

METHACTON SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

For the Year Ended June 30, 2014

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, 2014, 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was 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 schedule of expenditures of federal awards and certain state grants is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014, 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.

September 25, 2014

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.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Methacton School District Governmental Activities exceeded its liabilities at the close of the 2014 fiscal year by \$19,698,507. Total current liabilities exceed current assets by \$94,933. This compares with net position of \$17,932,760 and current assets exceeding current liabilities by \$997,597 at the close of the 2013 fiscal year.
- As of the close of the current fiscal year, unassigned fund balance for the General Fund was \$4,600,023 or 4.86 percent of the total general fund expenditures. Unassigned fund balance at the end of the 2013 fiscal year was \$4,368,123.

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 three 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 governmental fund is considered a nonmajor fund.

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 total assets and deferred outflows of resources exceeded liabilities by a total of \$19,708,379 at the close of the fiscal year ending June 30, 2014. Assets and deferred outflows of resources exceeded liabilities by \$17,852,653 at the close of the fiscal year ended June 30, 2013.

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

METHACTON SCHOOL DISTRICT's Net Position

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 16,409,796	\$ 18,612,934	\$ 638,393	\$ 513,677	\$ 17,048,189	\$ 19,126,611
Capital assets	110,433,458	113,497,790			110,433,458	113,497,790
Total assets	<u>\$ 126,843,254</u>	<u>\$ 132,110,724</u>	<u>\$ 638,393</u>	<u>\$ 513,677</u>	<u>\$ 127,481,647</u>	<u>\$ 132,624,401</u>
Deferred outflows of resources	<u>\$ 535,585</u>	<u>\$ 583,548</u>	<u>\$</u>	<u>\$</u>	<u>\$ 535,585</u>	<u>\$ 583,548</u>
Long-term liabilities						
outstanding	\$ 91,175,603	\$ 97,146,175	\$	\$	\$ 91,175,603	\$ 97,146,175
Other liabilities	16,504,729	17,615,337	628,521	593,784	17,133,250	18,209,121
Total liabilities	<u>\$ 107,680,332</u>	<u>\$ 114,761,512</u>	<u>\$ 628,521</u>	<u>\$ 593,784</u>	<u>\$ 108,308,853</u>	<u>\$ 115,355,296</u>
Net Position:						
Invested in capital assets, net of related debt	\$ 19,245,881	\$ 15,819,681	\$	\$	\$ 19,245,881	\$ 15,819,681
Restricted	663,255	1,995,524			663,255	1,995,524
Unrestricted	(210,629)	117,555	9,872	(80,107)	(200,757)	37,448
Total Net Position (deficit)	<u>\$ 19,698,507</u>	<u>\$ 17,932,760</u>	<u>\$ 9,872</u>	<u>\$ (80,107)</u>	<u>\$ 19,708,379</u>	<u>\$ 17,852,653</u>

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Governmental activities. Governmental activities increased the Methacton School District's net position by \$1,765,747 and \$427,517 for the years ending June 30, 2014 and 2013, respectively. Key elements of this increase are displayed below.

Business-type Activities. Business Type activities, comprised of the District's Food Service Fund, increased the District's net position by \$89,979 for the year ended June 30, 2014 compared to a \$1,199 decrease in the District's net position for the year ended June 30, 2013. Key elements are displayed below.

METHACTON SCHOOL DISTRICT'S Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program Revenues						
Charges for Services	\$ 468,851	\$ 476,755	\$ 1,133,886	\$ 1,144,027	\$ 1,602,737	\$ 1,620,782
Operating Grants	11,001,387	9,871,844	329,665	301,468	11,331,052	10,173,312
General Revenues:						
Taxes	73,853,604	71,915,189			73,853,604	71,915,189
Grants, not restricted to specific programs	8,630,289	8,602,731			8,630,289	8,602,731
Investment Income	40,151	14,213	387	285	40,538	14,498
Gain (loss) on sale of assets	10,206	1,600			10,206	1,600
Miscellaneous Income	289,300	426,116			289,300	426,116
Total Revenues	<u>94,293,788</u>	<u>91,308,448</u>	<u>1,463,938</u>	<u>1,445,780</u>	<u>95,757,726</u>	<u>92,754,228</u>
Expenses:						
Instruction	56,878,361	55,576,511			56,878,361	55,576,511
Support Services	31,313,573	30,571,957			31,313,573	30,571,957
Operation of Non- Instructional Services	1,464,759	1,350,801			1,464,759	1,350,801
Interest on Long-term Debt	2,871,348	3,381,662			2,871,348	3,381,662
Food Service			1,373,959	1,446,979	1,373,959	1,446,979
Total Expenses	<u>92,528,041</u>	<u>90,880,931</u>	<u>1,373,959</u>	<u>1,446,979</u>	<u>93,902,000</u>	<u>92,327,910</u>
Change in Net Position	1,765,747	427,517	89,979	(1,199)	1,855,726	426,318
Beginning Net Position	17,932,760	17,505,243	(80,107)	(78,908)	17,852,653	17,426,335
Ending Net Position	<u>\$ 19,698,507</u>	<u>\$ 17,932,760</u>	<u>\$ 9,872</u>	<u>\$ (80,107)</u>	<u>\$ 19,708,379</u>	<u>\$ 17,852,653</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 \$4,600,023. This unreserved fund balance represents 4.86% 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 \$75,656,159 (80.3%), and \$74,212,587 (81.1%), for the years ended June 30, 2014 and 2013 respectively, of which \$73,788,471 and \$72,074,371 were tax revenues. State funding amounted to \$17,994,055 (19.1%) and \$16,796,242 (18.4%), federal funding amounted to \$567,897 (.6%) and \$456,333 (.5%), for the years ending June 30, 2014 and 2013, respectively.

State and Federal funding continue to provide a relatively small percentage (19.7%) 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, 2014 and 2013:

	Expenditures		Expenditures	
	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Instruction	\$ 53,428,459	56.4%	\$ 53,315,785	58.0%
Support Service	29,852,199	31.5%	28,056,789	30.5%
Non-Instructional	1,398,871	1.5%	1,282,953	1.4%
Debt Service	9,969,645	10.6%	9,199,572	10.1%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	<u>\$ 94,649,174</u>	<u>100.0%</u>	<u>\$ 91,855,099</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 \$663,255 and \$1,995,524 for the years ended June 30, 2014 and 2013, comprised of Construction Funds \$0 and \$221,989, and the Capital Reserve Fund \$663,255 and \$1,773,535 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 net position of \$9,872 and negative net position of \$80,107 for the years ended June 30, 2014 and 2013 respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Methacton School District's expenditures and other financing uses for the fiscal year ended June 30, 2014 of \$94,649,174 were lower than the final budget of \$95,248,073 by a total of \$598,899. This is primarily the result of savings realized in the following areas: debt service savings resulting from debt restructuring, employee health benefits savings via self-funding arrangement with Bucks/Montco Consortium, and supplies coming in less than budgeted.

The District's revenues and other financing sources for the fiscal year ended June 30, 2014 were lower than the adopted budget by \$283,756 primarily due to extended term financing revenues coming in less than budgeted due to reduced financing needs and state reimbursements for FICA reimbursements coming in less than budgeted due to larger than normal staff retirements.

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 \$110,433,458 and \$113,497,790 as of June 30, 2014 and 2013 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	
	2014	2013
Land	\$ 1,564,425	\$ 1,564,425
Site improvements	2,619,040	2,619,040
Buildings and improvements	145,346,759	144,874,674
Machinery and equipment	22,700,148	21,847,875
Accumulated depreciation	<u>(61,796,914)</u>	<u>(57,408,224)</u>
	<u>\$ 110,433,458</u>	<u>\$ 113,497,790</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 \$75,110,000 as well as notes payable of \$14,115,000 and capital lease obligations of \$1,363,526.

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 (3.50%), 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 increased 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, 2014

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 11,406,486	\$ 538,095	\$ 11,944,581
Taxes receivable, net	2,807,787		2,807,787
Due from other governments	1,699,967	71,839	1,771,806
Other receivables	339,611	11,019	350,630
Prepaid assets	155,945		155,945
Inventories		17,440	17,440
Total Current Assets	<u>16,409,796</u>	<u>638,393</u>	<u>17,048,189</u>
Noncurrent Assets:			
Capital assets:			
Land	1,564,425		1,564,425
Site improvements	2,619,040		2,619,040
Buildings and building improvements	145,346,759		145,346,759
Machinery and equipment	22,700,148		22,700,148
Accumulated depreciation	<u>(61,796,914)</u>		<u>(61,796,914)</u>
Total Noncurrent Assets	<u>110,433,458</u>		<u>110,433,458</u>
TOTAL ASSETS	<u>126,843,254</u>	<u>638,393</u>	<u>127,481,647</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	<u>535,585</u>		<u>535,585</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	445,648	110,755	556,403
Accrued salaries and benefits	4,236,105		4,236,105
Internal balances	(481,595)	481,595	-
Payroll deductions and withholding	2,604,053		2,604,053
Accrued interest	835,678		835,678
Unearned revenue	17,406	7,081	24,487
Escrow for taxes	1,738,732		1,738,732
Other current liabilities		29,090	29,090
Portion due or payable within one year			
Bonds payable	4,525,000		4,525,000
Notes payable	2,110,000		2,110,000
Capital lease obligation	344,631		344,631
Accumulated compensated absences	129,071		129,071
Total Current Liabilities	<u>16,504,729</u>	<u>628,521</u>	<u>17,133,250</u>
Long-term Liabilities:			
Portion due or payable after one year			
Bonds payable in future years	70,585,000		70,585,000
Notes payable in future years	12,005,000		12,005,000
Bond discount and premiums	1,134,636		1,134,636
Capital lease obligation payable in future years	1,018,895		1,018,895
Other post-employment benefits	3,979,717		3,979,717
Accumulated compensated absences	<u>2,452,355</u>		<u>2,452,355</u>
Total Long-term Liabilities	<u>91,175,603</u>	<u>-</u>	<u>91,175,603</u>
TOTAL LIABILITIES	<u>107,680,332</u>	<u>628,521</u>	<u>108,308,853</u>
NET POSITION (DEFICIT)			
Net investment in capital assets	19,245,881		19,245,881
Restricted for			
Capital projects	663,255		663,255
Unrestricted	<u>(210,629)</u>	<u>9,872</u>	<u>(200,757)</u>
TOTAL NET POSITION (DEFICIT)	<u>\$ 19,698,507</u>	<u>\$ 9,872</u>	<u>\$ 19,708,379</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

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	
GOVERNMENTAL ACTIVITIES						
Instruction						
Regular programs	\$ 37,792,731	\$ 46,014	\$ 2,763,026	\$ (34,983,691)	\$	\$ (34,983,691)
Special programs	15,050,305		4,253,864	(10,796,441)		(10,796,441)
Vocational programs	3,275,655		134,723	(3,140,932)		(3,140,932)
Other instructional programs	552,458		486,870	(65,588)		(65,588)
Adult education programs	207,212	236,380	7,980	37,148		37,148
Support services						
Pupil personnel services	3,446,973		247,850	(3,199,123)		(3,199,123)
Instructional staff services	1,887,572		131,527	(1,756,045)		(1,756,045)
Administration services	5,778,084		77,483	(5,700,601)		(5,700,601)
Pupil health	1,016,090		446,838	(569,252)		(569,252)
Business services	1,271,521		66,275	(1,205,246)		(1,205,246)
Operation and maintenance of plant services	8,619,288		342,658	(8,276,630)		(8,276,630)
Student transportation services	7,421,616		1,861,478	(5,560,138)		(5,560,138)
Central services	1,792,779		75,610	(1,717,169)		(1,717,169)
Other support services	79,650			(79,650)		(79,650)
Operation of non-instructional services						
Student activities	1,461,152	186,457	105,205	(1,169,490)		(1,169,490)
Community services	3,607			(3,607)		(3,607)
Interest on long-term debt	2,871,348			(2,871,348)		(2,871,348)
TOTAL GOVERNMENTAL ACTIVITIES	92,528,041	468,851	11,001,387	(81,057,803)		(81,057,803)
BUSINESS-TYPE ACTIVITIES						
Food service	1,373,959	1,133,886	329,665		89,592	89,592
	<u>\$ 93,902,000</u>	<u>\$ 1,602,737</u>	<u>\$ 11,331,052</u>			
GENERAL REVENUES						
Property taxes, levied for general purposes				66,051,247		66,051,247
Earned income, per capita, occupation and amusement taxes				6,940,710		6,940,710
Transfer taxes				861,647		861,647
Grants and entitlements not restricted to specific programs				8,630,289		8,630,289
School facility rental				107,593		107,593
Investment earnings				40,151	387	40,538
Miscellaneous				181,707		181,707
Gain (loss) on sale of assets				10,206		10,206
TOTAL GENERAL REVENUES				82,823,550	387	82,823,937
CHANGE IN NET POSITION (DEFICIT)				1,765,747	89,979	1,855,726
NET POSITION (DEFICIT) AT BEGINNING OF YEAR				17,932,760	(80,107)	17,852,653
NET POSITION AT END OF YEAR				\$ 19,698,507	\$ 9,872	\$ 19,708,379

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2014

	General Fund	Capital Projects Fund	Nonmajor Funds	Totals
ASSETS				
Cash and cash equivalents	\$ 10,721,801	\$ 684,685	\$ -	\$ 11,406,486
Taxes receivable, net of allowance of \$721,055	2,807,787			2,807,787
Due from other governments	1,699,967			1,699,967
Interfund receivables	481,595			481,595
Prepaid assets	155,945			155,945
Other receivables	339,611			339,611
	<u>\$ 16,206,706</u>	<u>\$ 684,685</u>	<u>\$ -</u>	<u>\$ 16,891,391</u>
TOTAL ASSETS				
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 424,218	\$ 21,430	\$ -	\$ 445,648
Payroll deductions and withholdings	2,604,053			2,604,053
Accrued salaries and benefits	4,236,105			4,236,105
Compensated absences	129,071			129,071
Unearned revenue	17,406			17,406
Escrow for taxes	1,738,732			1,738,732
	<u>9,149,585</u>	<u>21,430</u>	<u>-</u>	<u>9,171,015</u>
TOTAL LIABILITIES				
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - real estate taxes	1,049,793			1,049,793
Unavailable revenue - earned income taxes	459,665			459,665
Unavailable revenue - other taxes	310,100			310,100
	<u>1,819,558</u>	<u>-</u>	<u>-</u>	<u>1,819,558</u>
TOTAL DEFERRED INFLOWS OF RESOURCES				
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	155,945			155,945
Interfund advances	481,595			481,595
Assigned				
Capital projects		663,255		663,255
Unassigned	4,600,023			4,600,023
	<u>5,237,563</u>	<u>663,255</u>	<u>-</u>	<u>5,900,818</u>
TOTAL FUND BALANCES				
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
	<u>\$ 16,206,706</u>	<u>\$ 684,685</u>	<u>\$ -</u>	<u>\$ 16,891,391</u>

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, 2014

TOTAL GOVERNMENTAL FUND BALANCES	\$ 5,900,818
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	110,433,458
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	1,819,558
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.	535,585
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	(835,678)
Bonds and notes payable	(89,225,000)
Bond premiums and discounts	(1,134,636)
Capital lease obligation	(1,363,526)
Other post-employment benefits	(3,979,717)
Accumulated compensated absences	<u>(2,452,355)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 19,698,507</u>

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Capital Projects Fund	Nonmajor Funds	Totals
REVENUES AND OTHER FINANCING SOURCES				
Local sources	\$ 75,656,159	\$ 332	\$ 5	\$ 75,656,496
State sources	17,994,055			17,994,055
Federal sources	567,897			567,897
Other Financing Sources:				
Proceeds from capital lease	723,555			723,555
Interfund transfers	12,445	173,809		186,254
Proceeds from sale of capital assets	10,206			10,206
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>94,964,317</u>	<u>174,141</u>	<u>5</u>	<u>95,138,463</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction	53,428,459	122,926		53,551,385
Support services	29,852,199	226,729	10,000	30,088,928
Operation of non-instructional services	1,398,871			1,398,871
Facilities acquisition, construction, and improvement services		934,766		934,766
Debt service				
Principal	7,036,605			7,036,605
Interest	2,933,040		25,740	2,958,780
Other Financing Uses:				
Interfund transfers			186,254	186,254
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>94,649,174</u>	<u>1,284,421</u>	<u>221,994</u>	<u>96,155,589</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	315,143	(1,110,280)	(221,989)	(1,017,126)
FUND BALANCE AT BEGINNING OF YEAR	<u>4,922,420</u>	<u>1,773,535</u>	<u>221,989</u>	<u>6,917,944</u>
FUND BALANCE AT END OF YEAR	<u>\$ 5,237,563</u>	<u>\$ 663,255</u>	<u>\$ -</u>	<u>\$ 5,900,818</u>

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, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (1,017,126)

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	1,476,705
Depreciation expense	(4,541,037)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in Governmental Funds.	65,134
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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.	6,400,000
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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.	636,605
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Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.	(55,956)
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Other post-employment benefits do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.	(562,455)
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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	177,482
Capital lease obligation	(723,555)

Interest is reported as an expenditure when due in the Governmental Funds, but is accrued on outstanding debt on the statement of activities.	<u>(90,050)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,765,747

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

JUNE 30, 2014

	<u>Enterprise Fund</u>
	Food
	<u>Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 538,095
Due from other governments	71,839
Other receivables	11,019
Inventories	<u>17,440</u>
TOTAL CURRENT ASSETS	<u>638,393</u>
TOTAL ASSETS	<u>638,393</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Interfund payables	481,595
Accounts payable	110,755
Unearned revenue	7,081
Deposits	<u>29,090</u>
TOTAL CURRENT LIABILITIES	<u>628,521</u>
NET POSITION	
Unrestricted	<u>9,872</u>
TOTAL NET POSITION	<u><u>\$ 9,872</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, 2014

	<u>Enterprise Fund</u> Food Service Fund
OPERATING REVENUES	\$ 1,133,886
OPERATING EXPENSES	
Purchased professional and technical services	1,332,455
Supplies	41,504
TOTAL OPERATING EXPENSES	<u>1,373,959</u>
OPERATING LOSS	<u>(240,073)</u>
NONOPERATING REVENUES	
Earnings on investments	387
State sources	27,724
Federal sources	301,941
TOTAL NONOPERATING REVENUES	<u>330,052</u>
CHANGE IN NET POSITION	89,979
NET POSITION (DEFICIT) AT BEGINNING OF YEAR	<u>(80,107)</u>
NET POSITION AT END OF YEAR	<u>\$ 9,872</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2014

	Enterprise Fund
	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,132,289
Payments to suppliers	(1,349,697)
NET CASH USED BY OPERATING ACTIVITIES	(217,408)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	27,677
Federal sources	272,328
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	300,005
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	387
NET CASH PROVIDED BY INVESTING ACTIVITIES	387
NET INCREASE IN CASH	82,984
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	455,111
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 538,095
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (240,073)
Adjustments to reconcile operating loss to net cash used by operating activities	
(Increase) Decrease in assets:	
Accounts receivable	(9,208)
Inventory	(2,371)
Increase (decrease) in liabilities:	
Accounts payable	26,633
Deposits	7,611
NET CASH USED BY OPERATING ACTIVITIES	\$ (217,408)
 Schedule of noncash noncapital financing activities	
Donated commodities received	\$ 43,375
Donated commodities used	\$ 42,882

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, 2014

	<u>Scholarship Funds</u>
ADDITIONS	
Contributions	\$ 15,010
Investment income	<u>64</u>
TOTAL ADDITIONS	15,074
DEDUCTIONS	
Fees paid and scholarships awarded	<u>17,116</u>
CHANGE IN NET POSITION	(2,042)
NET POSITION AT BEGINNING OF YEAR	<u>68,936</u>
NET POSITION AT END OF YEAR	<u><u>\$ 66,894</u></u>

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

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 2013-2014 was \$1,260,422.

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.

GASB Pronouncement Not Yet Effective

Governmental Accounting Standards Board (GASB) issued Statement No. 68 Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. The District is required to adopt GASB Statement No. 68 for the fiscal year June 30, 2015. The District has not yet completed the analysis required to estimate the financial statement impact of this new pronouncement.

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 Projects Fund

The Capital Projects Fund 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, 2014.

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, 2014. 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, 2014, \$6,191,619 of the District's bank balance of \$6,702,161 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the District's name	\$6,191,619
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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, 2014, the District had the following investments:

<u>Investment</u>	<u>Fair Value</u>
PA Local Government Investment Trust	<u>\$ 3,626,547</u>
PA School District Liquid Asset Fund	<u>\$ 2,214,931</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, 2014, the District’s investments were rated as:

<u>Investment</u>	<u>Standard & 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, 2014, 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 27.33 mills (\$.02733 per \$1 of assessed valuation) for fiscal year 2014. 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, 2013 levy was assessed at \$2,522,343,103. 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 \$721,055 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, 2014:

	Interfund Receivables	Interfund Payables
General Fund	\$ 481,595	\$
Proprietary, Food Service		481,595
	\$ 481,595	\$ 481,595

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 \$361,196 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	\$ 186,254	\$
General Fund		12,445
Capital Reserve Fund		173,809
	\$ 186,254	\$ 186,254

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, 2014, was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
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	2,619,040			2,619,040
Buildings and improvements	144,874,674	472,085		145,346,759
Machinery and equipment	21,847,875	1,004,620	152,347	22,700,148
Total capital assets being depreciated at historical cost	169,341,589	1,476,705	152,347	170,665,947
Less accumulated depreciation for				
Site improvements	(954,273)	(114,767)		(1,069,040)
Buildings and improvements	(38,978,092)	(2,998,269)		(41,976,361)
Machinery & equipment	(17,475,859)	(1,428,001)	(152,347)	(18,751,513)
Total accumulated depreciation	(57,408,224)	(4,541,037)	(152,347)	(61,796,914)
Total capital assets being depreciated, net	111,933,365	(3,064,332)	-	108,869,033
Governmental Activities capital assets, net	\$ 113,497,790	\$ (3,064,332)	\$ -	\$ 110,433,458

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	\$ 1,946,244
Special programs	780,576
Vocational programs	169,973
Other programs	28,655
Adult education programs	10,647
Support Services	
Pupil personnel services	148,543
Instructional staff services	81,412
Pupil health	43,617
Administrative services	266,541
Business services	62,191
Central services	77,523
Operation and maintenance of plant services	388,147
Pupil transportation	467,565
Other support services	3,454
Operation of non-instructional services	65,949
Total Governmental Activities depreciation expense	<u>\$ 4,541,037</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, 2014:

Type	Principal Outstanding July 1, 2013	Additions	Repayments	Principal Outstanding June 30, 2014	Due within One Year
General Obligation Note - 1997	\$ 390,000	\$	\$ 390,000	\$ -	\$ -
General Obligation Note - 1997C	255,000		255,000	-	-
General Obligation Note - 2003	7,100,000		2,500,000	4,600,000	2,100,000
General Obligation Bond - 2009	29,000,000		5,000	28,995,000	5,000
General Obligation Bond - 2009A	4,135,000		700,000	3,435,000	40,000
General Obligation Bond - 2010	2,635,000		195,000	2,440,000	125,000
General Obligation Bond - 2011	9,870,000		5,000	9,865,000	790,000
General Obligation Bond - 2011A	3,245,000		1,610,000	1,635,000	1,635,000
General Obligation Note - 2011A	1,500,000		-	1,500,000	-
General Obligation Bond - 2012	9,240,000		115,000	9,125,000	175,000
General Obligation Bond - 2012A	8,770,000		5,000	8,765,000	1,640,000
General Obligation Bond - 2012AA	7,245,000		620,000	6,625,000	110,000
General Obligation Bond - 2013	4,225,000		-	4,225,000	5,000
General Obligation Note - 2013	5,480,000		-	5,480,000	5,000
General Obligation Note - 2013A	2,535,000		-	2,535,000	5,000
	<u>95,625,000</u>	-	<u>6,400,000</u>	<u>89,225,000</u>	<u>6,635,000</u>
Capital Lease Obligations	<u>1,276,576</u>	<u>723,555</u>	<u>636,605</u>	<u>1,363,526</u>	<u>344,631</u>
	96,901,576	723,555	7,036,605	90,588,526	6,979,631
Compensated Absences	<u>2,522,525</u>	<u>58,901</u>		<u>2,581,426</u>	<u>129,071</u>
Total	<u>\$ 99,424,101</u>	<u>\$ 782,456</u>	<u>\$ 7,036,605</u>	<u>\$ 93,169,952</u>	<u>\$ 7,108,702</u>

Interest expense for Bonds and Notes for the year ended June 30, 2014 was \$2,933,820.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

Bonds and Notes payable at June 30, 2014 consisted of:

<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>\$ 4,600,000</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>28,995,000</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>3,435,000</p>
<p>On January 5, 2010, the District issued General Obligation Bond Series of 2010. The purpose of this issue is to provide funds for construction 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>2,440,000</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>9,865,000</p>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

<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>1,635,000</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>9,125,000</p>
<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>	<p>8,765,000</p>
<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>	<p>6,625,000</p>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

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. 4,225,000

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. 5,480,000

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. 2,535,000

TOTAL \$ 89,225,000

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

Year Ended June 30,	Principal	Interest	Total
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	7,280,000	2,437,796	9,717,796
2020-2024	41,670,000	7,994,245	49,664,245
2025-2027	12,765,000	330,840	13,095,840
	<u><u>\$ 89,225,000</u></u>	<u><u>\$ 21,987,561</u></u>	<u><u>\$ 111,212,561</u></u>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

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, 2014.

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%.

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%.

On July 2, 2013, the District entered into a lease-purchase agreement with TD Equipment Finance for the purchase of transportation equipment. The present value of the lease payments is \$723,555. The lease provides for seven annual payments of \$107,991. The implicit interest rate is 1.46%.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. CAPITAL LEASES, continued

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

Year Ended June 30,	Principal	Interest	Total
2015	\$ 344,631	\$ 22,767	\$ 367,398
2016	350,518	16,880	367,398
2017	184,235	10,891	195,126
2018	187,296	7,830	195,126
2019	190,408	4,718	195,126
2020	106,438	1,554	107,992
	<u>\$ 1,363,526</u>	<u>\$ 64,640</u>	<u>\$ 1,428,166</u>

Interest expense for the capital leases for the year ended June 30, 2014, was \$24,957.

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 5th Street, Harrisburg, PA 17101-1905 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.

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, 2014, the rate of employer's contribution was 16.93% of covered payroll. The 16.93 percent rate is composed of a pension contribution rate of 16.00 percent for pension benefits and .93 percent for healthcare insurance premium assistance.

The District's contributions to PSERS for the fiscal year ending June 30, 2014, 2013, and 2012, were \$7,515,779, \$5,590,751, and \$3,754,881, 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 2013-14 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 \$1,109,140 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 for the last three years was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 1,702,018	77%	\$ 2,857,476
6/30/2013	1,696,233	67%	3,417,262
6/30/2014	1,671,595	66%	3,979,717

Funded Status and Funding Progress: As of July 1, 2012, the latest actuarial valuation, 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	153,777
Adjustment to Annual Required Contribution	(304,189)
Annual OPEB Cost (expense)	1,671,595
Contributions toward the OPEB Cost	(1,109,140)
Increase in Net OPEB Obligation	562,455
Net OPEB Obligation, Beginning of Year	3,417,262
Net OPEB Obligation, End of Year	\$ 3,979,717

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, 2014 and to estimate the District's 2013-14 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. OPERATING LEASES

The District entered into operating leases for computer equipment during the year. The total expense under these operating leases for the June 30, 2014 year is \$191,230. The lease payments for future years are as follows:

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

10. OPERATING LEASES, continued

Year Ended June 30,	Lease Payment
2015	\$ 191,230
2016	191,230
2017	191,230
Total	\$ 573,690

11. 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.

12. 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, 2014.

The School District is a participant in the Bucks and Montgomery County Schools Healthcare Consortium, which is a pooled trust fund for the purpose of providing health and related benefits up to \$200,000 per participant. The school pays the Consortium a monthly contribution as determined by the trustees. This pool is self-sustaining through member premiums. The District reinsured through a commercial company for claims in excess of the amount covered by the pool.

13. SUBSEQUENT EVENTS

The Board of School Directors approved outsourcing District transportation to First Student beginning July 1, 2014. On August 19, 2014, The Board also approved the agreement of sale for the transfer of bus titles from Methacton School District to First Student for \$1,776,805.

REQUIRED

SUPPLEMENTARY INFORMATION

METHACTON SCHOOL DISTRICT

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

JUNE 30, 2014

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, 2014

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		Positive (Negative)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 75,341,847	\$ 75,341,847	\$ 75,656,159	\$ 314,312
State sources	18,333,399	18,333,399	17,994,055	(339,344)
Federal sources	572,827	572,827	567,897	(4,930)
	<u>94,248,073</u>	<u>94,248,073</u>	<u>94,218,111</u>	<u>(29,962)</u>
Other Financing Sources:				
Capital lease obligations	1,000,000	1,000,000	723,555	(276,445)
Interfund transfers			12,445	12,445
Proceeds from sale of capital assets		-	10,206	10,206
		<u>-</u>	<u>10,206</u>	<u>10,206</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>95,248,073</u>	<u>95,248,073</u>	<u>94,964,317</u>	<u>(283,756)</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction				
Regular programs	36,341,336	36,388,686	35,442,464	946,222
Special programs	13,642,813	13,642,812	14,180,166	(537,354)
Vocational programs	2,790,252	2,790,252	3,087,770	(297,518)
Other instructional programs	493,855	493,855	524,646	(30,791)
Adult education programs	91,910	91,910	193,413	(101,503)
Total Instruction	<u>53,360,166</u>	<u>53,407,515</u>	<u>53,428,459</u>	<u>(20,944)</u>
Support services				
Pupil personnel services	3,300,637	3,325,637	3,276,384	49,253
Instructional staff services	2,019,442	2,025,029	1,795,677	229,352
Administration services	5,480,036	5,484,837	5,220,746	264,091
Pupil health	974,507	974,506	962,055	12,451
Business services	1,082,405	1,082,405	1,218,144	(135,739)
Operation and maintenance of plant services	7,770,724	7,770,723	7,965,868	(195,145)
Student transportation	6,940,901	6,940,901	7,627,232	(686,331)
Central services	1,561,648	1,561,648	1,709,897	(148,249)
Other support services	76,824	76,824	76,196	628
Total Support Services	<u>29,207,124</u>	<u>29,242,510</u>	<u>29,852,199</u>	<u>(609,689)</u>
Operation of non-instructional services				
Student activities	1,369,749	1,409,732	1,395,264	14,468
Community services	2,000	2,000	3,607	(1,607)
Total Operation of Non-instructional Services	<u>1,371,749</u>	<u>1,411,732</u>	<u>1,398,871</u>	<u>12,861</u>
Debt service				
	<u>11,109,034</u>	<u>11,109,034</u>	<u>9,969,645</u>	<u>1,139,389</u>
Other financing uses				
Budgetary Reserve	<u>200,000</u>	<u>77,282</u>		<u>77,282</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>95,248,073</u>	<u>95,248,073</u>	<u>94,649,174</u>	<u>598,899</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	-	-	315,143	315,143
FUND BALANCE AT BEGINNING OF YEAR				
	<u>4,299,240</u>	<u>4,922,420</u>	<u>4,922,420</u>	-
FUND BALANCE AT END OF YEAR				
	<u>\$ 4,299,240</u>	<u>\$ 4,922,420</u>	<u>\$ 5,237,563</u>	<u>\$ 315,143</u>

See accompanying notes to the required supplementary information

METHACTON SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON

JUNE 30, 2014

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

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, 2013	Total Received For the Year	Expenditures	Accrued or (Deferred) Revenue at June 30, 2014	Revenue Recognized
FEDERAL AWARDS									
US DEPT. OF EDUCATION									
PASSED THROUGH THE PA DEPT. OF EDUCATION									
ESEA TITLE I Delinquent	84.010	107-120245	7/01/11-9/30/12	\$ 444,169	\$ 32,527	\$ 32,527	\$	\$	\$
ESEA TITLE I Improving Basic Programs	84.010	013-130245	7/1/12-9/30/13	189,174	81,476	81,476			
ESEA TITLE I Improving Basic Programs	84.010	013-140245	7/1/13-9/30/14	168,566		172,903	168,566	(4,337)	168,566
Total CFDA 84.010				<u>801,909</u>	<u>114,003</u>	<u>286,906</u>	<u>168,566</u>	<u>(4,337)</u>	<u>168,566</u>
ESEA TITLE II Improving Teacher Quality	84.367	020-130245	7/1/12-9/30/13	112,826	(5,587)	67,710	73,297		73,297
ESEA TITLE II Improving Teacher Quality	84.367	020-140245	7/1/13-9/30/14	107,279		100,362	107,279	6,917	107,279
Total CFDA 84.367				<u>220,105</u>	<u>(5,587)</u>	<u>168,072</u>	<u>180,576</u>	<u>6,917</u>	<u>180,576</u>
MEDICAL ACCESS ADMIN	93.778		7/1/13-6/30/14	8,368	110	6,321	8,368	2,157	8,368
Total CFDA 93.778				<u>8,368</u>	<u>110</u>	<u>6,321</u>	<u>8,368</u>	<u>2,157</u>	<u>8,368</u>
PASSED THROUGH MONTGOMERY COUNTY IU									
IDEA Part B	84.027	N/A	7/1/11-6/30/12	935,555	22,756	22,756			
IDEA Part B	84.027	N/A	7/1/13-6/30/14	800,505		716,564	800,505	83,941	800,505
IDEA Preschool	84.173	N/A	7/1/12-6/30/13	3,940	3,940	3,940			
IDEA Preschool	84.173	N/A	7/1/13-6/30/14	3,856		3,856	3,856		3,856
Total IDEA Cluster				<u>1,743,856</u>	<u>26,696</u>	<u>747,116</u>	<u>804,361</u>	<u>83,941</u>	<u>804,361</u>
TITLE III Language Instruction for Limited English Proficient	84.365	N/A	7/13/11-9/30/13	15,800	2,060	2,060			
TITLE III Language Instruction for Limited English Proficient	84.365	N/A	8/3/12-9/30/13	6,790	6,790	6,790			
TITLE III Language Instruction for Limited English Proficient	84.365	N/A	7/16/13-9/30/14	8,734		969	8,734	7,765	8,734
Total CFDA 84.365				<u>31,324</u>	<u>8,850</u>	<u>9,819</u>	<u>8,734</u>	<u>7,765</u>	<u>8,734</u>
TOTAL US DEPT. OF EDUCATION				<u>2,805,562</u>	<u>144,072</u>	<u>1,218,234</u>	<u>1,170,605</u>	<u>96,443</u>	<u>1,170,605</u>
US DEPT. OF AGRICULTURE									
PASSED THROUGH THE PA DEPT. OF EDUCATION									
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	7/1/12-6/30/13	N/A	34,240	34,240			
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	7/1/13-6/30/14	N/A		173,910	234,706	60,796	234,706
REGULAR/NEEDY BREAKFAST PROGRAM	10.553	N/A	7/1/12-6/30/13	N/A	2,979	2,979			
REGULAR/NEEDY BREAKFAST PROGRAM	10.553	N/A	7/1/13-6/30/14	N/A		17,826	24,353	6,527	24,353
PASSED THROUGH THE PA DEPT. OF AGRICULTURE									
USDA COMMODITIES	10.555	N/A	7/1/13-6/30/14	N/A	(6,588)	43,375	42,882	(7,081)	42,882
Total Child Nutrition Cluster					<u>30,631</u>	<u>272,330</u>	<u>301,941</u>	<u>60,242</u>	<u>301,941</u>
TOTAL US DEPT. OF AGRICULTURE					<u>30,631</u>	<u>272,330</u>	<u>301,941</u>	<u>60,242</u>	<u>301,941</u>
TOTAL FEDERAL AWARDS					<u>174,703</u>	<u>1,490,564</u>	<u>1,472,546</u>	<u>156,685</u>	<u>1,472,546</u>

METHACTON SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
 FOR THE YEAR ENDED JUNE 30, 2014

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, 2013	Total Received For the Year	Expenditures	Accrued or (Deferred) Revenue at June 30, 2014	Revenue Recognized
CERTAIN STATE GRANTS									
PASSED THROUGH THE PA DEPT. OF AGRICULTURE									
NATIONAL SCHOOL LUNCH PROGRAM	N/A	N/A	7/1/12-6/30/13	N/A	4,191	4,191			
NATIONAL SCHOOL LUNCH PROGRAM	N/A	N/A	7/1/13-6/30/14	N/A		21,570	25,699	4,129	25,699
REGULAR/NEEDY BREAKFAST PROGRAM	N/A	N/A	7/1/12-6/30/13	N/A	277	277			
REGULAR/NEEDY BREAKFAST PROGRAM	N/A	N/A	7/1/13-6/30/14	N/A		1,639	2,026	387	2,026
TOTAL CERTAIN STATE GRANTS					4,468	27,677	27,725	4,516	27,725
GRAND TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS					\$ 179,171	\$ 1,518,241	\$ 1,500,271	\$ 161,201	\$ 1,500,271

METHACTON SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

FOR THE YEAR ENDED JUNE 30, 2014

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards and Certain State Grants 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 Awards and Certain State Grants is 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, 2014, 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 September 25, 2014.

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

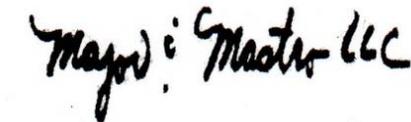
As part of obtaining reasonable assurance about whether METHACTON SCHOOL DISTRICT's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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.

September 25, 2014

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania
Certified Public Accountants

Handwritten signature in black ink that reads "Major & Mastro LLC".



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, 2014. 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, 2014.

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.

September 25, 2014

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania
Certified Public Accountants



METHACTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified 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 in internal control over major federal award programs are 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 unmodified 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 Part B	84.027
IDEA Preschool	84.173

Child Nutrition Cluster

National School Lunch Program	10.555
Regular/Needy Breakfast Program	10.553

METHACTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued

FOR THE YEAR ENDED JUNE 30, 2014

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