

MONTOURSVILLE AREA SCHOOL DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014



Larson, Kellett & Associates, P.C.
Certified Public Accountants and Consultants

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	5
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	6
Statement of Activities	7
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	8
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	9
Statement of Revenues, Expenditures and Changes in Fund Balances	10
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	11
Proprietary Fund:	
Statement of Net Position	12
Statement of Revenues, Expenses and Changes in Net Position	13
Statement of Cash Flows	14
Fiduciary Funds:	
Statement of Net Position	15
Statement of Changes in Net Position	16
Notes to the Basic Financial Statements	17-36
REQUIRED SUPPLEMENTARY INFORMATION,	
Budgetary Comparison Schedule - General Fund (Unaudited)	37
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	38
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	39
SINGLE AUDIT REPORTS:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40-41
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	42-43
Schedule of Findings and Questioned Costs	44-47



INDEPENDENT AUDITORS' REPORT

Board of School Directors
Montoursville Area School District
Montoursville, 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 Montoursville Area School District (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.

Auditors' Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 5 and budgetary comparison schedule on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or

to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Larson, Kellett & Associates, P.C.

Montoursville, Pennsylvania
November 19, 2014

MONTOURSVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

The discussion and analysis of Montoursville Area School District's (District) financial performance provides an overall review of the District's financial activities for the fiscal years ended June 30, 2014 and 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

At year end, the District's total net position had increased by approximately \$860,000 from the previous year end. Program revenues (revenues derived directly from a program itself or from parties outside the District's taxpayers or citizenry, which as a whole reduce the net costs to be financed from the District's general revenues) accounted for approximately \$5.3 million or 19.8% of total revenues, and general revenues (revenues that are not matched to specific program expenses) accounted for approximately \$21.5 million or 80.2% of total revenues.

The general fund reported a positive fund balance of approximately \$4.4 million or 16.1% of the 2013-2014 \$27.2 million operating budget. This represents a decrease of approximately \$138,000 from the prior year fund balance.

There are several parts to the District's financial statements. Below, Figure A-1 visually represents how the required parts of the Financial Section are arranged and relate to one another.

Figure A-1
Required components of
Montoursville Area School District's
Financial Report

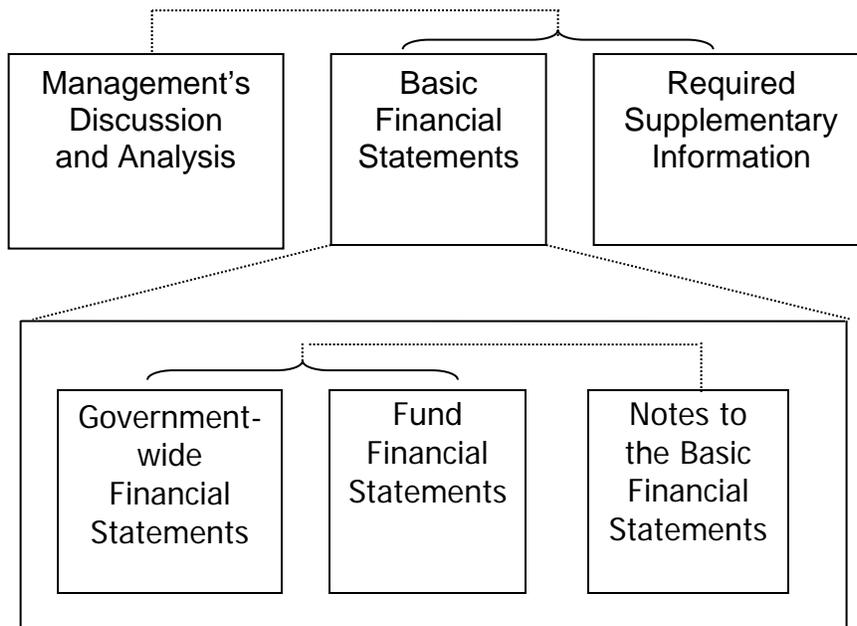


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of Montoursville Area School District's
Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration and community services	Activities the District operates similar to private business – ex. Food Services	Instances in which the District is the trustee or agent to someone else's resources – ex. Scholarship Funds
Required financial statements	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows	Statement of net position Statement of changes in net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of assets and deferred outflows of resources and liabilities and deferred inflows of resources information	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	Generally assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

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

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

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

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

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

Governmental activities – All of the District's basic services are included here, such as instruction, administration and community services. Property taxes, state and federal subsidies, and grants finance most of these activities.

Business-type activities – The District operates a food service operation and charges fees to students, staff, and visitors to help cover the costs of the food service operation.

Fund Financial Statements

The District's fund financial statements, which begin on page 8, provide detailed information about the most significant funds – not the District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds – Most of the District's activities are reported in governmental funds. These funds focus on the determination of financial position and change in financial position, not on income determination. The funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds – These funds are used to account for the District's activities that are similar to business operations in the private sector, or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the District's sole proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds – The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 15. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL STATEMENT ANALYSIS

The total net position of the governmental and business-type activities is summarized in Table A-1. Over time net position may serve as a useful indicator of a government's financial position.

The largest portion of the District's total assets (78%) reflects its investment in capital assets. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A comparative analysis of fiscal year 2013 to 2014 follows:

Table A-1 Comparative Analysis June 30, 2013 – June 30, 2014 Government Wide Financial Analysis - Net Position						
	Governmental Activities		Business-Type Activities		Totals	
	2013 (As Restated)	2014	2013	2014	2013 (As Restated)	2014
(Amounts expressed in thousands)						
Current Assets	\$ 11,104	\$ 10,927	\$ 173	\$ 195	\$ 11,277	\$ 11,122
Capital Assets	\$ 38,792	\$ 38,011	\$ 460	\$ 412	\$ 39,252	\$ 38,423
Prepaid Bond Insurance	\$ 85	\$ 58			\$ 85	\$ 58
Total Assets	\$ 49,981	\$ 48,996	\$ 633	\$ 607	\$ 50,614	\$ 49,603
Deferred Outflows of Resources	\$ 9	\$ 222			\$ 9	\$ 222
Current Liabilities	\$ 4,855	\$ 4,285	\$ 32	\$ 36	\$ 4,887	\$ 4,321
Noncurrent Liabilities	\$ 19,160	\$ 18,067	\$ -	\$ -	\$ 19,160	\$ 18,067
Total Liabilities	\$ 24,015	\$ 22,352	\$ 32	\$ 36	\$ 24,047	\$ 22,388
Net Position:						
Invested in Capital						
Assets, Net of Debt	\$ 18,833	\$ 19,811	\$ 460	\$ 412	\$ 19,293	\$ 20,223
Restricted for Capital Projects	\$ 3,255	\$ 3,465	\$ -	\$ -	\$ 3,255	\$ 3,465
Restricted for Debt Service	\$ -	\$ 4	\$ -	\$ -	\$ -	\$ 4
Unrestricted	\$ 3,887	\$ 3,586	\$ 141	\$ 159	\$ 4,028	\$ 3,745
Total Net Position	\$ 25,975	\$ 26,866	\$ 601	\$ 571	\$ 26,576	\$ 27,437

The District is able to report an increase in its restricted net position while showing a decrease in unrestricted net position. The District's investment in capital assets, net of debt, increased by approximately \$930,000 (net), as a result of equipment purchases, facility improvements, and debt reduction during the fiscal year.

The District's total net position related to governmental activities increased by approximately \$891,000. Additionally, the District's total unrestricted net assets related to governmental and business-type activities reflect a positive balance of approximately \$3.75 million.

Table A-2 displays the government-wide changes in net position for both the Governmental and Business-Type Activities.

	Governmental Activities		Business-Type Activities		Total	
	2013 (As Restated)	2014	2013	2014	2013 (As Restated)	2014
(Amounts expressed in thousands)						
Revenues						
Program Revenues						
Charges for Services	\$ 143	\$ 148	\$ 458	\$ 426	\$ 601	\$ 574
Operating Grants	\$ 4,133	\$ 4,392	\$ 328	\$ 364	\$ 4,461	\$ 4,756
Total Program Revenues	\$ 4,276	\$ 4,540	\$ 786	\$ 790	\$ 5,062	\$ 5,330
General Revenues						
Property Taxes	\$10,030	\$10,283	\$ -	\$ -	\$10,030	\$10,283
Other Taxes	\$ 3,935	\$ 3,967	\$ -	\$ -	\$ 3,935	\$ 3,967
Grants and Entitlements	\$ 7,196	\$ 7,235	\$ -	\$ -	\$ 7,196	\$ 7,235
Other	\$ 46	\$ 42	\$ 6	\$ -	\$ 52	\$ 42
Total General Revenues	\$21,207	\$21,527	\$ 6	\$ -	\$21,213	\$21,527
Total Revenues	\$25,483	\$26,067	\$ 792	\$ 790	\$26,275	\$26,857
Expenses						
Program Expenses						
Instruction	\$14,585	\$15,461	\$ -	\$ -	\$14,585	\$15,461
Support Services:						
Instructional Student Support	\$ 2,213	\$ 2,421	\$ -	\$ -	\$ 2,213	\$ 2,421
Administration	\$ 1,825	\$ 2,100	\$ -	\$ -	\$ 1,825	\$ 2,100
Maintenance	\$ 2,983	\$ 2,921	\$ -	\$ -	\$ 2,983	\$ 2,921
Pupil Transportation	\$ 1,073	\$ 1,049	\$ -	\$ -	\$ 1,073	\$ 1,049
Community Services	\$ 4	\$ 1	\$ -	\$ -	\$ 4	\$ 1
Student Activities	\$ 536	\$ 612	\$ -	\$ -	\$ 536	\$ 612
Interest and Fiscal Charges	\$ 805	\$ 612	\$ -	\$ -	\$ 805	\$ 612
Other Support Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Food Service	\$ -	\$ -	\$ 842	\$ 820	\$ 842	\$ 820
Depreciation, unallocated	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$24,024	\$25,177	\$ 842	\$ 820	\$24,866	\$25,997
Excess before transfers	\$ 1,459	\$ 890	(\$ 50)	(\$ 30)	\$ 1,409	\$ 860
Interfund Transfers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss on Disposal of Capital Assets	(\$ 1)	\$ -	\$ -	\$ -	(\$ 1)	\$ -
Change in Net Position	\$ 1,458	\$ 890	(\$ 50)	(\$ 30)	\$ 1,408	\$ 860

FUND FINANCIAL STATEMENT ANALYSIS

At June 30, 2014, a combined fund balance of \$7,849,927 is reported on the District's governmental funds statement; overall, this is an increase of \$75,342 from the prior fiscal year.

Table A-3 Fiscal Year End Comparison June 30, 2013 – June 30, 2014 Changes in Governmental Funds Balances			
	Fund Balance 2013	Fund Balance 2014	Increase (Decrease)
General Fund	\$ 4,518,965	\$ 4,380,563	(\$ 138,402)
Capital Projects Fund			
Bond Proceeds for Capital Improvements	\$ 23,880	\$ 131,492	\$ 107,612
Reserved for Future Capital Improvements	\$ 3,231,740	\$ 3,333,670	\$ 101,930
Debt Service Fund	\$ -	\$ 4,202	\$ 4,202
Total Fund Balance	\$ 7,774,585	\$ 7,849,927	\$ 75,342

General Fund –

Compared to the prior fiscal year, the District's revenue and expenditures increased. However, expenditure growth exceeded revenue growth resulting in a decrease to the year end general fund balance.

The increase of total revenue primarily resulted from increases in (local revenue) Earned Income Tax and real estate taxes; as well as (state revenue) reimbursement for contributions to the Public School Employees' Retirement System and the general instructional subsidy.

Table A-4 Fiscal Year End Comparison June 30, 2013 – June 30, 2014 General Fund Revenues and Expenditures				
	2013 Amount	2014 Amount	Dollar Change	Percent Change
<i>Revenues</i>				
Local	\$ 14,571,653	\$ 14,857,535	\$ 285,882	1.96 %
State	\$ 10,603,365	\$ 10,976,759	\$ 373,394	3.52 %
Federal	\$ 318,054	\$ 326,196	\$ 8,142	2.56 %
Total	\$ 25,493,072	\$ 26,160,490	\$ 667,418	2.62 %
<i>Expenditures</i>				
Instruction	\$ 13,915,126	\$ 14,897,049	\$ 981,923	7.06 %
Support Services	\$ 7,893,946	\$ 8,178,084	\$ 284,138	3.60 %
Noninstructional Services	\$ 543,419	\$ 621,415	\$ 77,996	14.35 %
Debt Service	\$ 90,629	\$ 45,314	(\$ 45,315)	(50.00)%
Refund of Prior Year Exp.	\$ 4,781	\$ 6,865	\$ 2,084	43.59 %
Fund Transfers Out	\$ 2,941,755	\$ 2,550,165	(\$ 391,590)	(13.31)%
Total	\$ 25,389,656	\$ 26,298,892	\$ 909,236	3.58 %
Excess Revenues (Expenditures)	\$ 103,416	(\$ 138,402)	(\$ 241,818)	(233.83)%

Capital Projects Fund –

Capital projects funds account for resources that are limited to expenditures for capital outlays, such as the acquisition of capital facilities and capital assets.

Under the Capital Project Fund type, the District maintains two (2) sub-categories as noted below:

- 1) In June 2009, the District created a capital project fund to deposit the General Obligation Bonds, Series of 2009, proceeds to finance renovations and alterations to the C. E. McCall Middle School. In June 2010, the District deposited the General Obligation Bonds, Series of 2010, which were also for the renovations and alterations to the C. E. McCall Middle School. The fund balance for this sub-category is represented on Table A-3, noted as “Bond Proceeds for Capital Improvements.”

The \$107,612 increase in this sub-category is the result of refunds of prior year capital outlay expenses related to the renovations and alterations to the C. E. McCall Middle School.

- 2) The District is actively preparing for unexpected as well as proposed capital projects each year. In order to finance these projects without the need for additional borrowing issues or significant burden to the taxpayers, the District makes regular budgeted transfers from the General Fund to a Capital Reserve Fund. The Capital Reserve Fund was created pursuant to Section 1432 of the Commonwealth of Pennsylvania Municipal Code. The fund balance for this sub-category is represented on Table A-3, noted as “Reserved for Future Capital Improvements.”

At the end of the fiscal year, \$150,000 was transferred to this sub-category from unexpended general fund appropriations.

The total Capital Project Fund increase of approximately \$210,000 was the net result of interest earnings and transfer described above.

Debt Service Fund –

The Debt Service Fund accounts for resources accumulated to provide for the payment of general long-term debt principal and interest. Budgeted transfers from the General Fund are used to pay the Series A of 2005, Series of 2009, Series of 2010, Series of 2014 General Obligation Bonds through the Debt Service Fund.

Proprietary Fund –

At June 30, 2014, the District's sole business-type activity, the proprietary fund, reported total net position of \$571,026. The proprietary fund records the activities of the food service program, which operates on a break-even basis and receives limited support from tax revenues. Food service receives both federal and state subsidies for milk and meals. Food service also receives some government commodities on a routine basis. The majority of revenues come from the students and other users of services as displayed in Table A-5.

Table A-5
Fiscal Year End Comparison June 30, 2013 – June 30, 2014
Proprietary Fund Revenues and Expenditures

	2013 Amount	2014 Amount	Dollar Change	Percent Change
<i>Revenues</i>				
Food Service Revenue	\$ 458,521	\$ 419,331	(\$ 39,190)	(8.55)%
Other Operating Revenues	\$ 5,831	\$ 7,017	\$ 1,186	20.34 %
State Subsidies	\$ 49,801	\$ 53,754	\$ 3,953	7.94 %
Federal Subsidies	\$ 278,092	\$ 309,734	\$ 31,642	11.38 %
Total	\$ 792,245	\$ 789,836	(\$ 2,409)	(0.30)%
<i>Expenditures</i>				
Salaries	\$ 256,008	\$ 252,821	(\$ 3,187)	(1.24)%
Employee Benefits	\$ 116,445	\$ 134,926	\$ 18,481	15.87 %
Technical Services	\$ -	\$ 2,750	\$ 2,750	100.00 %
Purchased Property Services	\$ 10,130	\$ 6,679	(\$ 3,451)	(34.07)%
Other Purchased Service	\$ -	\$ -	\$ -	- %
Supplies	\$ 404,951	\$ 373,818	(\$ 31,133)	(7.69)%
Depreciation	\$ 54,009	\$ 48,233	(\$ 5,776)	(10.69)%
Other Operating Expenses	\$ 451	\$ 529	\$ 78	17.29 %
Total	\$ 841,994	\$ 819,756	(\$ 22,238)	(2.64)%
Interfund transfers In	\$ -	\$ -	\$ -	- %
Capital Contributions	\$ -	\$ -	\$ -	- %
Change in Net Position	(\$ 49,749)	(\$ 29,920)	\$ 19,829	(39.86)%

General Fund Budget

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided on page 37.

The District applies for federal, state, and local grants which cannot always be anticipated in the budgeting process. In addition, the District budgets revenues conservatively to prevent a shortfall of funds during the fiscal year. Other unanticipated revenues also account for increases in budgeted revenues; examples include revenues from the rental of district facilities and student tuition.

Budgeted expenditures and other financing uses generally increase to offset or compensate for any additional federal, state, or local grants. Transfers between specific categories of expenditures/financing uses occur near the end of the year.

Budgetary Reserve is set aside to transfer for unpredictable changes in the costs of goods and services as well as occurrences of events that are vaguely predictable during budget preparations, which nevertheless may be required by the District during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had \$38,422,953 net of depreciation invested in a broad range of capital assets, including land, buildings, furniture, and equipment. Accumulated depreciation for both Governmental and Business-Type activities totaled \$23,232,716 at year end. As displayed in Table A-6, the majority of asset acquisitions were for furniture and equipment placed in service during the 2013-2014 fiscal year.

Table A-6 Fiscal Year End Comparison June 30, 2013 – June 30, 2014 Capital Assets – Net of Depreciation						
	Governmental Activities		Business-Type Activities		Increase (Decrease) By Activity Type	
	2013	2014	2013	2014	Govern.	Business
(Amounts expressed in Thousands)						
Land and Improvements	\$ 2,065	\$ 1,953	\$ -	\$ -	(\$ 112)	\$ -
Buildings and Building Improvements	\$ 35,184	\$ 34,610	\$ -	\$ -	(\$ 574)	\$ -
Furniture and Equipment	\$ 1,203	\$ 1,292	\$ 460	\$ 412	\$ 89	(\$ 48)
Construction in Progress	\$ 340	\$ 156	\$ -	\$ -	(\$ 184)	\$ -
Total	\$ 38,792	\$ 38,011	\$ 460	\$ 412	(\$ 781)	(\$ 48)

Debt Administration

During the year, the District made payments against principal of \$1,735,000, resulting in outstanding debt as of June 30, 2014 of \$18,200,000; this is displayed in Table A-7.

In May 2014 the District issued the Series of 2014 General Obligation Bonds to advance refund the Series of 2009 General Obligation Bonds; additionally, during the fiscal year the District retired the Series A of 2005 General Obligation Bonds as displayed in Table A-7.

Table A-7 Outstanding Debt Comparison June 30, 2013 – June 30, 2014			
	2013	2014	Increase (Decrease)
Bonds, Series A of 2005	\$ 950,000	\$ -	(\$ 950,000)
Bonds, Series of 2009	\$ 8,980,000	\$ -	(\$ 8,980,000)
Bonds, Series of 2010	\$ 9,985,000	\$ 9,575,000	(\$ 410,000)
Bonds, Series of 2014	\$ -	\$ 8,625,000	\$ 8,625,000
Total Debt Outstanding	\$ 19,915,000	\$ 18,200,000	(\$ 1,715,000)

Other obligations include lease purchase obligations and compensated absences for specific employees of the District. More detailed information about long-term liabilities is included in the Notes to the Basic Financial Statements.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Public School Employees Retirement System

The Public School Employees Retirement System (PSERS) incurred substantial losses during the fiscal year ending June 30, 2009. PSERS reported the actual rate of return for that period was a negative 26.54%. This was exemplified by the fact that on June 30, 2008 net PSERS plan assets were \$67.5 billion and on June 30, 2009 the plan assets had dropped to \$43.2 billion. The decrease of PSERS assets was a major contributing factor causing significant increases to the employer contribution rates for future years starting in the 2012-2013 school year. On November 23, 2010, Act 120 of 2010 was enacted, which included a series of actuarial and funding changes to PSERS as well as benefit reductions for individuals who became new members of PSERS on or after July 1, 2011. According to PSERS, "the legislation was designed to suppress the employer contribution rate by using rate collars in future years to keep the rate from rising too high, too fast." The employer contribution rate is projected to increase approximately 4% per year until 2016-2017, then reduce to an annual increase of approximately 1.0% per year until 2019-2020, when the rates are projected to stabilize for several years.

According to PSERS: "Pension reform enacted under Act 120 of 2010 is well underway. As of December 31, 2013 approximately 13% or 35,000 of PSERS active membership is under the new reduced benefit structure of Act 120. The annual benefit cost for new members joining the System is less than 3%. As the Act 120 membership grows, the annual savings from the lower Act 120 benefit cost structure will allow an increasing amount of employer contributions to pay down the existing unfunded liability. An estimated \$90 million is expected in annual savings during FY 2014/2014 from reduced ... benefit tiers. In addition, some progress has been made on the pension funding issue as the impact of Act 120 rolls through the System. The rate collars continue to gradually increase the employer contribution rate closer to the annual required contribution (ARC)."

In 2009, the District established a fund balance to mitigate the anticipated increases in the PSERS employer contribution rate. During the fiscal year the District used \$116,000 to mitigate the increasing employer pension costs and at June 30, 2014 the fund balance totaled \$1,732,150. The District plans to use \$229,600 of the committed fund balance during the 2014-2015 fiscal year to mitigate the increase in the PSERS employer contribution rate. The District contributed at a rate of 16.93% of payroll to PSERS for the 2013-2014 school year and is contributing a rate of 21.40% of payroll for the 2014-2015 school year.

Additional information regarding this matter can be obtained from the PSERS web site (www.psers.state.pa.us) under "Pension Funding and Act 120 Resources."

In December 2013 the District engaged Crabtree, Rohrbaugh & Associates Architects of Camp Hill, PA to conduct a district-wide feasibility study (an evaluation of the condition of the District's physical plant and equipment). Based on the firm's findings, in May 2014 the School Board further directed Crabtree, Rohrbaugh & Associates to focus the results of the feasibility study on the development of proposals for the renovation of Montoursville Area High School. On September 9, 2014, the School Board approved additions and renovations to Montoursville Area High School and the adjacent Memorial Stadium at a total estimated project cost of \$35,972,942. The additions and renovations project is slated to begin in May 2015 and will take an estimated 22 months to complete.

Other than those issues listed in the MD&A or in the notes to the basic financial statements, there are no facts currently known to management that would materially impact the financial statements either favorably or unfavorably at this time.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

The Montoursville Area School District financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If there are questions about this report or additional financial information is needed, please contact Mr. Robert E. Saul, Business Manager at Montoursville Area School District, 50 North Arch Street, Montoursville, PA 17754, 570-368-3500.

MONTOURSVILLE AREA SCHOOL DISTRICT
GOVERNMENT-WIDE
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 8,358,539	\$ 157,284	\$ 8,515,823
Investments	980,000		980,000
Taxes receivable, net	857,815		857,815
Prepaid expenses	105,793		105,793
Due from other governments	604,153	3,411	607,564
Inventories		33,552	33,552
Other receivables	<u>20,865</u>	<u>772</u>	<u>21,637</u>
Total current assets	<u>10,927,165</u>	<u>195,019</u>	<u>11,122,184</u>
NONCURRENT ASSETS:			
CAPITAL ASSETS:			
Land and improvements	2,711,776		2,711,776
Buildings and building improvements	52,683,506		52,683,506
Furniture and equipment	5,006,867	1,097,946	6,104,813
Construction in progress	155,574		155,574
Accumulated depreciation	<u>(22,546,762)</u>	<u>(685,954)</u>	<u>(23,232,716)</u>
Total capital assets, net	38,010,961	411,992	38,422,953
PREPAID BOND INSURANCE	<u>57,664</u>		<u>57,664</u>
Total noncurrent assets	<u>38,068,625</u>	<u>411,992</u>	<u>38,480,617</u>
TOTAL ASSETS	<u>\$ 48,995,790</u>	<u>\$ 607,011</u>	<u>\$ 49,602,801</u>
DEFERRED OUTFLOWS OF RESOURCES,			
Deferred loss on refunding debt, net	<u>\$ 222,114</u>	<u>\$</u>	<u>\$ 222,114</u>
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	\$ 201,925		\$ 201,925
Accrued salaries and benefits	2,464,843		2,464,843
Accrued interest	80,179		80,179
Payroll deductions and withholdings	7,643		7,643
Current portion of noncurrent liabilities	1,500,000		1,500,000
Unearned revenue	18,573	\$ 35,985	54,558
Other current liabilities	<u>11,487</u>		<u>11,487</u>
Total current liabilities	<u>4,284,650</u>	<u>35,985</u>	<u>4,320,635</u>
NONCURRENT LIABILITIES:			
Bonds payable, net	17,055,555		17,055,555
Accumulated compensated absences, net	<u>1,011,721</u>		<u>1,011,721</u>
Total noncurrent liabilities	<u>18,067,276</u>		<u>18,067,276</u>
TOTAL LIABILITIES	<u>\$ 22,351,926</u>	<u>\$ 35,985</u>	<u>\$ 22,387,911</u>
NET POSITION:			
Invested in capital assets, net of related debt	\$ 19,810,961	\$ 411,992	\$ 20,222,953
Restricted for debt service	4,202		4,202
Restricted for capital projects	3,465,162		3,465,162
Unrestricted	<u>3,585,653</u>	<u>159,034</u>	<u>3,744,687</u>
TOTAL NET POSITION	<u>\$ 26,865,978</u>	<u>\$ 571,026</u>	<u>\$ 27,437,004</u>

MONTOURSVILLE AREA SCHOOL DISTRICT
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:							
Instruction	\$ 15,460,856	\$ 82,082	\$2,735,824		\$(12,642,950)		\$(12,642,950)
Instructional student support	2,421,118		465,203		(1,955,915)		(1,955,915)
Administrative and financial support	2,100,313		135,741		(1,964,572)		(1,964,572)
Operation and maintenance of plant services	2,921,160		126,972		(2,794,188)		(2,794,188)
Pupil transportation	1,049,174		481,536		(567,638)		(567,638)
Student activities	611,513	60,606	20,009		(530,898)		(530,898)
Community services	607	4,833	23		4,249		4,249
Interest on long-term debt	<u>612,021</u>		<u>427,024</u>		<u>(184,997)</u>		<u>(184,997)</u>
Total governmental activities	25,176,762	147,521	4,392,332		(20,636,909)		(20,636,909)
BUSINESS-TYPE ACTIVITIES,							
Food service	<u>819,756</u>	<u>426,348</u>	<u>363,488</u>			<u>\$(29,920)</u>	<u>(29,920)</u>
TOTAL	<u>\$25,996,518</u>	<u>\$573,869</u>	<u>\$4,755,820</u>	<u>\$</u>	<u>(20,636,909)</u>	<u>(29,920)</u>	<u>(20,666,829)</u>
GENERAL REVENUES:							
Property taxes, levied for general purposes					10,283,460		10,283,460
Other taxes levied, net					3,967,085		3,967,085
Grants and entitlements not restricted to specific programs					7,234,865		7,234,865
Investment earnings					13,900		13,900
Miscellaneous income					<u>27,650</u>		<u>27,650</u>
Total general revenues					<u>21,526,960</u>		<u>21,526,960</u>
CHANGE IN NET POSITION					890,051	(29,920)	860,131
NET POSITION, BEGINNING (As restated, See Note 2)					<u>25,975,927</u>	<u>600,946</u>	<u>26,576,873</u>
NET POSITION, ENDING					<u>\$ 26,865,978</u>	<u>\$571,026</u>	<u>\$ 27,437,004</u>

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 5,624,175	\$ 2,730,162	\$ 4,202	\$ 8,358,539
Investments	245,000	735,000		980,000
Taxes receivable, net	855,292			855,292
Due from other governments	604,153			604,153
Other receivables	20,865			20,865
Prepaid expenses	<u>105,793</u>			<u>105,793</u>
TOTAL ASSETS	<u>\$ 7,455,278</u>	<u>\$ 3,465,162</u>	<u>\$ 4,202</u>	<u>\$ 10,924,642</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 201,925			\$ 201,925
Accrued salaries and benefits	2,464,843			2,464,843
Payroll deductions and withholdings	7,643			7,643
Unearned revenue	18,573			18,573
Other liabilities	<u>11,487</u>			<u>11,487</u>
Total liabilities	<u>2,704,471</u>			<u>2,704,471</u>
DEFERRED INFLOWS OF RESOURCES,				
Unavailable revenue - property taxes	<u>370,244</u>			<u>370,244</u>
FUND BALANCES:				
Nonspendable	105,793			105,793
Restricted		\$ 3,465,162	\$ 4,202	3,469,364
Committed	1,732,150			1,732,150
Unassigned	<u>2,542,620</u>			<u>2,542,620</u>
Total fund balances	<u>4,380,563</u>	<u>3,465,162</u>	<u>4,202</u>	<u>7,849,927</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 7,455,278</u>	<u>\$ 3,465,162</u>	<u>\$ 4,202</u>	<u>\$ 10,924,642</u>

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

TOTAL GOVERNMENTAL FUND BALANCES	\$ 7,849,927
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. These assets consist of:</p>	
Land and improvements	2,711,776
Buildings and building improvements	52,683,506
Furniture and equipment	5,006,867
Construction in progress	155,574
Accumulated depreciation	(22,546,762)
<p>Bond insurance costs are reported as an expenditure in governmental funds when debt is first issued. Bond insurance costs are reported as prepaid expenses on the statement of net position and expensed in a rational systematic manner over the life of the related debt.</p>	
	57,664
<p>Deferred losses on refunding bonds are not current financial resources, and therefore are not reported in the governmental funds balance sheet.</p>	
	222,114
<p>Noncurrent liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet. These liabilities consist of:</p>	
Accrued interest	(80,179)
Bonds payable in future years	(18,555,555)
Accumulated compensated absences	(1,011,721)
<p>Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the governmental funds balance sheet.</p>	
	<u>372,767</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 26,865,978</u>

MONTOURSVILLE AREA 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	Debt Service Fund	Total Governmental Funds
REVENUES:				
Local sources	\$ 14,857,535	\$ 2,385		\$ 14,859,920
State sources	10,976,759			10,976,759
Federal sources	<u>326,196</u>			<u>326,196</u>
Total revenues	<u>26,160,490</u>	<u>2,385</u>		<u>26,162,875</u>
EXPENDITURES:				
Instruction	14,897,049			14,897,049
Support services	8,178,084	33,168	\$ 136,956	8,348,208
Noninstructional services	621,415	49,700		671,115
Debt service (principal and interest)	45,314		2,400,165	2,445,479
Capital outlay		20,500		20,500
Refund of prior year receipts	<u>6,865</u>			<u>6,865</u>
Total expenditures	<u>23,748,727</u>	<u>103,368</u>	<u>2,537,121</u>	<u>26,389,216</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,411,763</u>	<u>(100,983)</u>	<u>(2,537,121)</u>	<u>(226,341)</u>
OTHER FINANCING SOURCES (USES):				
Interfund transfers in		150,000	2,400,165	2,550,165
Interfund transfers out	(2,550,165)			(2,550,165)
Refunding bonds issued			8,625,000	8,625,000
Debt service for refunded bonds			(8,755,116)	(8,755,116)
Bond premiums			271,274	271,274
Refund of prior year expenditures		<u>160,525</u>		<u>160,525</u>
Total other financing sources (uses)	<u>(2,550,165)</u>	<u>310,525</u>	<u>2,541,323</u>	<u>301,683</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(138,402)	209,542	4,202	75,342
FUND BALANCES, BEGINNING	<u>4,518,965</u>	<u>3,255,620</u>		<u>7,774,585</u>
FUND BALANCES, ENDING	<u>\$ 4,380,563</u>	<u>\$3,465,162</u>	<u>\$ 4,202</u>	<u>\$ 7,849,927</u>

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 75,342
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays, net of deletions, in the current period.	(759,062)
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the governmental funds.	(50,158)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,603,105
Repayment of capital lease principal is an expenditure in the governmental funds; however, capital leases entered into during the year increase long-term liabilities and the repayment reduces long-term liabilities in the statement of net position.	44,491
In the statement of activities, certain operating expenses - compensated absences (vacation and sick leave) and special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of the financial resources used (essentially, the amounts actually paid).	(77,634)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities; however, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>53,967</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 890,051</u>

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014

	Food Service Fund
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 157,284
Due from other governments	3,411
Other receivables	772
Inventories	<u>33,552</u>
 Total current assets	 <u>195,019</u>
 NONCURRENT ASSETS:	
CAPITAL ASSETS:	
Furniture and equipment	1,097,946
Accumulated depreciation	<u>(685,954)</u>
 Capital assets, net	 <u>411,992</u>
 TOTAL ASSETS	 <u>\$ 607,011</u>
 LIABILITY:	
CURRENT LIABILITY,	
Unearned revenue	<u>\$ 35,985</u>
 NET POSITION:	
Invested in capital assets	\$ 411,992
Unrestricted	<u>159,034</u>
 TOTAL NET POSITION	 <u>\$ 571,026</u>

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Food Service Fund
OPERATING REVENUES:	
Food service revenue	\$ 419,331
Other operating revenues	<u>7,017</u>
Total operating revenues	<u>426,348</u>
OPERATING EXPENSES:	
Salaries	252,821
Employee benefits	134,926
Technical services	2,750
Purchased property services	6,679
Supplies	373,818
Depreciation	48,233
Travel	408
Dues and fees	<u>121</u>
Total operating expenses	<u>819,756</u>
OPERATING LOSS	<u>(393,408)</u>
NONOPERATING REVENUES:	
State subsidies	53,754
Federal subsidies	<u>309,734</u>
Total nonoperating revenues	<u>363,488</u>
CHANGE IN NET POSITION	(29,920)
NET POSITION, BEGINNING	<u>600,946</u>
NET POSITION, ENDING	<u>\$ 571,026</u>

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from users	\$ 420,611
Cash received from other operating revenues	6,682
Payments to suppliers for goods and services	(334,585)
Payments to employees	<u>(387,850)</u>
Net cash used by operating activities	<u>(295,142)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State sources	53,770
Federal sources	<u>257,971</u>
Net cash provided by noncapital financing activities	<u>311,741</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,599
CASH AND CASH EQUIVALENTS, BEGINNING	<u>140,685</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 157,284</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	<u>\$ (393,408)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	48,233
Donated commodities	51,531
Change in:	
Inventories	(4,878)
Receivables	(335)
Unearned revenue	3,817
Payables	<u>(102)</u>
Total adjustments	<u>98,266</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (295,142)</u>
NONCASH NONCAPITAL FINANCING ACTIVITIES,	
The District received \$51,531 of food commodities.	

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

	Scholarship Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	\$ 5,515	\$110,996
Investments		23,000
Accounts receivable	<u> </u>	<u>1,160</u>
TOTAL ASSETS	<u>\$ 5,515</u>	<u>\$135,156</u>
LIABILITIES AND NET POSITION:		
LIABILITIES:		
Accounts payable		\$ 16,725
Due to student groups	<u> </u>	<u>118,431</u>
TOTAL LIABILITIES		135,156
NET POSITION,		
Restricted for scholarships	<u>\$ 5,515</u>	<u> </u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,515</u>	<u>\$135,156</u>

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Scholarship Trust Funds
ADDITIONS:	
Gifts and contributions	\$ 56,285
Investment income	<u>4</u>
Total additions	56,289
DEDUCTIONS,	
Scholarships awarded	<u>58,204</u>
CHANGE IN NET POSITION	(1,915)
NET POSITION, BEGINNING	<u>7,430</u>
NET POSITION, ENDING	<u>\$ 5,515</u>

See Notes to the Basic Financial Statements

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. SIGNIFICANT ACCOUNTING POLICIES:

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

Reporting Entity

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The criterion for including a potential component unit within the reporting entity is the significance of their operational or financial relationship with the District. Based upon the application of this criterion, the reporting entity will consist solely of the accounts and funds of the District.

Fund Accounting

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

GOVERNMENTAL FUNDS

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Fund

This fund is used to account for and report all financial resources not accounted for and reported in another fund. The fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Capital Projects Fund

This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

Debt Service Fund

This fund is used to account for resources that are restricted, committed, or assigned to expenditure for principal and interest.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

PROPRIETARY FUND

Enterprise Fund

This fund (food service fund) is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.

FIDUCIARY FUNDS

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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 District 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 propriety fund financial statements but differs from the manner in which governmental fund 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 are recognized as revenues 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 the business-type activity 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 for 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 government function is self-financing or draws from the general revenues of the District.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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, if applicable, 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 delinquent real estate taxes and derived tax revenues to be available if they are collected within 60 days and 30 days of the end of the fiscal period, respectively. Unearned revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service, prepaid expenses, and other long-term obligations, which are recognized when paid. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

The proprietary fund is accounted for using the accrual basis of accounting and the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, and revenues are recorded when earned and expenses are recorded when incurred. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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 revenues and expenses which generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contracted services, supplies, utilities and depreciation on capital assets. All

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds are reported using the economic resources measurement focus.

Budgetary Procedures and Budgetary Accounting

An operating budget is adopted in each year for the general fund on the modified accrual basis of accounting.

At the fund level, actual expenses cannot exceed budgeted appropriations; however, with proper approval of the Board, budgetary transfers can be made. The budgetary comparison schedule presented in this report reflects the final budget authorization, including all amendments and budgetary transfers.

The Pennsylvania School Code dictates specific procedures relative to adoption of the District's budget and reporting of its financial statements, specifically:

- The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.
- The District is required to publish notice by advertisement, at least once, in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District.
- The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required.
- Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board, which authorized the District to make expenditures. Appropriations lapse at the end of the fiscal period. In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year-end are reported as reservations of fund balances.
- Included in the general fund budget are program budgets as prescribed by the state and federal agencies funding the program. These budgets are approved on a program by program basis by the state or federal funding agency.
- Capital budgets are not established for capital improvements and capital projects in the capital projects fund. Additionally, all transactions of the capital projects fund are approved by the board prior to commitment, thereby constructively achieving budgetary control.
- The District does not adopt a formal budget for the proprietary fund and debt service fund.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. As of June 30, 2014, the District had no outstanding encumbrances. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the fund financial statements. A reserve for encumbrances is not reported on the government-wide financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and liquid asset funds (Pennsylvania School District Liquid Asset Fund), carried at cost.

The District pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements.

Investments

Investments held in the general fund, capital projects fund and the fiduciary funds consist of certificates of deposit stated at cost which approximates fair value. For purposes of determining realized gain or loss on sale, the cost of securities sold is determined by using the specific identification method. The fair value of investments is estimated based on bid quotations received from securities dealers.

Interfund Receivables and Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Prepaid Expenses

Prepaid expenses represent payments made by the District in the current year to provide services occurring in the subsequent fiscal year.

Inventories

Proprietary fund food inventories of \$33,552 include \$17,478 of food commodities donated by the federal government, which are valued at fair value. All other food or supply inventories are valued at the lower of cost (first-in, first-out method) or fair value and are expensed as consumed.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds.

Taxes Receivable

Taxes receivable are reported at their gross value and, where appropriate, are reduced by the estimated portion expected to be uncollectible. Taxes which become payable during fiscal year 2014 and are uncollected as of June 30, 2014 are recorded as taxes receivable in the government-wide financial statements, net of amounts estimated to be uncollectible. Management estimates the adequacy of the allowance for uncollectible taxes receivable based upon the historical experience in collecting these taxes. The allowance for uncollectible taxes receivable was \$25,571 as of June 30, 2014.

Capital Assets

Capital assets, which include land and improvements, buildings and building improvements, furniture and equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. The District defines capital assets as assets which have an original cost of \$4,000 or more and an estimated useful life in excess of one year. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Buildings and building improvements	20-50 years
Furniture and equipment	5-20 years

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' and business-type activities' statement of net position. Bonds payable are reported net of applicable bond premium or discount. Prepaid bond insurance is expensed over the life of the related debt. Other bond issuance costs are expensed in the period incurred.

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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Leasing

The District leases equipment under capital lease arrangements (See Note 10).

Prepaid Bond Insurance and Amortization

The cost of prepaid bond insurance of the Series A of 2005, 2009, 2010 and 2014 bonds is being amortized, utilizing the straight-line method, over the life of the bonds. Amortization expense included in the statement of activities amounted to \$9,103 for the year ended June 30, 2014.

Bond Premium, Discount and Amortization

The premium recognized upon the issuance of the Series of 2010 and 2014 bonds is being amortized utilizing the straight-line method, over the life of the bonds. The discount recognized upon the issuance of the Series of A of 2005 and 2009 bonds is being amortized utilizing the straight-line method, over the life of the bonds. The net premium has been capitalized and included in bonds payable in the accompanying statement of net position. The net premium included in amortization expense in the statement of activities amounted to \$8,594 for the year ended June 30, 2014.

Loss on Refinancing and Amortization

The loss recognized on the refinancing of Series of 2001 and 2009 bonds is being amortized utilizing the straight-line method over the life of the bonds. The loss has been capitalized as a deferred outflow of resources in the accompanying statement of net position. Amortization expense included in the statement of activities amounted to \$11,827 for the year ended June 30, 2014.

Fund Equity

In the governmental fund financial statements, the fund balance amounts are classified based on GASB Statement No. 54 as follows:

- *Nonspendable* - fund balance that cannot be spent because it is not in spendable form such as inventories, prepaids and long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned).
- *Restricted* - fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - fund balance includes amounts that can be used only for the specific purposes determined by formal action of the Board of School Directors.
- *Assigned* - fund balance includes amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The Business Manager has the authority to assign a fund balance. There were no amounts classified as assigned at June 30, 2014.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

- Unassigned - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Unrestricted net position for proprietary funds represent the net assets available for future distribution.

The District has not adopted a minimum fund balance policy.

Fund Balance Flow Assumptions

The District's policy is to first apply restricted fund balance, then committed, assigned, and unassigned, respectively when an expenditure is incurred for purposes for which amounts in any of these classifications could be used.

Net Position

In the government-wide financial statements, net position represents assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings or deferred inflow of resources used for the acquisition, construction or improvement of those assets and increased by any related deferred outflows of resources.

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When the District incurs an expense for which it may use either restricted or unrestricted net position, it uses restricted position first unless unrestricted net position will have to be returned because it was not used.

Deferred Inflows/Outflows of Resources

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

In addition to liabilities, the governmental funds balance sheet reports a separate section for deferred inflows of resources, as appropriate. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of resources that applies to future periods and so will *not* be recognized as an inflow of resources (i.e. revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue - property taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Net Position Flow Assumptions

Sometimes the District will fund outlays for a particular purpose for both restricted and unrestricted resources. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The District's financial instruments consist of cash, investments, taxes and other receivables, accounts payable and noncurrent liabilities. The carrying value of these financial instruments approximates their fair values at June 30, 2014.

Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. RESTATEMENT AND ADOPTION OF GASB STATEMENTS NO. 63 AND 65:

Effective July 1, 2013, the District implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65 *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. The objective of GASB Statement No. 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The implementation of GASB Statement No. 65 resulted in the reclassification of the beginning net position of the governmental activities in the government-wide financial statements. The deferred charges for bond issuance costs were reclassified as expense of prior periods and resulted in the adjustment below:

Governmental Activities:	
Net position, as previously reported	\$26,196,222
Bond issuance costs, net	<u>(220,295)</u>
Net position, as restated	<u>\$25,975,927</u>

Effective July 1, 2013, the District also reclassified its loss on refinancing of general obligation bonds from a non-current liability to a deferred outflow of resources in the accompanying government-wide statement of net position as follows:

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Noncurrent liabilities, as previously reported	\$20,929,799
Reclassify: Deferred loss on refunding debt, net	8,653
Noncurrent liabilities, as reclassified (See Note 10)	<u>\$20,938,452</u>

3. CASH AND CASH EQUIVALENTS:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2014, \$828,264 of the District's bank balance of \$9,875,771 was exposed to custodial credit risk as follows:

Collateralized with securities held by the pledging financial institution	<u>\$ 828,264</u>
---	-------------------

Reconciliation to Financial Statements

Collateralized with securities held by financial institution amount above	\$ 828,264
Plus insured amount	6,263,850
Less outstanding checks	<u>(241,037)</u>
Carrying amount	6,851,077
Plus petty cash	600
Plus pooled cash equivalents in:	
General fund	1,053,495
Capital Projects fund	1,730,162
Less certificates of deposit considered investments by school code	<u>(1,003,000)</u>
Total cash and cash equivalents per financial statements	<u>\$ 8,632,334</u>

4. INVESTMENTS:

State statutes authorize the District to invest in obligations of the U. S. treasury, agencies and instrumentalities of the U. S. government, deposits in savings accounts, certificates of deposit, and the Pennsylvania School District Liquid Asset Fund.

As of June 30, 2014, investments consisted of the following:

<u>Description</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of deposit	1-12 months	\$1,003,000
Pennsylvania School District Liquid Asset - Max Series		<u>2,783,490</u>
Total investments		<u>\$3,786,490</u>

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2014, the investments were rated as follows:

<u>Description</u>	<u>Standard & Poor's</u>
Pennsylvania School District Liquid Asset Fund - Max Series	AAA

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. The District has no investments subject to concentration of credit risk.

Custodial Credit Risk

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

Reconciliation to Financial Statements

Total investments per above	\$ 3,786,490
Less deposits in investment pool considered cash equivalents	<u>(2,783,490)</u>
Total investments per financial statements	<u>\$ 1,003,000</u>

5. REAL ESTATE TAXES:

The tax on real estate, as levied by the School Board, was 13.51 mills (\$13.51 per \$1,000 of assessed valuation) for fiscal year 2014. The original assessed value at July 1, 2013, upon which the 2014 levy was based, was \$797,177,750. Assessed valuations of property are determined by Lycoming County and the elected tax collectors are responsible for collection. 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 Payment Period
November 1 - December 31	10% Penalty Period
January 1	Lien Date

Current tax collections for the year ended June 30, 2014 were 95.6% of the tax levy. Estimated collectible delinquent real estate taxes at June 30, 2014 amounted to \$444,221.

6. DUE FROM OTHER GOVERNMENTS:

Amounts due from other governments represent receivables for revenues earned by the District or collections made by another governmental unit on behalf of the District. At June 30, 2014, the following amounts are due from other governments:

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Proprietary Fund</u>	<u>Total</u>
Federal	\$ 17,314	\$3,142	\$ 20,456
State	491,029	269	491,298
Local	<u>95,810</u>	<u> </u>	<u>95,810</u>
Total	<u>\$604,153</u>	<u>\$3,411</u>	<u>\$607,564</u>

7. CAPITAL ASSETS:

A summary of changes in capital assets is as follows:

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
GOVERNMENTAL ACTIVITIES:				
Capital Assets, not being depreciated:				
Land	\$ 184,579			\$ 184,579
Construction in progress	<u>340,585</u>	\$ 390,704	\$(575,715)	<u>155,574</u>
Total capital assets, not being depreciated	<u>525,164</u>	<u>390,704</u>	<u>(575,715)</u>	<u>340,153</u>
Capital Assets, being depreciated:				
Land improvements	2,527,197			2,527,197
Building and building improvements	52,131,259	552,247		52,683,506
Furniture and equipment	<u>4,670,687</u>	<u>339,285</u>	<u>(3,105)</u>	<u>5,006,867</u>
Total capital assets, being depreciated	59,329,143	891,532	(3,105)	60,217,570
Accumulated depreciation	<u>(21,061,961)</u>	<u>(1,487,916)</u>	<u>3,115</u>	<u>(22,546,762)</u>
Total capital assets, being depreciated, net	<u>38,267,182</u>	<u>(596,384)</u>	<u>10</u>	<u>37,670,808</u>
Governmental activities capital assets, net	<u>\$ 38,792,346</u>	<u>\$ (205,680)</u>	<u>\$(575,705)</u>	<u>\$ 38,010,961</u>
BUSINESS-TYPE ACTIVITIES:				
Capital Assets, being depreciated,				
Furniture and equipment	\$ 1,097,947		\$ (1)	\$ 1,097,946
Accumulated depreciation	<u>(637,721)</u>	\$ (48,233)		<u>(685,954)</u>
Total capital assets, being depreciated, net	<u>460,226</u>	<u>(48,233)</u>	<u>(1)</u>	<u>411,992</u>
Business-type activities capital assets, net	<u>\$ 460,226</u>	<u>\$ (48,233)</u>	<u>\$(1)</u>	<u>\$ 411,992</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 646,547
Instructional student support	60,313
Administrative and financial support	42,760
Operation and maintenance of plant services	716,761
Pupil transportation	4,136
Student activities	<u>17,399</u>
Total	<u>\$1,487,916</u>

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

8. COMPENSATED ABSENCES:

Retirement Severance Benefit

An administrator, upon permanent retirement from the field of public education, is paid \$60 for each unused sick day accumulated by the employee, subject to certain limitations. Non-professional employees upon retirement are paid \$50 for each year of service, not to exceed a total of 25 years and those with ten years of service with the District, will be provided \$30 for each unused sick day to offset the cost of the employee's healthcare benefits. At June 30, 2014, the estimated liability for accumulated retirement severance benefit due upon retirement or termination of certain administrators and non-professional employees was \$145,255. This liability has been recorded in accumulated compensated absences in the government-wide statement of net position. For the year ended June 30, 2014, the District made payments amounting to approximately \$2,355.

9. POSTEMPLOYMENT BENEFITS:

Plan Description

The District provides postretirement healthcare benefits up to age 65 for teachers and administrative employees who retire with at least 35 years of public school service in Pennsylvania. Teachers and administrative employees may also qualify by retiring with 30 years of public school service in Pennsylvania once they have attained the age of 60 for teachers or age 55 for administrators. The employee also shall have completed 15 years of service with the District. The cost of such medical and dental coverage for retirees and spouses is determined by the contract provisions at the time of retirement. The plan provides post-retirement medical, prescription drug, and dental benefits. The plan is unfunded and no financial report is prepared. These benefits are accounted for in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Retired professional employees who are ineligible under the above requirements and choose to participate in the medical plan must pay the appropriate insurance premium of a tiered rate structure.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the School Board. The plan is funded on a pay-as-you-go basis, i.e. premiums are paid annually to fund the healthcare benefits provided to current retirees. Retiree contribution rates and amounts vary depending on classification and years of service with the District. The District paid premiums of approximately \$29,000 for the fiscal year ended June 30, 2014. Total retiree contributions made by plan members were approximately \$299,000 for the fiscal year ended June 30, 2014.

Annual OPEB Cost and Net OPEB Obligation

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

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Actuarial Methods and Assumptions

The calculations are based on the types of benefits provided under the terms of the District's retirement benefits plan at the time of the valuation. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the efforts of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012 actuarial valuation, which was used to determine the ARC for the year ended June 30, 2014, the entry age normal method was used. Under the entry age normal cost method, the normal cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The accrued liability as of the valuation date is the excess of the present value of future benefits over the present value of future normal cost. The unfunded accrued liability is the excess of the accrued liability over the actuarial value of assets. Actuarial gains and losses serve to reduce or increase the unfunded accrued liability.

The actuarial assumptions included a 4.5% investment rate of return, which is the expected rate to be earned on the District's deposits and investments, and an annual healthcare cost trend rate of 7.5% in 2012, reduced by .5% annually to an ultimate rate of 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level percentage of payroll over a thirty year period on an open basis.

10. NONCURRENT LIABILITIES:

The following is a summary of changes in the governmental activities noncurrent liabilities for the year ended June 30, 2014:

	Balance June 30, 2013 <u>(As Restated)</u>	<u>Additions</u>	<u>Retirements</u>	<u>Amortization</u>	Balance June 30, 2014	Amounts Due in <u>One Year</u>
General obligation bonds payable	\$19,915,000	\$8,625,000	\$10,340,000		\$18,200,000	\$1,500,000
Plus deferred net bond premium (discount)	<u>44,874</u>	<u>271,274</u>	<u>(48,001)</u>	<u>\$(8,594)</u>	<u>355,555</u>	
Total	19,959,874	8,896,274	10,291,999	(8,594)	18,555,555	1,500,000
Capital leases	44,491		44,491			
Accumulated compensated absences	<u>934,087</u>	<u>413,519</u>	<u>335,885</u>		<u>1,011,721</u>	
Total	<u>\$20,938,452</u>	<u>\$9,309,793</u>	<u>\$10,672,375</u>	<u>\$(8,594)</u>	<u>\$19,567,276</u>	<u>\$1,500,000</u>

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

General obligation bonds payable at June 30, 2014 are comprised of the following:

Series of 2010, due in varying installments through May 2023, with interest rates ranging from 2.75% to 4.0% per annum.	\$ 9,575,000
Series of 2014, due in varying installments through April 2023, with interest rates ranging from .22% to 4.0% per annum.	<u>8,625,000</u>
Total	18,200,000
Less amounts due in one year	1,500,000
Plus deferred bond premium	<u>355,555</u>
Noncurrent portion of general obligation bonds payable	<u>\$17,055,555</u>

The annual requirements to amortize general obligation bonds payable at June 30, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,500,000	\$ 519,503	\$ 2,019,503
2016	1,930,000	508,632	2,438,632
2017	1,975,000	459,492	2,434,492
2018	2,040,000	402,680	2,442,680
2019	2,110,000	331,131	2,441,131
2020 - 2023	<u>8,645,000</u>	<u>647,072</u>	<u>9,292,072</u>
Total	<u>\$18,200,000</u>	<u>\$2,868,510</u>	<u>\$21,068,510</u>

The District leases equipment under the terms of a capital lease. The economic substance of the lease is that the District is financing the acquisition of the equipment through this lease. The following is an analysis of equipment leased under a capital lease included in capital assets as of June 30, 2014:

Governmental activities capital assets:	
Furniture and equipment	\$ 752,156
Accumulated depreciation	<u>(164,220)</u>
Furniture and equipment, net	<u>\$ 587,936</u>

The lease was paid in full during the year ended June 30, 2014.

The total interest expense related to the general obligation bonds and capital lease for the year ended June 30, 2014 amounted to \$612,021. No interest expense was capitalized during the year ended June 30, 2014.

11. DEFEASED DEBT:

On May 15, 2014, the District issued General Obligation Bonds, Series of 2014, to advance refund the District's General Obligation Bonds, Series of 2009. The general obligation bonds were issued at a premium of \$271,274 and, after paying issuance costs of \$136,955, the net proceeds were \$8,759,319. Net proceeds of \$8,755,116 from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

an escrow agent to provide debt service payments until the defeased debt is called or matures. The advance refunding met the requirements of an in-substance debt defeasance and the General Obligation Bonds, Series of 2009 was removed from noncurrent liabilities.

As a result of the advance refunding, the District reduced its total debt service requirements by \$417,185, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$413,392.

As of June 30, 2014, the amount of defeased debt outstanding, related to General Obligation Bonds, Series of 2009 amounted to \$8,625,000.

12. EMPLOYEE BENEFIT PLAN:

Plan Description, Contribution Information and Funding Policies

The District participates in the Commonwealth of Pennsylvania Public School Employees' Retirement System (System), a governmental cost sharing, multiple-employer defined benefit plan. The System is administered under authority of the Public School Employees' Retirement Code and provides retirement and disability benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualified annuitants. At June 30, 2014, the most recent year for which data was available, there were 789 participating employers, generally school districts.

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. Active members who joined the System prior to July 22, 1983, contribute 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the system after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the members qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Member Class T-E and Class 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 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2014, the rate of employers' contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16.00% for pension benefits and .93% for healthcare insurance premium assistance.

The District's required contributions to the System for the years ending June 30, 2014, 2013 and 2012 were \$1,804,527, \$1,265,281 and \$911,224, respectively, all of which were made.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

The System issues an annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to: Office of Financial Management, Public School Employees' Retirement System, 5 North 5th Street, Harrisburg, PA 17101-1905.

13. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The District's operations are located in Montoursville, Pennsylvania. Its service area is located within the geographic boundaries of the District. The District assesses taxpayers, within its service area, based upon taxing powers at its disposal. The ability of each of the District's taxpayers to honor their assessed obligations to the District is dependent upon economic and other factors affecting the taxpayers.

14. CONTINGENCIES:

Grants

The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. It is the opinion of management that requests for reimbursements, if any, by either state or federal governments based on subsequent audits will not be material in relation to the District's financial statements as of June 30, 2014.

Litigation

The District is subject to claims arising out of its normal operations. In the opinion of management, after review and consultation with counsel, any proceedings that may be assessed will not have a material adverse effect on the financial position of the District or results of its operations.

Risk Management

The 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. It is the policy of the District to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance.

15. COMMITMENTS:

The District has contractual obligations for the renovations to existing buildings in the amount of approximately \$175,000 of which approximately \$156,000 has been paid or accrued as of June 30, 2014.

16. JOINT VENTURES:

The District and other surrounding educational institutions created a joint venture, the Lycoming County Insurance Consortium Pooled Trust (Trust). The District self-insures through the Trust for certain healthcare benefits provided to current and former employees. The Trust has purchased an excess policy which covers employee health

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

benefit claims in excess of \$375,000. Claims are recognized as an expense when paid (cash basis) which is not materially different from the accrual basis. For the year ended June 30, 2014, the District made payments for healthcare benefit claims of approximately \$3,360,000 to the Trust. Audited financial statements of the Trust are available.

The District and other surrounding educational institutions created a jointly governed organization, the Lycoming Career and Technology Center (Center), to provide vocational and technical education for students of the participating school districts. The governing board of the Center is comprised of a director from each participating school district. For the year ended June 30, 2014, the District paid approximately \$229,000 to the Center. As of June 30, 2014, there were no amounts due to or due from the Center. Audited financial statements of the Center are available.

17. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through November 19, 2014 which is the date the financial statements were available to be issued.

Subsequent to June 30, 2014, the District approved an architecture services contract in the amount of approximately \$2,000,000 for building renovations to the high school. Building renovation costs are estimated at \$35,000,000.

18. RECENT ACCOUNTING PRONOUNCEMENTS:

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for fiscal years beginning after June 15, 2014. The District has not determined the effect, if any, on the financial statements due to adoption of this Statement.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Disclosures are required to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. This statement is effective for periods beginning after December 15, 2013. The District has not determined the effect, if any, on the financial statements due to the adoption of this statement.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment to GASB Statement No. 68*. This statement amends GASB Statement No. 68 and requires that, at transition to Statement No. 68, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This statement is effective for

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

fiscal years beginning after June 15, 2014. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

MONTOURSVILLE AREA SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE (UNAUDITED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		Actual
	Original	Final	Budgetary Basis
REVENUES:			
Local sources	\$ 13,912,280	\$ 13,912,280	\$ 14,857,535
State sources	10,868,690	10,868,690	10,976,759
Federal sources	<u>320,570</u>	<u>320,570</u>	<u>326,196</u>
Total revenues	<u>25,101,540</u>	<u>25,101,540</u>	<u>26,160,490</u>
EXPENDITURES:			
Instruction	14,798,780	14,798,780	14,897,049
Support services	8,592,560	8,592,560	8,178,084
Noninstructional services	653,600	653,600	621,415
Debt service (principal and interest)	45,330	45,330	45,314
Refund of prior year receipts			<u>6,865</u>
Total expenditures	<u>24,090,270</u>	<u>24,090,270</u>	<u>23,748,727</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,011,270</u>	<u>1,011,270</u>	<u>2,411,763</u>
OTHER FINANCING SOURCES (USES):			
Interfund transfers out	(2,550,180)	(2,550,180)	(2,550,165)
Budgetary reserve	<u>(544,070)</u>	<u>(544,070)</u>	<u> </u>
Total other financing uses	<u>(3,094,250)</u>	<u>(3,094,250)</u>	<u>(2,550,165)</u>
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(2,082,980)	(2,082,980)	(138,402)
FUND BALANCE, BEGINNING	<u>3,830,430</u>	<u>3,830,430</u>	<u>4,518,965</u>
FUND BALANCE, ENDING	<u>\$ 1,747,450</u>	<u>\$ 1,747,450</u>	<u>\$ 4,380,563</u>

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Grantor/Program Title	Source Code	Federal CFDA Number	Pass-through Grant Number	Grant Period Beginning/Ending Date	Grant Amount	Total Received for the Year	Accrued (Deferred) Revenue July 1, 2013	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2014
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education:										
Title I Improving Basic Programs	I	84.010	13-130264	07/01/12-09/30/13	\$244,903	\$ 47,051	\$ 47,051			
Title I Improving Basic Programs	I	84.010	13-140264	07/01/13-09/30/14	218,183	<u>202,208</u>		\$ 218,183	\$ 218,183	\$ 15,975
Total Title I, Part A Cluster						<u>249,259</u>	<u>47,051</u>	<u>218,183</u>	<u>218,183</u>	<u>15,975</u>
Title II Improving Teacher Quality	I	84.367	20-140264	07/01/13-09/30/14	69,228	<u>69,228</u>		<u>69,228</u>	<u>69,228</u>	
Passed through BLaST Intermediate Unit #17:										
IDEA	I	84.027	N/A	07/01/12-06/30/13	N/A	113,993	113,993			
IDEA Extended School Year	I	84.027	N/A	07/01/13-06/30/14	N/A	40,466		40,466	40,466	
IDEA	I	84.027	N/A	07/01/13-06/30/14	N/A	<u>150,000</u>		<u>198,092</u>	<u>198,092</u>	<u>48,092</u>
Total						<u>304,459</u>	<u>113,993</u>	<u>238,558</u>	<u>238,558</u>	<u>48,092</u>
Special Education - Preschool Grants - Early Intervention	I	84.173	N/A	07/01/13-06/30/14	N/A	<u>2,669</u>		<u>2,669</u>	<u>2,669</u>	
Total IDEA Cluster						<u>307,128</u>	<u>113,993</u>	<u>241,227</u>	<u>241,227</u>	<u>48,092</u>
TOTAL U.S. DEPARTMENT OF EDUCATION						<u>625,615</u>	<u>161,044</u>	<u>528,638</u>	<u>528,638</u>	<u>64,067</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Passed through Leader Services:										
Medical Assistance Program	I	93.778	N/A	07/01/13-06/30/14	N/A	<u>3,621</u>		<u>4,960</u>	<u>4,960</u>	<u>1,339</u>
Total Medicaid Cluster						<u>3,621</u>		<u>4,960</u>	<u>4,960</u>	<u>1,339</u>
U.S. DEPARTMENT OF AGRICULTURE										
Passed through the Pennsylvania Department of Education:										
National School Lunch Program	I	10.555	N/A	07/01/13-06/30/14	N/A	231,186	2,366	231,362	231,362	2,542
Passed through the Pennsylvania Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	07/01/13-06/30/14	N/A	51,531	(14,940)	48,993	48,993	(17,478)
Total						<u>282,717</u>	<u>(12,574)</u>	<u>280,355</u>	<u>280,355</u>	<u>(14,936)</u>
Passed through the Pennsylvania Department of Education:										
School Breakfast Program	I	10.553	N/A	07/01/13-06/30/14	N/A	<u>29,322</u>	<u>543</u>	<u>29,379</u>	<u>29,379</u>	<u>600</u>
Total Child Nutrition Cluster						<u>312,039</u>	<u>(12,031)</u>	<u>309,734</u>	<u>309,734</u>	<u>(14,336)</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE						<u>312,039</u>	<u>(12,031)</u>	<u>309,734</u>	<u>309,734</u>	<u>(14,336)</u>
TOTAL FEDERAL AWARDS						<u>\$ 941,275</u>	<u>\$149,013</u>	<u>\$ 843,332</u>	<u>\$ 843,332</u>	<u>\$ 51,070</u>

SOURCE CODES:
N/A - Not applicable
I - Indirect Funding

FOOTNOTES:
(a) Total amount of commodities received.
(b) Beginning inventory at July 1, 2013.
(c) Total amount of commodities used.
(d) Ending inventory at June 30, 2014.

MONTOURSVILLE AREA SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

1. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Montoursville Area School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

2. PENNSYLVANIA DEPARTMENT OF EDUCATION:

The following schedule summarizes the National School Lunch Program activity:

<u>Program Title</u>	<u>Total Received for the Year</u>	<u>Accrued (Deferred) Revenue July 1, 2013</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2014</u>
Food Nutrition Service- Lunch	\$21,592	\$227	\$21,584	\$21,584	\$219
Food Nutrition Service- Brkfst-Needy	<u>2,652</u>	<u>53</u>	<u>2,649</u>	<u>2,649</u>	<u>50</u>
Total	<u>\$24,244</u>	<u>\$280</u>	<u>\$24,233</u>	<u>\$24,233</u>	<u>\$269</u>



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

Board of School Directors
Montoursville Area School District
Montoursville, Pennsylvania:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Montoursville Area School District (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 and have issued our report thereon dated November 19, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as item 2014-001, to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Larson, Kellett & Associates, P.C.

Montoursville, Pennsylvania
November 19, 2014



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

Board of School Directors
Montoursville Area School District
Montoursville, Pennsylvania:

Report on Compliance for Each Major Federal Program

We have audited Montoursville Area School District's (District) 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 the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the 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 the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-002, that we consider to be a significant deficiency.

District's Response to Finding

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Larson, Kellett & Associates, P.C.

Montoursville, Pennsylvania
November 19, 2014

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified.

Internal control over financial reporting:

- Material weakness(es) identified? x yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes x no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? x yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? x yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.553	School Breakfast Program
10.555	National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? x yes no

SECTION II - FINANCIAL STATEMENTS FINDING

2014-001. ACCOUNTS PAYABLE - AGENCY FUND (MATERIAL WEAKNESS)

Criteria: GAAP requires that the total amount of current liabilities be presented on the statement of financial position.

Condition: The District's year end closing procedures did not identify an agency fund liability in the amount of \$12,191.

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Context: Not applicable.

Effect: Agency fund accounts payable were understated.

Cause: The District's procedures are not adequately designed to ensure that the total amount of current liabilities are presented on the face of the financial statements.

Recommendation: The District should evaluate purchase orders and related receiving reports and contracts at year end as well as payments made up to the date of the financial statements for liabilities that should be recorded.

Management Response: The District's year end closing procedures did not identify a student activity fund liability in the amount of \$12,191.

Corrective Action Plan: The student activity fund custodians will evaluate purchase orders, related receiving reports, contracts, and invoices; as well as inquire with student activity advisors to identify liabilities that should be recorded at year end and report the liabilities to the business office for proper recording.

Person Responsible: Student Activity Fund Custodians.

Implementation Timeline: Immediately.

SECTION III - FEDERAL AWARDS PROGRAMS FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF AGRICULTURE

2014-002. National School Lunch Program - CFDA No. 10.555 (passed through the Pennsylvania Department of Education and the Pennsylvania Department of Agriculture), School Breakfast Program - CFDA No. 10.553 (passed through the Pennsylvania Department of Education); Grant Period - Year Ended June 30, 2014

Criteria: The number of students receiving free and reduced meals is used to calculate the District's federal and state revenue.

Condition: Parents complete an application which provides financial information used to determine eligibility for free and reduced meals. The application information is input into the WinSNAP System which determines a student's eligibility. This information is not reviewed by a supervisor for accuracy.

Questioned Costs: None.

Context: Not Applicable.

Effect: Eligibility determinations for free and reduced meals could be incorrect.

Cause: The Food Service Director reviews applications and enters this information into the WinSNAP System.

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Recommendation: An individual, independent of data input process, should review the accuracy of the information.

Management Response: Free and reduced meal application information is entered into the WinSnap computer application to determine eligibility. While this information is reviewed by an individual independent of the data input process for accuracy, in some cases evidence of a review was not provided.

Corrective Action Plan: The reviewer will provide evidence by signing and dating the report.

Person Responsible: Food Service Director.

Implementation Timeline: Immediately.

SECTION IV - PRIOR YEAR FEDERAL AWARDS PROGRAMS FINDINGS AND QUESTIONED COSTS

2013-1. National School Lunch Program - CFDA No. 10.555 (passed through the Pennsylvania Department of Education and the Pennsylvania Department of Agriculture), School Breakfast Program - CFDA No. 10.553 (passed through the Pennsylvania Department of Education); Grant Period - Year Ended June 30, 2013

Criteria: The number of students receiving free and reduced meals is used to calculate the District's federal and state revenue.

Condition: Parents complete an application which provides financial information used to determine eligibility for free and reduced meals. The application information is input into the WinSNAP System which determines a student's eligibility. This information is not reviewed by a supervisor for accuracy.

Questioned Costs: None.

Context: Not Applicable.

Effect: Eligibility determinations for free and reduced meals could be incorrect.

Cause: The Food Service Director reviews applications and enters this information into the WinSNAP System.

Recommendation: An individual, independent of data input process, should review the accuracy of the information.

Management Response: The corrective action plan was implemented in November 2012.

Corrective Action Plan: Free and reduced meal application information is reviewed by an individual independent of the data input process. The reviewer provides evidence by signing and dating the report.

Person Responsible: Food Service Director.

MONTOURSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Status: See current year finding 2014-002.

2012-5. National School Lunch Program - CFDA No. 10.555 (passed through the Pennsylvania Department of Education and the Pennsylvania Department of Agriculture), School Breakfast Program - CFDA No. 10.553 (passed through the Pennsylvania Department of Education); Grant Period - Year Ended June 30, 2012

Criteria: The number of students receiving free and reduced meals is used to calculate the District's federal and state revenue.

Condition: Parents complete an application which provides financial information used to determine eligibility for free and reduced meals. The application information is input into the WinSNAP System which determines a student's eligibility. This information is not reviewed by a supervisor for accuracy.

Questioned Costs: None.

Context: Not Applicable.

Effect: Eligibility determinations for free and reduced meals could be incorrect.

Cause: The Food Service Director reviews applications and enters this information into the WinSNAP System.

Recommendation: An individual, independent of data input process, should review the accuracy of the information.

Management Response: Free and reduced meal application information is entered into the WinSNAP computer application to determine eligibility. This information is not reviewed by an individual independent of the data input process, which could cause eligibility determinations for free and reduced meals to be incorrect.

Corrective Action Plan: Free and reduced meal application information will be reviewed by an individual independent of the data input process. The reviewer will provide evidence by signing and dating the report.

Status: See current year finding 2014-002.

MONTOURSVILLE AREA SCHOOL DISTRICT
SUPPLEMENTAL OPERATING DATA
FOR THE YEAR ENDED JUNE 30, 2014

**MONTOURSVILLE AREA SCHOOL DISTRICT
CONTINUING DISCLOSURE OF FINANCIAL
INFORMATION AND OPERATIONAL DATA FOR BOND ISSUES**

SCHOOL DISTRICT PENSION PROGRAM

Source: PSERS

About the Pennsylvania Public School Employees' Retirement System

PSERS is the 18th largest state-sponsored defined benefit pension fund in the nation and has a membership of more than 267,000 active members and over 209,000 annuitants and beneficiaries receiving benefits. For more information visit PSERS' website at www.psers.state.pa.us

Funding Sources for the System

The Public School Employees' Retirement System (PSERS) is a defined benefit plan. PSERS is funded through three sources: contributions from employees (members), the employer contribution rate which is contributions from employers (generally school districts) and the Commonwealth, and investment returns from the System.

Employee (Member) Contributions

- Employee (Member) contributions range from 5.25% to 10.30% of payroll depending on the class of membership of the employee and when they joined PSERS. Employees are expected to contribute an average of 7.46% of their salary to help fund their retirement benefit in fiscal year 2014/2015.
- As of July 1, 2011 new members bear some of the investment risk via the shared risk provisions of Act 120 of 2010. With a "shared risk" program new members since July 1, 2011 benefit when investments of the fund are doing well and share some of the risk when investments underperform.
- Employee (member) contributions of approximately \$1.0 billion are expected in fiscal year 2014/2015.

Employer (School District and Commonwealth) Contributions

- Both the employer and the Commonwealth are responsible for paying a portion of the employer contribution rate. Employers are divided into two groups: school entities and non-school entities. School entities are responsible for paying 100 percent of the employer share of contributions to PSERS. The Commonwealth reimburses school entities for one-half the payment for employees hired on or before June 30, 1994. School entities are reimbursed by the Commonwealth based on a statutory formula for employees hired after June 30, 1994, but not less than one-half of the payment. Non-school entities and the Commonwealth each contribute one-half of the total employer rate. Total employer contributions for FY 2014/2015 are estimated at \$2.9 billion.
- On December 10, 2013 the PSERS Board of Trustees certified an employer contribution rate of 21.40% for fiscal year 2014/2015, which begins July 1, 2014. PSERS continues to be underfunded as the rate caps established under Act 120 of 2010 remain in effect. The pension component of the rate was capped at a 4.50% increase from the previous year.
- The employer contribution rate-setting methodology is set forth in statute. The following chart shows the employer contribution rate history over the past 15 years.

HISTORY OF EMPLOYER CONTRIBUTION RATES				
Fiscal Year	Employer Normal Cost %	Preliminary Employer Pension Rate %	Health Care Contributions %	Total Employer Contribution %
00/01	6.29	1.64	0.30	1.94
01/02	5.63	0.00	1.09	1.09
02/03	7.20	0.18	0.97	1.15
03/04	7.25	2.98	0.79	3.77
04/05	7.48	4.00	0.23	4.23
05/06	7.61	4.00	0.69	4.69
06/07	6.62	5.72	0.74	6.46
07/08	6.68	6.44	0.69	7.13
08/09	6.68	4.00	0.76	4.76
09/10	7.35	4.00	0.78	4.78
10/11	8.08	5.00	0.64	5.64
11/12	8.12	8.00	0.65	8.65
12/13	8.66	11.50	0.86	12.36
13/14	8.57	16.00	0.93	16.93
14/15	8.46	20.50	0.90	21.40

- The chart below shows the 10-year projected employer contribution rates using the June 30, 2013 valuation. The primary contributor to the employer rate increase is the decrease in school payroll. During fiscal year 2013, PSERS' active membership decreased from approximately 273,000 to 267,000 members and projected school payroll for fiscal year 2015 decreased from approximately \$14.1 billion to \$13.5 billion. As a result, the existing pension debt on accrued benefits will be spread over a smaller projected school payroll in future years as the pension debt is satisfied. Subsequently, the employer contribution rate projections will increase as a percentage of payroll but the actual dollar amount projected to be paid by school employers will be smaller than previously expected.
- Longer term employer contributions (over 30 years) are expected to be nearly \$1.4 billion less than previously projected despite the higher employer contribution rates.
- The employer normal cost continues to decrease as the impact of the benefit reductions in Act 120 is realized.
- The decrease in school payroll in fiscal year 2013 also contributed to the smaller than projected growth in unfunded liability at June 30, 2013 (from \$32.9 billion to \$32.6 billion).

10-YEAR PROJECTED EMPLOYER CONTRIBUTION RATES (Presumes an 7.5% rate of return)		
Fiscal Year Ending June	Total Employer Contribution Rate	Projected Total Employer Contribution (thousands)
14/15	21.40%	\$ 2,885,148
15/16	25.84%	\$ 3,576,651
16/17	29.27%	\$ 4,160,639
17/18	30.25%	\$ 4,420,687
18/19	31.28%	\$ 4,700,859
19/20	32.08%	\$ 4,961,364
20/21	32.02%	\$ 5,095,726
21/22	32.01%	\$ 5,242,734
22/23	32.22%	\$ 5,431,740
23/24	32.30%	\$ 5,603,787

Investment Returns

PSERS' rate of return for fiscal year ended June 30, 2013 was 7.96% and the Fund had plan net assets of \$49.3 billion at June 30, 2013.

School District Pension Payments

The School District is current in all payments. Recent School District payments have been as follows:

Fiscal Year	School District Payments
08/09	\$ 601,721
09/10	\$ 573,911
10/11	\$ 683,345
11/12	\$ 1,020,933
12/13	\$ 1,453,018
13/14	\$ 2,040,350
14/15	(Budgeted) \$ 2,645,340

OTHER POST-EMPLOYMENT BENEFITS

The School District provides certain health care benefits for its retirees (commonly referred to as "other post-employment benefits" or "OPEB"). The School District annually appropriates funds to meet its obligation to pay such benefits on a "pay-as-you-go" basis, and has not established any fund or irrevocable trust for the accumulation of assets with which to pay such benefits in future years.

In preparation for such reporting, the School District has retained a consulting firm, Conrad Siegel Actuaries, to provide valuation services to measure its OPEB liabilities for future years. Pursuant to Governmental Accounting Standards Board Statement No. 45, released on June 1, 2004, the School District's audited financial statements reflect the Annual Required Contribution (ARC) net of contributions. As of June 30, 2014, the School District reflected \$866,466 on the financial statements. No assurances can be given that the School District's future OPEB obligations will not have a material impact on the School District's ability to pay its debts, including Bonds.

SCHOOL DISTRICT EMPLOYEE RELATIONS

There are presently approximately 256 employees of the School District, including 155 teachers and administrators, 101 support personnel including secretaries, maintenance staff and teacher assistants.

The School District's teachers are represented by the Montoursville Area Education Association, an affiliate of the Pennsylvania State Education Association (PSEA), under a contract with the School District which expires June 30, 2017.

The School District's secretaries and aides, including teacher's aides, personal care aides and health care aides are represented by the Montoursville Area Education Support Professionals Association, an affiliate of the PSEA, under contract which expires June 30, 2017.

DEBT STATEMENT AND BORROWING CAPACITY

The borrowing capacity of the School District is calculated in accordance with provisions of the Act, which describes the applicable debt limits for local government units, including school districts and municipalities. Under the Act, the School District may incur electoral debt, which is debt that is approved by a majority of the School District's voters at either a general or special election, in an unlimited amount. Net nonelectoral debt, or debt not approved by the School District's electorate, net of state aid, may not exceed 225% of the School District's "Borrowing Base." Bonds constitute nonelectoral debt under the Act. The Borrowing Base is calculated as the annual arithmetic average of Total Revenues (as defined in the Act), for the three full fiscal years next preceding the date of incurring debt. Combined net nonelectoral debt and net lease rental debt (debt represented by capital leases and other forms of agreement), net of state aid, incurred on behalf of the School District may not exceed 225% of the School District's Borrowing Base. The Borrowing Base and borrowing capacity of the School District are as follows:

Calculation of Borrowing Base			
	2011-12	2012-13	2013-14
Total Revenues (All Governmental Funds)	\$ 24,373,413	\$ 25,493,072	\$ 26,160,490
Less: Required Deductions			
(a) Rental and Sinking Fund Reimbursement	\$ 427,680	\$ 440,159	\$ 427,024
(b) Revenues for Self Liquidating Debt	-	-	-
(c) Interest Earned on Sinking Funds	-	-	-
(d) Grant and Gifts for Capital Projects	-	-	-
(e) Sale of Equipment and Non-Recurring Items	-	-	-
Total Deductions	\$ 427,680	\$ 440,159	\$ 427,024
Total Revenues	\$ 23,945,733	\$ 25,052,913	\$ 25,733,466
Total Revenues for three years			\$ 74,732,112
Borrowing Base – Average Net Revenues for Three-Year Period			\$ 24,910,704
Calculation of Borrowing Capacity			
A. Non-Electoral Debt			
(a) Outstanding Principal			\$ 18,200,000
(b) Less: Subsidized Debt			-
(c) Net Non-Electoral Debt			\$ 18,200,000
B. Lease Rental Debt			
			-
Computation of Borrowing Capacity			
(a) Debt Limitation – 225% of Borrowing Base			\$ 56,049,084
(b) Less: Net Non-Electoral and Lease Rental Debt			\$ 18,200,000
(c) Current Non Electoral and Lease Rental Borrowing Capacity			\$ 37,849,084

TEN LARGEST TAXPAYERS

The ten largest real estate taxpayers in the School District are as follows:

Name	2014-15 Assessed Valuation
Individual	7,241,450
Weis Markets Inc	5,922,570
Walmart, Inc	5,400,000
L.C. Realty Inc.	4,731,400
Individual	3,190,360
PP&L	2,798,640
Moosekids LP	2,656,480
Lycoming Silica Sand Co	2,654,780
J Savoy Realty Co	2,462,140
Individual	2,141,450
Total	39,199,270

TRENDS IN ASSESSED VALUATION

The trend in assessed valuation of real estate in the School District for the fiscal years is shown below:

Fiscal Year	Assessed Valuation	Market Value ⁽¹⁾	Common Level Ratio
2006	\$ 744,989,960	\$ 864,257,494	86.2%
2007	\$ 754,589,410	\$ 943,236,763	80.0%
2008	\$ 764,791,260	\$ 912,638,735	83.8%
2009	\$ 771,204,270	\$ 932,532,370	82.7%
2010	\$ 777,789,060	\$ 938,225,645	82.9%
2011	\$ 787,003,800	\$ 983,754,750	80.0%
2012	\$ 787,216,960	\$ 992,707,390	79.3%
2013	\$ 793,217,090	\$ 1,057,622,787	75.0%

(1) Market Values are based upon the Common Level Ratio for Lycoming County.

REAL ESTATE TAX COLLECTION RECORD

The School District's real estate tax collection record for the previous six fiscal years is shown below:

Fiscal Year	Adjusted Total Levy	Current Collections	Current Percent Collected	Total Collections ⁽¹⁾	Total Percent Collected
2008-09	\$ 9,256,787	\$ 8,674,382	93.7%	\$ 9,177,265	99.1%
2009-10	\$ 9,281,256	\$ 8,670,884	93.4%	\$ 9,250,155	99.7%
2010-11	\$ 9,780,652	\$ 9,233,101	94.4%	\$ 9,795,488	100.2%
2011-12	\$ 9,979,335	\$ 9,406,922	94.3%	\$ 9,950,314	99.7%
2012-13	\$ 9,981,832	\$ 9,448,067	94.7%	\$ 9,948,551	99.7%
2013-14	\$ 10,264,376	\$ 9,698,786	94.5%	\$ 10,267,308	100.0%

(1) Total collections include current real estate tax collections and delinquent real estate taxes received for the fiscal period.

OVERLAPPING INDEBTEDNESS

Residents of the School District are responsible for the following debt indicated below, within the School District, the municipalities within the School District and Lycoming County.

Overlapping Debt	School District Share
Lycoming County ⁽¹⁾	\$ 8,271,186
Municipalities – Plunketts Creek Township ⁽²⁾	\$ 47,800
Total Overlapping Debt	\$ 8,318,986

(1) The outstanding general obligation debt of Lycoming County totaled approximately \$58,412,333 as of December 31, 2012 per the Department of Community and Economic Development (DCED) website. The School District's proportionate share, 14.16%, is determined by dividing the School District's reported 2013 assessed value by the total 2013 assessed values of all the municipalities within Lycoming County.

(2) The only municipality with outstanding debt as of December 31, 2012 was Plunketts Creek Township.

OUTSTANDING SCHOOL DISTRICT FINANCINGS

The outstanding long-term debt of the School District as of June 30, 2014, is shown below:

General Obligation	Date of Issue	Original Amount	Final Maturity	Amount Outstanding	Project Reimbursable Percentage	Effective ⁽¹⁾ Reimbursement	State Share	Local Share
Series of 2010 Bonds	6/29/10	\$ 13,210,000	5/1/2023	\$ 9,575,000	33.06%	18.33%	\$ 1,754,950	\$ 7,820,050
Series of 2014 Bonds	5/15/14	\$ 8,625,000	4/1/2023	\$ 8,625,000	33.06%	18.33%	\$ 1,580,830	\$ 7,044,170
TOTAL		\$ 21,835,000		\$ 18,200,000			\$ 3,335,780	\$ 14,864,220

(1) The project's estimated reimbursable percentage multiplied by the School District's 2013-14 Aid Ratio (0.5545)

SCHOOL DISTRICT FACILITIES

Building	Grades Served	Reimbursable Capacity	2014-2015 Enrollment
Elementary			
Loyalsock Valley Elementary	K-4	425	243
Lyter Elementary	K-4	625	522
C.E. McCall Middle School	5-6	563	331
Total Elementary		1,613	1,096
Secondary			
C.E. McCall Middle School	7-8	446	296
Montoursville Area High School	9-12	1,166	628
Total Secondary		1,612	924
Total School District	K-12	3,225	2,020

In December 2013 the District engaged Crabtree, Rohrbaugh & Associates Architects of Camp Hill, PA to conduct a district-wide feasibility study (an evaluation of the condition of the District's physical plant and equipment). Based on the firm's findings, in May 2014 the School Board further directed Crabtree, Rohrbaugh & Associates to focus the results of the feasibility study on the development of proposals for the renovation of Montoursville Area High School. On September 9, 2014 the School Board approved additions and renovations to Montoursville Area High School and the adjacent Memorial Stadium at a total estimated project cost of \$35,972,942. The additions and renovations project is slated to begin in May 2015 and will take an estimated 22 months to complete.

ENROLLMENT TRENDS

The past, present, and projected enrollments within the School District are shown below:

School Year	Elementary (K-6)	Secondary (7-12)	Total
2009-10	985	950	1,935
2010-11	1,025	931	1,956
2011-12	1,028	912	1,940
2012-13	1,014	917	1,931
2013-14	1,058	930	1,987
2014-15	1,096	924	2,020
2015-16 ⁽¹⁾	1,025	913	1,938
2016-17 ⁽¹⁾	1,020	920	1,940
2017-18 ⁽¹⁾	1,000	950	1,950
2018-19 ⁽¹⁾	995	921	1,916

(1) Pennsylvania Department of Education Enrollment Projections prepared in July 2012.