure. Upon retirement, these employees are eligible for remuneration of unused sick days for the following bargaining units:

- Methacton Education Association - \$60 per day up to a maximum 160 days.
- Methacton Educational Support Personnel Association - \$45 per day up to a maximum 115 days.
- Teamsters Local 384 - \$45 per day up to a maximum of 120 days.
- Methacton Administrators agreement \$95 per day up to a maximum of 185 days.

To be eligible for this benefit, the employee must be eligible to receive superannuation, early retirement or disability pension from the Public School Employees Retirement System (PSERS), and the employee must have at least ten (10) years of service in the Methacton School District, including previous subdivisions. The employee must be retiring from a full-time position and complete full-time service.

The District maintains records of each employee's accumulated sick days that are vested with employees who are eligible to retire and those under the administrators plan.

**Vacation Leave**

The District maintains records of each employee's accumulated vacation days, and has valued the accumulated vacation days earned at June 30, 2013.

Unavailable and unearned Revenues

General Fund unavailable revenues represent primarily delinquent taxes not collected within 30 days subsequent to the District's year end and grants received but not expended by year end. It is expected that these receivables will be collected and included in revenues of future fiscal years.

Food Service Fund unearned revenues represent food received in its food service operations that is on hand at June 30, 2013. Such revenues will be recognized when the food commodities are used.

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Obligations

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

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 and payment of principal and interest reported as expenditures. 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 expenditures.

Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund receivables/payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists 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 are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance

GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain items within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types have also been modified for clarity and consistency.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance.* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance.* These amounts can only be used for specific purposes pursuant to constraints imposed by formal action (board resolution) of the school board – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment.

*Assigned fund balance.* This classification reflects amounts constrained by the school’s “intent” to be used for specific purposes, but are neither restricted nor committed. The business manager has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance.* This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

*Use of fund balance.* The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated. Then committed, assigned and unassigned in that order as needed.

**METHACTON SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Cash and Cash Equivalents

Under Act No. 72 enacted by the general assembly of the Commonwealth of Pennsylvania, the funds deposited with the depository are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit in excess of the Federal Depository Insurance limit. These may be bonds of the United States, any State of the United States, or bonds of any political subdivision of Pennsylvania, or the general state authority or other authorities created by the General Assembly of the Commonwealth of Pennsylvania or insured with the Federal Deposit Insurance Corporation.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2013, \$2,955,201 of the District’s bank balance of \$3,241,470 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank’s trust department not in the District’s name	\$2,955,201
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Investments

The District is permitted to invest funds consistent with sound business practices in the following types of investments:

1. Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentality’s backed by the full faith and credit of the political subdivision.
2. Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by the law therefore shall be pledged by the depository.

**METHACTON SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS, continued

Investments, continued

3. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933. So long as the following conditions are met: (a) Investments of that company are in the authorized investments for school district funds in the preceding paragraphs, (b) The investment company is managed so as to maintain its shares at a constant net asset value in accordance with 17 CFR 270 2a-7, (c) The investment company is rated in the highest category by a nationally recognized rating agency.

As of June 30, 2013, the District had the following investments:

<u>Investment</u>	<u>Fair Value</u>
PA Local Government Investment Trust	<u>\$ 15,454,112</u>
PA School District Liquid Asset Fund	<u>\$ 313,186</u>

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

*Credit Risk.* The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2013, the District’s investments were rated as:

<u>Investment</u>	<u>Standard &amp; Poor’s</u>
PA Local Government Investment Trust	AAA
PA School District Liquid Asset Fund	AAA

*Interest Rate Risk.* Interest Rate risk is the risk that changes in interest rates will adversely affect an investment’s value. The District does not have a formal policy regarding interest rate risk. As of June 30, 2013, the weighted average maturity of the investments in PLGIT and PSDLAF are both less than 90 days.

**METHACTON SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. SCHOOL TAXES

The tax on real estate, as levied by the School Board, was 26.83 mills (\$ .02683 per \$1 of assessed valuation) for fiscal year 2013. Assessed valuation of property is established by the Board of Assessments, and the elected or appointed tax collectors are responsible for collection. Real property in the District for the July 1, 2012 levy was assessed at \$2,562,169,118. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face value period
November 1 – December 31	10% penalty period
January 1	Lien date

For government-wide financial statements, the school district, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes in the amount of \$761,112 as determined by the administration. A portion of the amount estimated to be collectible, which was measurable and available within 30 days, was recognized as revenue and the balance deferred in the fund financial statements.

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2013:

	Interfund Receivables	Interfund Payables
General Fund	\$ 490,327	\$ 12,445
Non-major Governmental Funds	12,445	
Fiduciary Funds		8,732
Proprietary, Food Service		481,595
	\$ 502,772	\$ 502,772

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. The amount due from the Food Service fund to the General Fund of \$481,595 is not expected to be repaid within one year.

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, continued

Interfund transfers are summarized as follows:

	Transfer to Other Funds	Transfer from Other Funds
Nonmajor Fund	\$ 33	\$
Capital Reserve Fund		33
	\$ 33	\$ 33

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

5. CAPITAL ASSETS

Capital asset activity for Governmental Activities for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 1,564,425	\$	\$	\$ 1,564,425
Total capital assets not being depreciated	1,564,425	-	-	1,564,425
Capital assets being depreciated				
Site improvements	2,365,782	253,258		2,619,040
Buildings and improvements	144,545,028	329,646		144,874,674
Machinery and equipment	20,800,310	1,114,065	66,500	21,847,875
Total capital assets being depreciated at historical cost	167,711,120	1,696,969	66,500	169,341,589
Less accumulated depreciation for				
Site improvements	(845,900)	(108,373)		(954,273)
Buildings and improvements	(35,972,864)	(3,005,228)		(38,978,092)
Machinery & equipment	(15,932,590)	(1,609,769)	(66,500)	(17,475,859)
Total accumulated depreciation	(52,751,354)	(4,723,370)	(66,500)	(57,408,224)
Total capital assets being depreciated, net	114,959,766	(3,026,401)	-	111,933,365
Governmental Activities capital assets, net	\$ 116,524,191	\$ (3,026,401)	\$ -	\$ 113,497,790

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

5. CAPITAL ASSETS, continued

Depreciation expense for Governmental Activities was charged as direct expense to programs as follows:

Instruction	
Regular programs	\$ 2,160,044
Special programs	792,491
Vocational programs	163,027
Other programs	44,871
Adult education programs	8,927
Support Services	
Pupil personnel services	157,486
Instructional staff services	92,303
Pupil health	46,190
Administrative services	258,605
Business services	56,783
Central services	66,169
Operation and maintenance of plant services	373,459
Pupil transportation	432,425
Other support services	3,622
Operation of non-instructional services	<u>66,968</u>
Total Governmental Activities depreciation expense	<u><u>\$ 4,723,370</u></u>

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**6. LONG-TERM LIABILITIES**

The following is a summary of governmental long-term liability activity of the District for the year ending June 30, 2013:

Type	Principal Outstanding July 1, 2012	Additions	Repayments	Principal Outstanding June 30, 2013	Due within One Year
General Obligation Note - 1997	\$ 2,535,000	\$	\$ 2,145,000	\$ 390,000	\$ 390,000
General Obligation Note - 1997C	1,685,000		1,430,000	255,000	255,000
General Obligation Note - 2003	9,300,000		2,200,000	7,100,000	2,500,000
General Obligation Bond - 2007A	565,000		565,000	-	
General Obligation Bond - 2008	6,225,000		6,225,000	-	
General Obligation Bond - 2008A	3,775,000		3,775,000	-	
General Obligation Bond - 2008AA	5,615,000		5,615,000	-	
General Obligation Bond - 2009	30,205,000		1,205,000	29,000,000	5,000
General Obligation Bond - 2009A	4,840,000		705,000	4,135,000	700,000
General Obligation Bond - 2010	8,110,000		5,475,000	2,635,000	195,000
General Obligation Bond - 2010A	1,455,000		1,455,000	-	
General Obligation Bond - 2011	9,875,000		5,000	9,870,000	5,000
General Obligation Bond - 2011A	4,700,000		1,455,000	3,245,000	1,610,000
General Obligation Note - 2011A	1,500,000		-	1,500,000	-
General Obligation Bond - 2012	9,995,000		755,000	9,240,000	115,000
General Obligation Bond - 2012A		8,770,000	-	8,770,000	5,000
General Obligation Bond - 2012AA		7,245,000	-	7,245,000	620,000
General Obligation Bond - 2013		4,225,000	-	4,225,000	-
General Obligation Note - 2013		5,480,000	-	5,480,000	-
General Obligation Note - 2013A		2,535,000	-	2,535,000	-
	<u>100,380,000</u>	<u>28,255,000</u>	<u>33,010,000</u>	<u>95,625,000</u>	<u>6,400,000</u>
Capital Lease Obligations	568,472	1,248,488	540,384	1,276,576	529,143
	<u>100,948,472</u>	<u>29,503,488</u>	<u>33,550,384</u>	<u>96,901,576</u>	<u>6,929,143</u>
Compensated Absences	2,549,314		26,789	2,522,525	126,126
Total	<u>\$ 103,497,786</u>	<u>\$ 29,503,488</u>	<u>\$ 33,577,173</u>	<u>\$ 99,424,101</u>	<u>\$ 7,055,269</u>

Interest expense for Bonds and Notes for the year ended June 30, 2013 was \$3,206,073.

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. LONG-TERM LIABILITIES, continued

Bonds and Notes payable at June 30, 2013 consisted of:

<p>On November 26, 1997, the District issued General Obligation Note Series of 1997. The purpose of this issue is to refund a portion of the General Obligation Note Series A of 1996. The Note has an original principal amount of \$6,000,000, matures in February 2018, and bears interest at a variable rate. Interest is paid monthly on the third to the last day of each month. This note was partially refunded in 2013.</p>	<p>\$390,000</p>
<p>On December 30, 1997, the District issued General Obligation Note Series C of 1997. The purpose of this issue is to provide funds for construction and renovations. The Note has an original principal amount of \$4,000,000, matures in February 2018, and bears interest at a variable rate. Interest is paid monthly on the third to the last day of each month. This note was partially refunded in 2013.</p>	<p>255,000</p>
<p>On August 1, 2003, the District issued General Obligation Note Series of 2003. The purpose of this issue is to finance construction projects. The note has an original principal amount of \$10,000,000, matures in August 2015 and bears interest at a variable rate. Interest is paid monthly.</p>	<p>7,100,000</p>
<p>On January 1, 2009, the District issued General Obligation Bond Series of 2009. The purpose of this issue is to finance construction of the 5-6 Elementary School. The Bond has an original principal amount of \$30,220,000, matures in March 2025, and bears interest from 2.65% to 6.25%. Interest is paid semi-annually on March 1 and September 1.</p>	<p>29,000,000</p>
<p>On July 1, 2009, the District issued General Obligation Bond Series of 2009A. The purpose of this issue is to currently refund the outstanding principal of the General Obligation Bonds Series 2001A and Series 2004 and to advance refund a portion of the outstanding General Obligation Bond Series 2002A. The Bond has an original principal amount of \$6,310,000, matures on November 15, 2020, and bears interest from 2% to 3.75%. Interest is paid semi-annually on May 15 and November 15.</p>	<p>4,135,000</p>

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. LONG-TERM LIABILITIES, continued

<p>On January 5, 2010, the District issued General Obligation Bond Series of 2010. The purpose of this issue is to provide funds for constuction of the Woodland Elementary School and the Skyview Elementary School and to reimburse the District's Capital Reserve Fund for funds which had been advanced to fund the High School Roof. The Bond has an original principal amount of \$8,115,000, matures on September 15, 2021, and bears interest from 2% to 3.65%. Interest is paid semi-annually on March 15 and September 15.</p>	<p>2,635,000</p>
<p>On September 27, 2011, the District issued General Obligation Bond Series of 2011. The purpose of this issue is to currently refund the outstanding principal of the General Obligation Bonds Series 2006.The Bond has an original principal amount of \$9,875,000, matures on November 15, 2023, and bears interest from 1% to 4%. Interest is paid semi-annually on May 15 and November 15.</p>	<p>9,870,000</p>
<p>On October 25, 2011, the District issued General Obligation Bond Series of 2011A. The purpose of this issue is to currently refund the outstanding principal of the General Obligation Bonds Series 2007.The Bond has an original principal amount of \$4,700,000, matures on October 1, 2014, and bears interest from 1% to 3%. Interest is paid semi-annually on April 1 and October 1.</p>	<p>3,245,000</p>
<p>On October 3, 2012, the District issued General Obligation Note Series of 2011A. The purpose of this issue is to finance construction projects. The note has an original principal amount of \$1,500,000, matures in August 2023 and bears interest at a variable rate. Interest is paid monthly.</p>	<p>1,500,000</p>
<p>On June 4, 2012, the District issued General Obligation Bond Series of 2012. The purpose of this issue is to currently refund the part of the outstanding principal of the General Obligation Bonds Series 2007A and 2008AA.The Bond has an original principal amount of \$9,995,000, matures on September 15, 2018, and bears interest from .5% to 4%. Interest is paid semi-annually on March 15 and September 15.</p>	<p>9,240,000</p>

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. LONG-TERM LIABILITIES, continued

<p>On December 3, 2012, the District issued General Obligation Bond Series of 2012A. The purpose of this issue is to currently refund the remaining outstanding principal of the General Obligation Bonds Series 2007A and 2008A and part of the General Obligation Bonds Series 2008AA. The Bond has an original principal amount of \$8,770,000, matures on September 15, 2023, and bears interest from .35% to 2.06%. Interest is paid semi-annually on March 15 and September 15.</p>	8,770,000
<p>On December 19, 2012, the District issued General Obligation Bond Series of 2012AA. The purpose of this issue is to currently refund the remaining outstanding principal of the General Obligation Bonds Series 2008AA and part of the General Obligation Bonds Series 2008. The Bond has an original principal amount of \$7,245,000, matures on December 15, 2018, and bears interest from .5% to 2.0%. Interest is paid semi-annually on June 15 and December 15.</p>	7,245,000
<p>On June 27, 2013, the District issued General Obligation Bond Series of 2013. The purpose of this issue is to currently refund part of the outstanding principal of the General Obligation Notes Series 1997, 1997C and 2003. The Bond has an original principal amount of \$4,225,000, matures on September 15, 2025, and bears interest from .45% to 2.45%. Interest is paid semi-annually on March 15 and September 15.</p>	4,225,000
<p>On June 27, 2013, the District issued General Obligation Note Series of 2013. The purpose of this issue is to advance refund part of the outstanding principal of the General Obligation Bonds Series 2009, 2010 and 2012. The note has an original principal amount of \$5,480,000, matures on September 15, 2025, and bears interest from .45% to 3.5%. Interest is paid semi-annually on March 15 and September 15.</p>	5,480,000
<p>On June 27, 2013, the District issued General Obligation Note Series of 2013A. The purpose of this issue is to advance refund part of the outstanding principal of the General Obligation Bonds Series 2010. The note has an original principal amount of \$2,535,000, matures on September 15, 2025, and bears interest from .45% to 3.125%. Interest is paid semi-annually on March 15 and September 15.</p>	2,535,000

<b>TOTAL</b>	<b>\$ 95,625,000</b>
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**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. LONG-TERM LIABILITIES, continued

Principal and interest payments for Bonds and Notes for the succeeding fiscal years are as follows:

Year Ended June 30,	Principal	Interest	Total
2014	\$ 6,400,000	\$ 3,124,602	\$ 9,524,602
2015	6,635,000	3,040,888	9,675,888
2016	6,765,000	2,842,224	9,607,224
2017	6,985,000	2,738,665	9,723,665
2018	7,125,000	2,602,903	9,727,903
2019-2023	39,835,000	9,609,483	49,444,483
2024-2027	21,880,000	1,153,398	23,033,398
	<u>\$ 95,625,000</u>	<u>\$ 25,112,163</u>	<u>\$ 120,737,163</u>

The District defeased certain general obligation bonds by placing the proceeds of the new bonds in irrevocable escrow accounts with a trust agent to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The balance of defeased debt is \$2,235,000 at June 30, 2013.

The District issued three bonds and two notes to refund various bonds and notes to obtain an economic gain (difference between the present values of the debt service payment of the old and new debt) of approximately \$4,265,172.

7. CAPITAL LEASES

Methacton School District has the following capital lease obligations.

On August 1, 2010, the District entered into a lease-purchase agreement with TD Bank for the purchase of transportation and computer equipment. The present value of the lease payments is \$1,134,000. The lease provides for four annual payments of \$294,165. The implicit interest rate is 2.32%.

On July 26, 2012, the District entered into a lease-purchase agreement with Suntrust Bank for the purchase of transportation equipment. The present value of the lease payments is \$576,695. The lease provides for seven annual payments of \$87,135. The implicit interest rate is 1.9104%.

**METHACTON SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

7. CAPITAL LEASES, continued

On May 29, 2013, the District entered into a lease-purchase agreement with TD Equipment Finance for the purchase of computer equipment. The present value of the lease payments is \$671,793. The lease provides for four annual payments of \$172,272. The implicit interest rate is 1.76%.

Principal and interest payments for the succeeding fiscal years are as follows:

Year Ended June 30,	Principal	Interest	Total
2014	\$ 529,143	\$ 24,429	\$ 553,572
2015	245,633	13,774	259,407
2016	250,075	9,332	259,407
2017	82,326	4,809	87,135
2018	83,899	3,236	87,135
2019	85,500	1,633	87,133
	<u>\$ 1,276,576</u>	<u>\$ 57,213</u>	<u>\$ 1,333,789</u>

Interest expense for the capital leases for the year ended June 30, 2013, was \$13,189.

8. PENSION PLAN

Public School Employees' Retirement System Plan

Substantially, all full-time and part-time employees of the District participate in the Pennsylvania Public School Employees' Retirement System (PSERS), a governmental cost-sharing, multiple-employer defined benefit plan.

The PSERS provides retirement, disability, legislatively mandated ad hoc cost of living adjustments and healthcare insurance premium assistance to eligible annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) assigns the authority to establish and amend benefit provisions to the PSERS Board of Trustees.

The PSERS 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 N 5<sup>th</sup> Street, Harrisburg, PA 17108-1905 or by emailing Beth at bgirman@pa.gov. The CAFR is also available on the Publications page of the PSERS website, [www.psers.state.pa.us](http://www.psers.state.pa.us).

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

8. PENSION PLAN, continued

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

**Member Contributions** – Active members who joined the system prior to July 22, 1983, contribute a 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the system after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (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 Contribution** - Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013, the rate of employer's contribution was 12.36% of covered payroll. The 12.36 percent rate is composed of a pension contribution rate of 11.50 percent for pension benefits and .86 percent for healthcare insurance premium assistance.

The District's contributions to PSERS for the fiscal year ending June 30, 2013, 2012, and 2011, were \$5,590,751, \$3,754,881, and \$2,510,013, respectively, equal to the required contributions for each year.

9. POSTEMPLOYMENT HEALTHCARE BENEFITS

In the fiscal year ended June 30, 2009, the District implemented Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for postemployment health care benefits provided by the District. The requirements of this Statement were implemented prospectively, with the actuarially accrued liability for benefits at June 30, 2009, date of transition amortized using a weighted average blended amortization period of 19 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

## METHACTON SCHOOL DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

#### 9. POSTEMPLOYMENT HEALTHCARE BENEFITS, continued

**Plan Description:** The District provides post employment healthcare benefits as set forth in the collective bargaining agreement with the Methacton Education Association (MEA) and the Methacton Administrative Organization (MAO). For retired teachers: prior to July 2001, there are four retirees receiving 90% district contribution of the premium for healthcare programs for 14 years or age 65; retirees prior to July 1, 2005 with at least 10 years of district service, the District will continue to contribute 88% (reduced to 89% in 2011-2012 and 88% thereafter) of the premium for healthcare programs for up to 12 years, after 12 years the retiree can continue coverage by paying the full premium; retirees between July 1, 2005 and October 31, 2010 with at least 10 years of service will receive cash payments of \$10,000 for 5 years into a 403(b) or health premium account, and the retiree must pay full premium for healthcare programs; retirees between April 1, 2011 and June 30, 2012, or after July 1, 2013 with at least 10 years of service will receive cash payments of \$20,000 for 2 years into a 403(b) or health premium account, and the retiree must pay full premium for healthcare programs. For retired Administrators: retirees prior to July 1, 2005 with at least 10 years of district service, the District will continue to contribute 88% of the premium for healthcare programs for up to 12 years, after 12 years the retiree can continue coverage by paying the full premium; retirees between July 1, 2005 and June 30, 2013 with at least 10 years of service will receive cash payments of \$10,000 for 5 years into a 403(b) or health premium account, and the retiree must pay full premium for healthcare programs; retirees between July 1, 2012 and June 30, 2013 will receive cash payments of \$15,000 for 2 years into a 403(b) or health premium account, and the retiree must pay full premium for healthcare programs; retirees after July 1, 2013 must pay the full premium for healthcare programs. Support staff retirees must pay full premium for healthcare programs. After June 30, 2017 all retirees must pay full premiums for healthcare programs.

**Funding Policy:** The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For the 2012-13 fiscal year, there were 177 retired participants. Retiree contributions are based on weighted averages for the medical premiums, increasing at the same rate as the health care cost trend rate. The District's pay-as-you-go cost, including implicit rate subsidy of \$1,136,447 has been applied toward the annual OPEB cost.

**METHACTON SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

9. POSTEMPLOYMENT HEALTHCARE BENEFITS, continued

**Annual OPEB Cost and Net OPEB Obligation:** The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2013, was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7/1/2012	\$ 1,702,018	77%	\$ 2,857,476
Year ending 6/30/2013	1,696,233	67%	3,417,262

**Funded Status and Funding Progress:** As of June 30, 2013, the actuarial accrued liability for benefits was \$13,428,211, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$13,428,211. The covered payroll (annual payroll of active participating employees) was \$42,566,725, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 31.55 percent.

The following table shows 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:

Description	
Normal cost (service cost for one year)	\$ 599,701
Interest on Normal Cost	26,987
Amortization of Unfunded Actuarial Accrued Liability	1,195,319
Annual Required Contribution (ARC)	1,822,007
Interest on net OPEB Obligation	128,586
Adjustment to Annual Required Contribution	(254,360)
Annual OPEB Cost (expense)	1,696,233
Contributions toward the OPEB Cost	(1,136,447)
Increase in Net OPEB Obligation	559,786
Net OPEB Obligation, Beginning of Year	2,857,476
Net OPEB Obligation, End of Year	\$ 3,417,262

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

9. POSTEMPLOYMENT HEALTHCARE BENEFITS, continued

*Actuarial Methods and Assumptions:* Actuarial valuations of an ongoing plan involve 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 and termination, mortality, and the healthcare cost trends. 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. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial 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.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The District's OPEB actuarial valuation as of July 1, 2012, used the entry age normal actuarial cost method to estimate both the unfunded liability as of June 30, 2013 and to estimate the District's 2012-13 fiscal year annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 4.5 percent rate of return on invested assets. The actuarial assumptions include a payroll growth of a 3% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 3% to .25%. The actuarial assumptions also include an annual health care cost trend rate of 7.5% initially for the 2011-12 fiscal year, reduced by .5% per year to an ultimate rate of 5.5% in 2016. The unfunded actuarial liability is being amortized on a level dollar, 16 year open period, based on a weighted average of service until retirement (active liability) and payment period (retired liability).

10. COMMITMENTS AND CONTINGENCIES

Claims or Litigation

The District is currently a party, as both plaintiff and defendant, to various claims and litigation arising in the normal course of operations. Certain tax assessment appeals are ongoing. The amount of loss contingency, due to the nature of tax assessment appeals, is not determinable.

**METHACTON SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**11. RISK MANAGEMENT**

The School district is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages for the fiscal year ending June 30, 2013.

**12. DEFICIT FUND BALANCE**

The Food Service Fund had a net deficit of \$80,107 as of year end. This is the effect of operating losses in the food service fund.

**13. CHANGE IN ACCOUNTING PRINCIPLE**

During the current year the District implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. This statement changes the accounting for debt issuance costs from reporting these costs as an asset and amortizing over the length of the debt, to recognizing the issue costs as an expense in the period incurred. As a result of implementing this statement, a prior period adjustment is required for the bond issue costs that were previously reported as an asset and amortized. The effect is a reduction in the net position of governmental activities of \$1,319,241.

**14. SUBSEQUENT EVENTS**

The District entered into a capital lease with TD Equipment Finance beginning on July 2, 2013 for the purchase of school buses. The lease provides for seven annual payments of \$107,991 at 1.46% interest.

On August 27, 2013, the board approved a four-year lease with Vantage Financial in the annual amount of \$72,710 for laptop computers at a purchase price of \$298,050.

REQUIRED

SUPPLEMENTARY INFORMATION

**METHACTON SCHOOL DISTRICT**

**SCHEDULE OF FUNDING PROGRESS FOR THE  
POSTEMPLOYMENT BENEFITS PLAN**

JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2012	\$ 0	\$ 13,428,211	\$ 13,428,211	0%	\$ 42,566,725	31.55%
7/1/2010	\$ 0	\$ 14,735,226	\$ 14,735,226	0%	\$ 39,794,279	37.03%
7/1/2008	\$ 0	\$ 20,135,530	\$ 20,135,530	0%	\$ 38,394,048	52.44%

**METHACTON SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with final budget Positive (Negative)
	Original	Final		
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Local sources	\$ 73,523,422	\$ 73,573,837	\$ 74,212,587	\$ 638,750
State sources	17,119,689	17,069,274	16,796,242	(273,032)
Federal sources	1,140,000	1,140,000	456,333	(683,667)
	<u>91,783,111</u>	<u>91,783,111</u>	<u>91,465,162</u>	<u>(317,949)</u>
Other Financing Sources:				
Capital lease obligations	1,000,000	1,000,000	1,248,488	248,488
Proceeds from sale of capital assets			1,600	1,600
	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,250,088</u>	<u>250,088</u>
<b>TOTAL REVENUE AND OTHER FINANCING SOURCES</b>	<u>92,783,111</u>	<u>92,783,111</u>	<u>92,715,250</u>	<u>(67,861)</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Instruction				
Regular programs	36,882,696	36,538,255	36,336,802	201,453
Special programs	13,113,618	12,967,028	13,331,496	(364,468)
Vocational programs	2,649,415	2,636,042	2,742,482	(106,440)
Other instructional programs	1,120,730	1,030,167	754,831	275,336
Adult education programs	97,410	97,410	150,174	(52,764)
Total Instruction	<u>53,863,869</u>	<u>53,268,902</u>	<u>53,315,785</u>	<u>(46,883)</u>
Support services				
Pupil personnel services	3,075,842	3,061,974	3,254,311	(192,337)
Instructional staff services	1,887,889	1,897,148	1,907,353	(10,205)
Administration services	4,793,746	4,867,262	4,796,831	70,431
Pupil health	915,607	928,208	954,479	(26,271)
Business services	1,001,238	1,000,991	1,053,264	(52,273)
Operation and maintenance of plant services	7,562,161	7,499,107	7,382,296	116,811
Student transportation	7,149,896	7,598,460	7,266,080	332,380
Central services	1,444,053	1,480,405	1,367,327	113,078
Other support services	76,158	76,384	74,848	1,536
Total Support Services	<u>27,906,590</u>	<u>28,409,939</u>	<u>28,056,789</u>	<u>353,150</u>
Operation of non-instructional services				
Student activities	1,260,425	1,352,270	1,279,108	73,162
Community services	2,000	2,000	3,845	(1,845)
Total Operation of Non-instructional Services	<u>1,262,425</u>	<u>1,354,270</u>	<u>1,282,953</u>	<u>71,317</u>
Debt service	<u>11,000,227</u>	<u>11,000,000</u>	<u>9,199,572</u>	<u>1,800,428</u>
Other financing uses				
Budgetary Reserve	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<u>94,333,111</u>	<u>94,333,111</u>	<u>91,855,099</u>	<u>2,478,012</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<u>(1,550,000)</u>	<u>(1,550,000)</u>	<u>860,151</u>	<u>2,410,151</u>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>4,062,269</u>	<u>4,062,269</u>	<u>4,062,269</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 2,512,269</u>	<u>\$ 2,512,269</u>	<u>\$ 4,922,420</u>	<u>\$ 2,410,151</u>

See accompanying notes to the required supplementary information

METHACTON SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY COMPARISON

JUNE 30, 2013

1. Budgetary Data

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

- a. Prior to May 31, the School 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.
- b. The budget is presented at a METHACTON SCHOOL DISTRICT public board meeting to obtain taxpayer comments.
- c. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- d. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund must be approved by the School Board.
- e. Budgetary data are included in the District's management information system and are employed as a management control device during the year.
- f. Budgets for the General Fund are adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

## SUPPLEMENTARY INFORMATION

**METHACTON SCHOOL DISTRICT**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2013

	2007 Construction Fund	2008 Construction Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 209,544	\$ 209,544
Interfund receivables	-	12,445	12,445
<b>TOTAL ASSETS</b>	<b>\$ -</b>	<b>\$ 221,989</b>	<b>\$ 221,989</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Interfund payables	\$ -	\$ -	\$ -
<b>TOTAL LIABILITIES</b>	-	-	-
<b>FUND BALANCES</b>			
Assigned:			
Capital projects	-	221,989	221,989
<b>TOTAL FUND BALANCES</b>	-	221,989	221,989
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ -</b>	<b>\$ 221,989</b>	<b>\$ 221,989</b>

**METHACTON SCHOOL DISTRICT**

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

FOR THE YEAR ENDED JUNE 30, 2013

	2007 Construction Fund	2008 Construction Fund	Total
REVENUES AND OTHER FINANCING SOURCES			
Local sources	\$	98	\$ 98
Bond premiums		625,689	625,689
Proceeds from bond refunding		28,255,000	28,255,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	-	28,880,787	28,880,787
EXPENDITURES AND OTHER FINANCING USES			
Expenditures:			
Support services		560,312	560,312
Facilities acquisition, construction, and improvement services		17,426	17,426
Debt service interest		19,267	19,267
Other Financing Uses:			
Interfund transfers	33		33
Bond discounts		132,595	132,595
Payment to refund bonds		28,145,865	28,145,865
TOTAL EXPENDITURES AND OTHER FINANCING USES	33	28,875,465	28,875,498
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(33)	5,322	5,289
FUND BALANCE AT BEGINNING OF YEAR	33	216,667	216,700
FUND BALANCE AT END OF YEAR	\$	\$ 221,989	\$ 221,989

**METHACTON SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROJECT	Federal CFDA Number	Pass Through Grantor's Number	Grant Period	Award Amount	Accrued or (Deferred) Revenue at July 1, 2012	Total Received For the Year	Expenditures	Accrued or (Deferred) Revenue at June 30, 2013	Revenue Recognized
<b>US DEPT. OF EDUCATION</b>									
<b>PASSED THROUGH THE PA DEPT. OF EDUCATION</b>									
ESEA TITLE I DELINQUENT	84.010	107-120245	7/01/11-9/30/12	\$ 442,317	\$ 66,860	\$ 34,333	\$	\$ 32,527	\$
ESEA TITLE I	84.010	013-120245	7/1/11-9/30/12	185,533	75,088	85,631	10,543		10,543
ESEA TITLE I	84.010	013-130245	7/1/12-9/30/13	189,174		107,698	189,174	81,476	189,174
ESEA TITLE II	84.367	020-120245	7/1/11-9/30/12	111,628	11,156	34,083	22,927		22,927
ESEA TITLE II	84.367	020-130245	7/1/12-9/30/13	112,826		45,116	39,529	(5,587)	39,529
ARRA EDUCATION JOBS FUND	84.410		7/1/11-6/30/12	6,873	6,873	6,873			
MEDICAL ACCESS ADMIN	93.778		7/1/12-6/30/13	110			110	110	110
<b>PASSED THROUGH MONTGOMERY COUNTY IU</b>									
IDEA	84.027	N/A	7/1/11-6/30/12	935,555	929,053	906,297		22,756	
IDEA	84.027	N/A	7/1/12-6/30/13	932,571		932,571	932,571		932,571
IDEA Preschool	84.173	N/A	7/1/11-6/30/12	3,936	3,936	3,936			
IDEA Preschool	84.173	N/A	7/1/12-6/30/13	3,940			3,940	3,940	3,940
TITLE III	84.031A	N/A	7/1/10-9/30/11	16,861		8,717	8,717		8,717
TITLE III	84.031A	N/A	7/13/11-9/30/13	15,800		13,740	15,800	2,060	15,800
TITLE III	84.031A	N/A	8/3/12-9/30/13	6,790			6,790	6,790	6,790
<b>TOTAL US DEPT. OF EDUCATION</b>				<b>2,963,914</b>	<b>1,092,966</b>	<b>2,178,995</b>	<b>1,230,101</b>	<b>144,072</b>	<b>1,230,101</b>
<b>US DEPT. OF AGRICULTURE</b>									
<b>PASSED THROUGH THE PA DEPT. OF EDUCATION</b>									
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	7/1/11-6/30/12	N/A	29,706	29,706			
NATIONAL SCHOOL LUNCH PROGRAM	N/A	N/A	7/1/11-6/30/12	N/A	4,243	4,243			
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	7/1/12-6/30/13	N/A		171,847	206,087	34,240	206,087
NATIONAL SCHOOL LUNCH PROGRAM	N/A	N/A	7/1/12-6/30/13	N/A		21,498	25,689	4,191	25,689
REGULAR/NEEDY BREAKFAST PROGRAM	10.553	N/A	7/1/11-6/30/12	N/A	2,529	2,529			
REGULAR/NEEDY BREAKFAST PROGRAM	N/A	N/A	7/1/11-6/30/12	N/A	248	248			
REGULAR/NEEDY BREAKFAST PROGRAM	10.553	N/A	7/1/12-6/30/13	N/A		13,370	16,349	2,979	16,349
REGULAR/NEEDY BREAKFAST PROGRAM	N/A	N/A	7/1/12-6/30/13	N/A		1,273	1,550	277	1,550
<b>PASSED THROUGH THE PA DEPT. OF AGRICULTURE</b>									
USDA COMMODITIES	10.555	N/A	7/1/12-6/30/13	N/A	(5,447)	52,935	51,794	(6,588)	51,794
<b>TOTAL US DEPT. OF AGRICULTURE</b>					<b>31,279</b>	<b>297,649</b>	<b>301,469</b>	<b>35,099</b>	<b>301,469</b>
<b>GRAND TOTAL FEDERAL AND STATE AWARDS</b>					<b>\$ 1,124,245</b>	<b>\$ 2,476,644</b>	<b>\$ 1,531,570</b>	<b>\$ 179,171</b>	<b>\$ 1,531,570</b>

**METHACTON SCHOOL DISTRICT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL  
AND STATE AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2013**

**1. GENERAL**

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal awards programs of METHACTON SCHOOL DISTRICT. The District reporting entity is defined in Note 1 to the District's financial statements. Federal and state awards passed through other government agencies are included on the schedule.

**2. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal and State Awards are presented using the accrual basis of accounting as described in the notes to the financial statements.

**3. FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.



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

To the Board of School Directors  
METHACTON SCHOOL DISTRICT  
Norristown, 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 METHACTON SCHOOL DISTRICT as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise METHACTON SCHOOL DISTRICT's basic financial statements and have issued our report thereon dated November 8, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered METHACTON 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 METHACTON SCHOOL DISTRICT's internal control. Accordingly, we do not express an opinion on the effectiveness of the METHACTON 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether METHACTON 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.

November 8, 2013

MAJOR & MASTRO, LLC  
Montgomeryville, Pennsylvania  
*Certified Public Accountants*

A handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, slightly slanted style.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133

To the Board of School Directors  
METHACTON SCHOOL DISTRICT  
Norristown, Pennsylvania

**Report on Compliance for Each Major Federal Program**

We have audited METHACTON SCHOOL DISTRICT's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of METHACTON SCHOOL DISTRICT's major federal programs for the year ended June 30, 2013. METHACTON SCHOOL DISTRICT's major federal programs are identified in the summary of auditor's 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of METHACTON 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 METHACTON 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 of METHACTON SCHOOL DISTRICT's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, METHACTON 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, 2013.

### **Report on Internal Control Over Compliance**

Management of METHACTON 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 METHACTON 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 to determine the 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 METHACTON SCHOOL DISTRICT's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance 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 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.

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.

November 8, 2013

MAJOR & MASTRO, LLC  
Montgomeryville, Pennsylvania  
Certified Public Accountants



**METHACTON SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of METHACTON SCHOOL DISTRICT.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of METHACTON SCHOOL DISTRICT which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with OMB CircularA-133.
5. Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with OMB CircularA-133 expresses an unqualified opinion on all major federal programs.
6. No audit findings were disclosed relating to major programs that are required to be reported under section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

IDEA Cluster:

IDEA	84.027
IDEA Preschool	84.173

**METHACTON SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued**

**FOR THE YEAR ENDED JUNE 30, 2013**

8. The threshold for distinguishing Types A and B programs was \$ 300,000.
9. METHACTON 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