



**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE  
MORRISVILLE, PENNSYLVANIA  
BUCKS COUNTY**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2013**

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

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## INDEPENDENT AUDITOR'S REPORT

**Board of School Directors  
School District of Borough of Morrisville  
Morrisville, Pennsylvania**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of Morrisville, Morrisville, Pennsylvania as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise School District of Borough of Morrisville's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

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

## **Other Matters**

### **Report on Summarized Comparative Information**

We have previously audited the School District of Borough of Morrisville's 2012 financial statements, and our report dated January 17, 2013, expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund and other post-employment benefits schedule of funding progress on pages 3 through 12 and 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of Borough of Morrisville's basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2014 on our consideration of the School District of Borough of Morrisville'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 School District of Borough of Morrisville's internal control over financial reporting and compliance.

*BBD, LLP*

**Philadelphia, Pennsylvania  
January 16, 2014**

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

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Management's discussion and analysis ("**MD&A**") of the financial performance of the School District of Borough of Morrisville (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2013. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

### DISTRICT PROFILE

The District consists of two schools – one elementary and an intermediate/high school consisting of approximately 1,050 students including those attending the Bucks County Tech High School and other out-of-District placements. The District is located in southeastern Bucks County and encompasses a total land area of 1.8 square miles. The District borders the Delaware River to the east, the Township of Falls to the south and west, and the Township of Lower Makefield to the north, and lies approximately 20 miles northeast of Philadelphia, Pennsylvania. The District employs approximately 124 full and part-time employees. The teaching staff and administration consists of 70 professionals.

The mission of the District is to prepare confident students who are knowledgeable and capable of utilizing academic and social skills necessary to thrive in a complex society by providing a superior education in a stimulating, secure environment through the effective use of challenging instructional strategies, technology and extra-curricular activities that are designed to meet the needs of individual students, capitalizing upon its unique position as a small district within a large area rich in historic and cultural resources.

### FINANCIAL HIGHLIGHTS

- On a government-wide basis, including all governmental activities and business-type activities, the assets of the District exceeded liabilities resulting in total net position at the close of the 2012-2013 fiscal year of \$1,981,120. During the 2012-2013 fiscal year, the District had a decrease in total net position of \$15,233. The net position of governmental activities decreased by \$17,453 and net position of business-type activities increased by \$2,220.
- The General Fund reported a decrease in fund balance of \$749,678, bringing the cumulative balance to \$597,741 at the conclusion of the 2012-2013 fiscal year.
- At June 30, 2013, the General Fund fund balance includes \$510,241 committed for the payments of early retirement incentive benefits and unassigned amounts of \$87,500 or 0.50% of the \$17,504,284 2013-2014 General Fund expenditure budget. This is in compliance with guidelines prescribed by the Pennsylvania Department of Education which allows the District to maintain an unassigned maximum General Fund fund balance of 9% of the following year's expenditure budget.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The *Statement of Net Position* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

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

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

In the government-wide financial statements, the District's activities are divided into two categories:

### **Governmental Activities**

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

### **Business-Type Activities**

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 13 and 14 of this report.

## **FUND FINANCIAL STATEMENTS**

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

### **Governmental Funds**

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

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

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

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

The governmental fund financial statements can be found on Pages 15 through 18 of this report.

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

### Proprietary Funds

The District maintains one type of proprietary fund. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

The proprietary fund financial statements can be found on Pages 19 through 21 of this report.

### Fiduciary Funds

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

The fiduciary fund financial statements can be found on Pages 22 and 23 of this report.

### Notes to the Financial Statements

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

The notes to the financial statements can be found on Pages 24 through 39 of this report.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund and a schedule concerning the District's progress in funding its obligation to provide other post-employment benefits.

The required supplementary information can be found on Pages 40 and 41 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2012-2013 fiscal year the District's assets exceeded liabilities by \$1,981,120. The following table presents condensed information for the *Statement of Net Position* of the District at June 30, 2013 and 2012.

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>ASSETS</b>						
Current assets	\$ 2,874,625	\$ 3,132,628	\$65,061	\$76,499	\$ 2,939,686	\$ 3,209,127
Noncurrent assets	<u>9,597,018</u>	<u>9,893,921</u>	<u>25,036</u>	<u>24,290</u>	<u>9,622,054</u>	<u>9,918,211</u>
<b>Total assets</b>	<u>12,471,643</u>	<u>13,026,549</u>	<u>90,097</u>	<u>100,789</u>	<u>12,561,740</u>	<u>13,127,338</u>
<b>LIABILITIES</b>						
Current liabilities	1,496,763	1,009,037	54,787	67,699	1,551,550	1,076,736
Noncurrent liabilities	<u>9,029,070</u>	<u>10,054,249</u>	<u>-</u>	<u>-</u>	<u>9,029,070</u>	<u>10,054,249</u>
<b>Total liabilities</b>	<u>10,525,833</u>	<u>11,063,286</u>	<u>54,787</u>	<u>67,699</u>	<u>10,580,620</u>	<u>11,130,985</u>
<b>NET POSITION</b>						
Net investment in capital assets	1,954,003	1,559,500	25,036	24,290	1,979,039	1,583,790
Restricted	165,335	227,840	-	-	165,335	227,840
Unrestricted	<u>(173,528)</u>	<u>175,923</u>	<u>10,274</u>	<u>8,800</u>	<u>(163,254)</u>	<u>184,723</u>
<b>Total net position</b>	<u>\$ 1,945,810</u>	<u>\$ 1,963,263</u>	<u>\$35,310</u>	<u>\$33,090</u>	<u>\$ 1,981,120</u>	<u>\$ 1,996,353</u>

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

The District's total assets as of June 30, 2013 were \$12,561,740 of which \$1,277,192 or 10.17% consisted of cash and \$9,622,054 or 76.60% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2013 were \$10,580,620 of which \$7,643,015 or 72.24% consisted of general obligation debt used to acquire and construct capital assets.

The District had a deficit in unrestricted net position of \$163,254 at June 30, 2013. The deficit in unrestricted net position was primarily due to the results of current year operations.

A portion of the District's net position is its restricted net position which totaled \$165,335 as of June 30, 2013. All of the District's restricted net position related to amounts restricted for capital expenditures.

The largest portion of the District's net assets reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; 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. For the year ended June 30, 2013, the District's net investment in capital assets increased by \$395,249 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other than long-term debt.

The following table presents condensed information for the *Statement of Activities* of the District for 2013 and 2012:

	Governmental Activities		Business-Type Activities		Totals	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 65,071	\$ 71,914	\$131,774	\$158,869	\$ 196,845	\$ 230,783
Operating grants and contributions	3,635,814	3,118,026	297,340	254,428	3,933,154	3,372,454
Capital grants and contributions	-	-	-	-	-	-
<b>General revenues</b>						
Property taxes levied for general purposes	10,617,738	10,726,262	-	-	10,617,738	10,726,262
Other taxes	108,704	95,578	-	-	108,704	95,578
Grants and entitlements not restricted to specific programs	3,355,907	3,355,922	-	-	3,355,907	3,355,922
Investment earnings	<u>7,042</u>	<u>9,866</u>	<u>-</u>	<u>7</u>	<u>7,042</u>	<u>9,873</u>
<b>Total revenues</b>	<u>17,790,276</u>	<u>17,377,568</u>	<u>429,114</u>	<u>413,304</u>	<u>18,219,390</u>	<u>17,790,872</u>

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

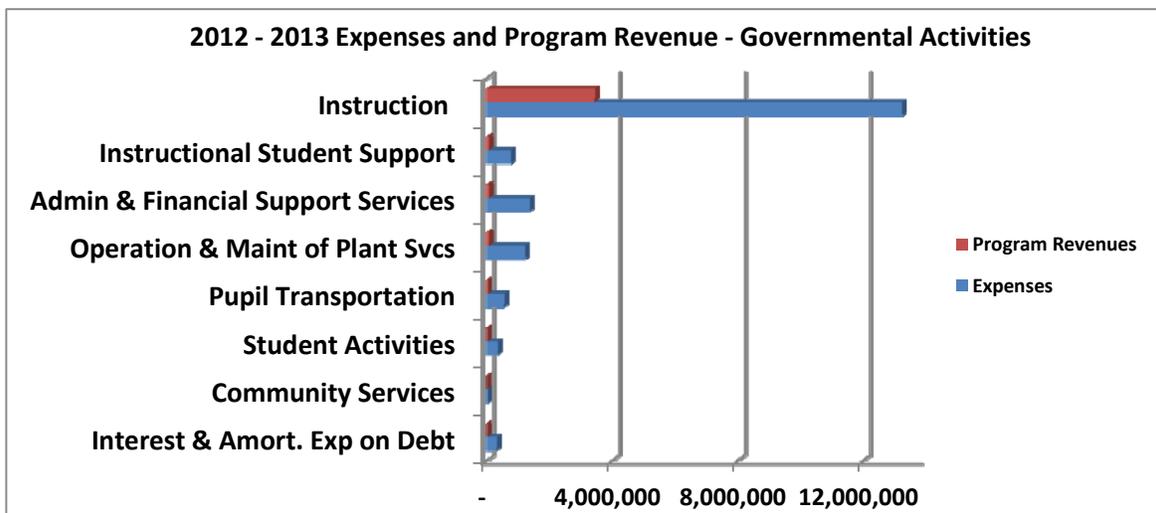
## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>EXPENSES</b>						
Instruction	13,239,134	13,141,113	-	-	13,239,134	13,141,113
Instructional student support services	763,483	844,608	-	-	763,483	844,608
Administrative and financial support services	1,363,140	1,383,048	-	-	1,363,140	1,383,048
Operation and maintenance of plant services	1,226,083	1,373,419	-	-	1,226,083	1,373,419
Pupil transportation	543,383	615,802	-	-	543,383	615,802
Student activities	339,536	322,935	-	-	339,536	322,935
Community services	24,824	34,156	-	-	24,824	34,156
Interest and amortization expense related to noncurrent liabilities	308,146	345,850	-	-	308,146	345,850
Food service	-	-	426,894	421,810	426,894	421,810
<b>Total expenses</b>	<b>17,807,729</b>	<b>18,060,931</b>	<b>426,894</b>	<b>421,810</b>	<b>18,234,623</b>	<b>18,482,741</b>
<b>Change in net position before transfers</b>	<b>(17,453)</b>	<b>(683,363)</b>	<b>2,220</b>	<b>(8,506)</b>	<b>(15,233)</b>	<b>(691,869)</b>
Transfers	-	(20,000)	-	20,000	-	-
<b>CHANGE IN NET POSITION</b>	<b>\$ (17,453)</b>	<b>\$ (703,363)</b>	<b>\$ 2,220</b>	<b>\$ 11,494</b>	<b>\$ (15,233)</b>	<b>\$ (691,869)</b>

During 2012-2013, the District's net position decreased by \$15,233 in part due to increased medical costs and pension contributions, state-mandated programs and changes in negotiated contracts. Management of the District continues to aggressively implement expense efficiency measures and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed tax base drives the majority of the revenue generated. The District consists solely of the Borough of Morrisville which has little commercial or industrial tax revenue and limited opportunity to expand its property tax base.

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.

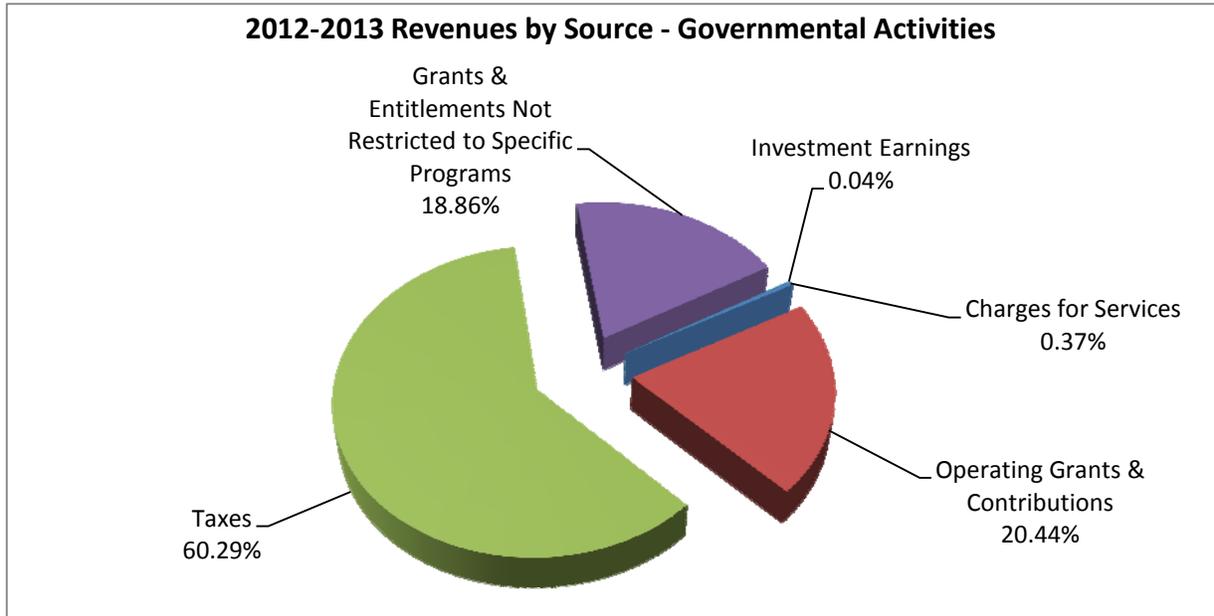


# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues and grants end entitlements not restricted for specific programs to finance its governmental activities.



### GOVERNMENTAL FUNDS

The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2013, the District's governmental funds reported a combined fund balance of \$763,076 which is a decrease of \$812,183 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2013 and 2012 and the total 2013 change in governmental fund balances.

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>
General Fund	\$597,741	\$1,347,419	\$(749,678)
Capital Projects Fund	<u>165,335</u>	<u>227,840</u>	<u>(62,505)</u>
	<u>\$763,076</u>	<u>\$1,575,259</u>	<u>\$(812,183)</u>

### GENERAL FUND

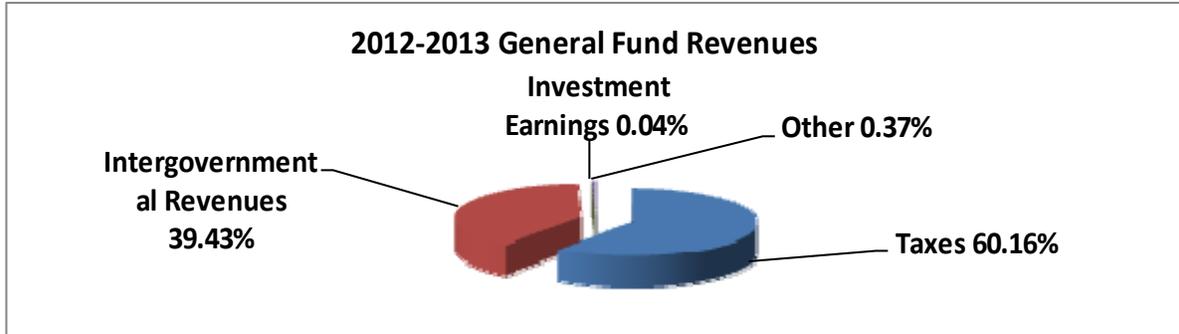
The General Fund is the District's primary operating fund. At the conclusion of the 2012-2013 fiscal year, the General Fund fund balance was \$597,741 representing a decrease of \$749,678 in relation to the prior year. The decrease in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2012-2013 fiscal year.

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 60.16% of General Fund revenues are derived from local taxes.



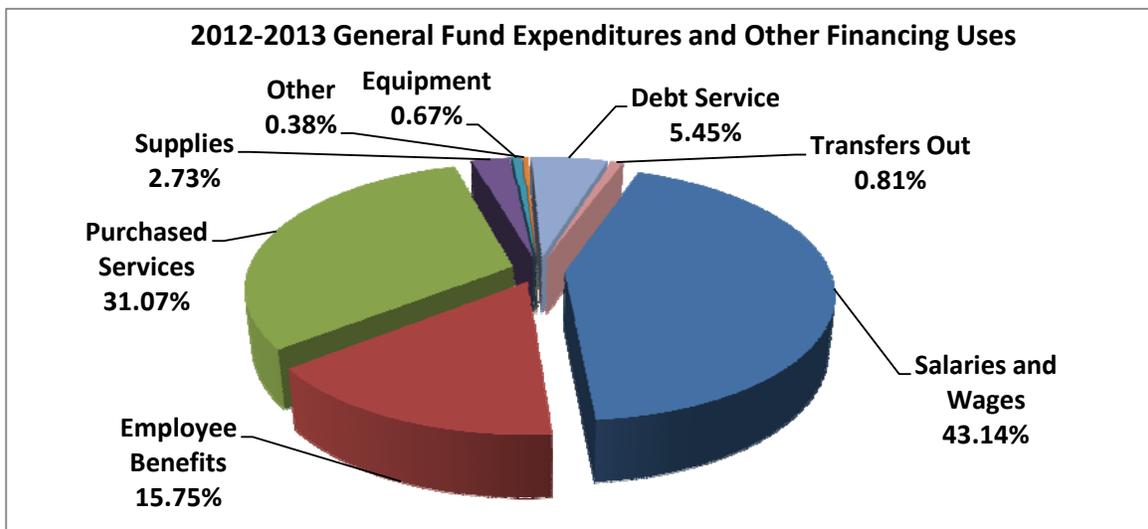
### General Fund Revenues

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Taxes	\$10,666,851	\$10,738,822	\$ (71,971)	(0.67)
Intergovernmental revenues	6,991,719	6,472,031	519,688	8.03
Investment earnings	6,987	9,735	(2,748)	(28.23)
Other	<u>65,071</u>	<u>73,832</u>	<u>(8,761)</u>	<u>(11.87)</u>
	<u>\$17,730,628</u>	<u>\$17,294,420</u>	<u>\$436,208</u>	<u>2.52</u>

Although the real estate tax millage remained unchanged at 177.30 mills in 2012-2013 compared to 2011-2012, decreases in delinquent real estate tax collections during 2012-2013 in relation to 2011-2012 was the primary reason for the overall decrease in tax revenues.

Intergovernmental revenues increased by \$519,688 or 8.03% in 2012-2013 when compared to 2011-2012, primarily due to additional funding received for the state retirement subsidy which increased commensurate with the employer annual contribution percentage and an increase in appropriations received and expended for the 21st Century Community Learning Centers program.

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



# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

### General Fund Expenditures and Other Financing Sources

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$ 7,973,218	\$ 8,324,032	\$(350,814)	(4.21)
Employee benefits	2,911,203	2,787,360	123,843	4.44
Purchased services	5,741,351	5,597,459	143,892	2.57
Supplies	504,683	448,063	56,620	12.64
Equipment	123,656	184,520	(60,864)	(32.99)
Other	69,783	69,174	609	0.88
Debt service	1,006,412	940,590	65,822	7.00
Transfers out	<u>150,000</u>	<u>20,000</u>	<u>130,000</u>	<u>650.00</u>
	<u>\$18,480,306</u>	<u>\$18,371,198</u>	<u>\$ 109,108</u>	<u>0.59</u>

Salaries and wages decreased by \$350,814 or 4.21% in 2012-2013 compared to 2011-2012 in part due to the early retirement incentive plan offered at the end of the 2010-2011 school year. Early retirement plans are structured to encourage older employees to retire before conventional retirement age by providing them certain incentives and replacing them with younger employees with reduced salaries and benefits. In addition to the early retirement incentive plan, the District was able to decrease costs related to salaries and wages by not replacing or delaying certain staff vacancies, reducing support staff hours where practical and combining job assignments.

The District's expense for employee benefits increased by \$123,843 or 4.44% in 2012-2013 compared to 2011-2012 primarily due to an increase in the required annual retirement contribution from 8.65% in 2011-2012 to 12.36% in 2012-2013 which was offset by a decrease in other benefits as a result of the early retirement incentive plan and not replacing or delaying certain staff vacancies as described above.

Transfers out during 2012-2013 represent transfers to the capital projects fund to subsidize costs associated with the 3rd grade security door project and other capital purchases.

### **CAPITAL PROJECTS FUND**

The Capital Projects Fund accounts for construction and renovation activity associated with the District's building and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2012-2013, the Capital Projects fund reported a decrease in fund balance of \$62,505. The remaining fund balance of \$165,335 as of June 30, 2013 is restricted for future capital expenditures.

### **GENERAL FUND BUDGET INFORMATION**

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

Actual revenues were \$56,999 less than budgeted amounts and actual expenditures and other financing uses were \$26,191 less than budgeted amounts resulting in a net overall negative variance of \$30,808. Major budgetary highlights for 2012-2013 were as follows:

- Total instruction expenditures were \$223,159 more than budgeted amounts primarily within the special education function which was offset by expenditures less than budgeted amounts within the vocational education programs. Budgeted amounts for special education expenditures were overspent primarily due to unanticipated expenditures for tuition. Vocational educational program expenditures were less than budgeted amounts due to less than anticipated enrollment at the Bucks County Technical High School.

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

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- Total support service expenditures were \$402,671 less than budgeted amounts primarily within the operation and maintenance of plant services and student transportation functions. Expenditures under budgeted amounts were primarily due to the efficiency of the District's energy management systems, less than anticipated costs for supplies and snow removal and savings from using in-house transportation in lieu of using contracted transportation providers.
- Transfers out were \$130,000 more than budgeted amounts due to an unbudgeted transfer to the Capital Projects Fund in the amount of \$150,000 to subsidize costs associated with the 3<sup>rd</sup> grade security door project and other capital purchases.

### BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUND

The business-type activities and proprietary fund of the District both report the activities of the District's food service operations. The net position of the business-type activities and proprietary fund increased by \$2,220. As of June 30, 2013, the business-type activities and proprietary fund had net position of \$35,310.

### CAPITAL ASSETS

The District's investment in capital asset for its governmental and business-type activities as of June 30, 2013 amounted to \$9,622,054 net of accumulated depreciation. This investment in capital assets includes construction-in-progress, land improvements, buildings and improvements and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$296,157 or 2.99%. Current year capital additions were \$159,984 and depreciation expense was \$456,141.

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

- 3<sup>rd</sup> grade security door project \$101,353

### NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$7,643,015 consisting of \$5,175,000 in bonds payable, a \$1,538,000 in notes payable and a \$930,015 bond premium. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$691,406 or 8.30% during the fiscal year.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The District's outstanding general obligation debt of \$7,643,015 is within the current debt limitation of the District which was \$39,594,467 as of June 30, 2013.

Other noncurrent liabilities consist of the District's liabilities for compensated absences, early retirement incentive plans, a claim payable and its net obligation for post-employment benefits, which totaled \$1,386,055 as of June 30, 2013. These liabilities decreased by \$333,773 or 19.41% during the fiscal year.

### FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

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- In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increased real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduces certain new requirements on school districts which include the following:
  - ♦ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state, (2.0% for School District of Borough of Morrisville for 2013-2014) the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
  - ♦ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.
  - ♦ Any revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders. (Act 1 permitted slot machine gambling in Pennsylvania.)
- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("**House Bill 2497**") into law. The legislation is now known as Act 120 of 2010. House Bill 2497 includes a series of actuarial and funding changes to the public school employees' retirement system ("**PSERS**") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation, the employer contribution rate for 2014-2015 is projected at 21.40%. Currently, the employer contribution rate for 2013-2014 is 16.93% which is an increase of 36.97% from the 2012-2013 employer contribution rate of 12.36%. The increase in the employer contribution rate in 2013-2014 is estimated to increase the District's retirement contribution by approximately \$320,000 of which the District's share is \$160,000.
- The District adopted a balanced 2013-2014 budget totaling \$17,504,284 and the real estate tax millage was increased by approximately 1.70%.
- The District's collective bargaining agreements with the Morrisville Education Association and the Morrisville Educational Support Personnel Association expire at the conclusion of the 2014-2015 school year.

### CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Administrator, School District of Borough of Morrisville, 550 West Palmer Street, Morrisville, PA 19067-2195.

**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

**STATEMENT OF NET POSITION**

June 30, 2013 with summarized comparative totals for 2012

	<u>Governmental</u>	<u>Business-Type</u>	<u>Totals</u>	
	<u>Activities</u>	<u>Activities</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 1,232,687	\$44,505	\$ 1,277,192	\$ 1,630,292
Taxes receivable	799,881	-	799,881	723,801
Due from other governments	721,950	13,234	735,184	675,077
Internal balances	4,141	(4,141)	-	-
Other receivables	115,966	-	115,966	155,692
Prepaid expenses	-	-	-	17,069
Inventories	-	11,463	11,463	7,196
<b>Total current assets</b>	<u>2,874,625</u>	<u>65,061</u>	<u>2,939,686</u>	<u>3,209,127</u>
<b>NONCURRENT ASSETS</b>				
Capital assets, net	<u>9,597,018</u>	<u>25,036</u>	<u>9,622,054</u>	<u>9,918,211</u>
<b>Total assets</b>	<u>12,471,643</u>	<u>90,097</u>	<u>12,561,740</u>	<u>13,127,338</u>
<b>LIABILITIES AND NET POSITION</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	674,117	54,787	728,904	528,116
Accrued salaries, payroll withholdings and benefits	746,515	-	746,515	475,321
Other liabilities	9,694	-	9,694	-
Accrued interest payable	<u>66,437</u>	<u>-</u>	<u>66,437</u>	<u>73,299</u>
<b>Total current liabilities</b>	<u>1,496,763</u>	<u>54,787</u>	<u>1,551,550</u>	<u>1,076,736</u>
<b>NONCURRENT LIABILITIES</b>				
Due within one year	946,488	-	946,488	1,085,275
Due in more than one year	<u>8,082,582</u>	<u>-</u>	<u>8,082,582</u>	<u>8,968,974</u>
<b>Total noncurrent liabilities</b>	<u>9,029,070</u>	<u>-</u>	<u>9,029,070</u>	<u>10,054,249</u>
<b>Total liabilities</b>	<u>10,525,833</u>	<u>54,787</u>	<u>10,580,620</u>	<u>11,130,985</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,954,003	25,036	1,979,039	1,583,790
Restricted	165,335	-	165,335	227,840
Unrestricted (deficit)	<u>(173,528)</u>	<u>10,274</u>	<u>(163,254)</u>	<u>184,723</u>
<b>Total net position</b>	<u>\$ 1,945,810</u>	<u>\$35,310</u>	<u>\$ 1,981,120</u>	<u>\$ 1,996,353</u>

See accompanying notes

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## STATEMENT OF ACTIVITIES

Year ended June 30, 2013 with summarized comparative totals for 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>	
							<u>2013</u>	<u>2012</u>
<b>GOVERNMENTAL ACTIVITIES</b>								
Instruction	\$13,239,134	\$ 35,183	\$3,395,148	\$ -	\$ (9,808,803)	\$ -	\$ (9,808,803)	\$(10,195,979)
Instructional student support services	763,483	-	68,822	-	(694,661)	-	(694,661)	(778,695)
Administrative and financial support services	1,363,140	-	72,357	-	(1,290,783)	-	(1,290,783)	(1,330,346)
Operation and maintenance of plant services	1,226,083	26,534	42,525	-	(1,157,024)	-	(1,157,024)	(1,313,862)
Pupil transportation	543,383	-	36,888	-	(506,495)	-	(506,495)	(574,699)
Student activities	339,536	3,354	11,952	-	(324,230)	-	(324,230)	(305,529)
Community services	24,824	-	-	-	(24,824)	-	(24,824)	(34,156)
Interest and amortization expense related to long-term debt	308,146	-	8,122	-	(300,024)	-	(300,024)	(337,725)
<b>Total governmental activities</b>	<u>17,807,729</u>	<u>65,071</u>	<u>3,635,814</u>	<u>-</u>	<u>(14,106,844)</u>	<u>-</u>	<u>(14,106,844)</u>	<u>(14,870,991)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>								
Food service	426,894	131,774	297,340	-	-	2,220	2,220	(8,513)
<b>Total primary government</b>	<u>\$18,234,623</u>	<u>\$196,845</u>	<u>\$3,933,154</u>	<u>\$ -</u>	<u>(14,106,844)</u>	<u>2,220</u>	<u>(14,104,624)</u>	<u>(14,879,504)</u>
<b>GENERAL REVENUES</b>								
Property taxes levied for general purposes					10,617,738	-	10,617,738	10,726,262
Other taxes					108,704	-	108,704	95,578
Grants and entitlements not restricted to specific programs					3,355,907	-	3,355,907	3,355,922
Investment earnings					7,042	-	7,042	9,873
<b>Total general revenues</b>					<u>14,089,391</u>	<u>-</u>	<u>14,089,391</u>	<u>14,187,635</u>
<b>CHANGE IN NET POSITION</b>					(17,453)	2,220	(15,233)	(691,869)
<b>NET POSITION</b>								
Beginning of year					1,963,263	33,090	1,996,353	2,688,222
<b>End of year</b>					<u>\$ 1,945,810</u>	<u>\$35,310</u>	<u>\$ 1,981,120</u>	<u>\$ 1,996,353</u>

**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

**BALANCE SHEET – GOVERNMENTAL FUNDS**

June 30, 2013 with summarized comparative totals for 2012

	<u>Major Funds</u>		<u>Totals</u>	
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>				
Cash	\$1,067,352	\$165,335	\$1,232,687	\$1,589,249
Taxes receivable	799,881	-	799,881	723,801
Due from other funds	4,141	-	4,141	-
Due from other governments	721,950	-	721,950	666,817
Other receivables	115,966	-	115,966	155,692
Prepaid items	-	-	-	17,069
<b>Total assets</b>	<b><u>\$2,709,290</u></b>	<b><u>\$165,335</u></b>	<b><u>\$2,874,625</u></b>	<b><u>\$3,152,628</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 674,117	\$ -	\$ 674,117	\$ 460,417
Due to other funds	-	-	-	20,000
Accrued salaries, payroll withholdings and benefits	746,515	-	746,515	475,321
Other liabilities	9,694	-	9,694	-
<b>Total liabilities</b>	<b><u>1,430,326</u></b>	<b><u>-</u></b>	<b><u>1,430,326</u></b>	<b><u>955,738</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues – property taxes	681,223	-	681,223	621,631
<b>FUND BALANCES</b>				
Nonspendable				
Prepaid items	-	-	-	17,069
Restricted for				
Capital projects	-	165,335	165,335	227,840
Committed to				
Early retirement incentive	510,241	-	510,241	762,484
Employer retirement rate stabilization	-	-	-	267,166
Balance 2012-2013 budget	-	-	-	210,700
Unassigned	87,500	-	87,500	90,000
<b>Total fund balances</b>	<b><u>597,741</u></b>	<b><u>165,335</u></b>	<b><u>763,076</u></b>	<b><u>1,575,259</u></b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b><u>\$2,709,290</u></b>	<b><u>\$165,335</u></b>	<b><u>\$2,874,625</u></b>	<b><u>\$3,152,628</u></b>

See accompanying notes

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

June 30, 2013

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<b>TOTAL GOVERNMENTAL FUND BALANCES</b>	<b>\$ 763,076</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	9,597,018
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources on the governmental funds balance sheet.	681,223
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(9,029,070)
Accrued interest payable on long-term liabilities is included in the statement of net position, but is excluded from the governmental funds balance sheet until due and payable.	<u>(66,437)</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 1,945,810</u></b>

**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

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

Year ended June 30, 2013 with summarized comparative totals for 2012

	Major Funds		Totals	
	General Fund	Capital Projects Fund	2013	2012
<b>REVENUES</b>				
Local sources	\$10,738,909	\$ 55	\$10,738,964	\$10,822,519
State sources	5,158,481	-	5,158,481	5,076,552
Federal sources	<u>1,833,238</u>	<u>-</u>	<u>1,833,238</u>	<u>1,395,479</u>
<b>Total revenues</b>	<u>17,730,628</u>	<u>55</u>	<u>17,730,683</u>	<u>17,294,550</u>
<b>EXPENDITURES</b>				
Current				
Instruction	13,090,809	-	13,090,809	13,105,138
Support services	3,876,952	-	3,876,952	3,951,668
Operation of noninstructional services	355,452	-	355,452	347,911
Facilities acquisition, construction and improvement services	-	212,560	212,560	687,128
Debt service	<u>1,006,412</u>	<u>-</u>	<u>1,006,412</u>	<u>940,590</u>
<b>Total expenditures</b>	<u>18,329,625</u>	<u>212,560</u>	<u>18,542,185</u>	<u>19,032,435</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(598,997)</u>	<u>(212,505)</u>	<u>(811,502)</u>	<u>(1,737,885)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refund of prior year receipts	(681)	-	(681)	(18,933)
Issuance of debt	-	-	-	446,000
Transfers in	-	150,000	150,000	-
Transfers out	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>	<u>(20,000)</u>
<b>Total other financing sources (uses)</b>	<u>(150,681)</u>	<u>150,000</u>	<u>(681)</u>	<u>407,067</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(749,678)</u>	<u>(62,505)</u>	<u>(812,183)</u>	<u>(1,330,818)</u>
<b>FUND BALANCES</b>				
Beginning of year	<u>1,347,419</u>	<u>227,840</u>	<u>1,575,259</u>	<u>2,906,077</u>
<b>End of year</b>	<u>\$ 597,741</u>	<u>\$ 165,335</u>	<u>\$ 763,076</u>	<u>\$ 1,575,259</u>

See accompanying notes

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

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

Year ended June 30, 2013

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**NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS** \$(812,183)

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

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

Capital outlay expenditures	\$ 153,320	
Depreciation expense	<u>(450,223)</u>	(296,903)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources decreased by this amount this year.

Deferred inflows of resources at June 30, 2012	(621,631)	
Deferred inflows of resources at June 30, 2013	<u>681,223</u>	59,592

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

Repayment of bonds payable	616,000	
Amortization of bond premiums	<u>75,406</u>	691,406

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures in governmental funds.

Current year change in accrued interest payable	6,862	
Current year change in early retirement incentive	185,204	
Current year change in compensated absences	49,663	
Current year change in net post employment benefit (OPEB) obligation	(51,094)	
Current year change in claim payable	<u>150,000</u>	<u>340,635</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ (17,453)

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See accompanying notes

**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

**STATEMENT OF NET POSITION – PROPRIETARY FUND**

June 30, 2013 with summarized comparative totals for 2012

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	<u>Major Fund</u>	
	<u>Food Service Fund</u>	
	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$44,505	\$ 41,043
Due from other governments	13,234	8,260
Due from other funds	-	20,000
Inventories	<u>11,463</u>	<u>7,196</u>
<b>Total current assets</b>	<u>69,202</u>	<u>76,499</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, net	<u>25,036</u>	<u>24,290</u>
<b>Total assets</b>	<u>94,238</u>	<u>100,789</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Accounts payable	54,787	67,699
Due to other funds	<u>4,141</u>	<u>-</u>
<b>Total liabilities</b>	<u>58,928</u>	<u>67,699</u>
<b>NET POSITION</b>		
Net investment in capital assets	25,036	24,290
Unrestricted	<u>10,274</u>	<u>8,800</u>
<b>Total net position</b>	<u>\$35,310</u>	<u>\$ 33,090</u>

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See accompanying notes

**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

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

Year ended June 30, 2013 with summarized comparative totals for 2012

	<b>Major Fund</b>	
	<b>Food Service Fund</b>	
	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 131,774	\$ 158,869
<b>OPERATING EXPENSES</b>		
Salaries	176,810	178,435
Employee benefits	39,103	40,710
Purchased services	36,694	36,092
Supplies	166,962	161,002
Depreciation	5,918	4,521
Equipment	1,407	-
<b>Total operating expenses</b>	<u>426,894</u>	<u>420,760</u>
<b>Operating loss</b>	<u>(295,120)</u>	<u>(261,891)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Earnings on investments	-	7
State sources	12,573	14,923
Federal sources	284,767	239,505
Loss on disposal of assets	-	(1,050)
<b>Total non-operating revenues (expenses)</b>	<u>297,340</u>	<u>253,385</u>
<b>Net income (loss) before transfers</b>	2,220	(8,506)
<b>Transfers in</b>	<u>-</u>	<u>20,000</u>
<b>CHANGE IN NET POSITION</b>	2,220	11,494
<b>NET POSITION</b>		
Beginning of year	<u>33,090</u>	<u>21,596</u>
<b>End of year</b>	<u>\$ 35,310</u>	<u>\$ 33,090</u>

See accompanying notes

**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

**STATEMENT OF CASH FLOWS – PROPRIETARY FUND**

Year ended June 30, 2013 with summarized comparative totals for 2012

	<b>Food Service Fund</b>	
	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 131,774	\$ 156,342
Cash paid for operating expenses	<u>(407,353)</u>	<u>(400,971)</u>
<b>Net cash used for operating activities</b>	<u>(275,579)</u>	<u>(244,629)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State sources	12,552	14,991
Federal sources	253,153	226,217
Transfers in	<u>20,000</u>	<u>29,000</u>
<b>Net cash provided by noncapital financing activities</b>	<u>285,705</u>	<u>270,208</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	<u>(6,664)</u>	<u>(10,182)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Earnings on investments	<u>-</u>	<u>7</u>
<b>Net increase (decrease) in cash</b>	3,462	15,404
<b>CASH</b>		
Beginning of year	<u>41,043</u>	<u>25,639</u>
End of year	<u>\$ 44,505</u>	<u>\$ 41,043</u>
<b>Reconciliation of operating loss to net cash used for operating activities:</b>		
Operating loss	\$(295,120)	\$(261,891)
<b>Adjustments to reconcile operating loss to net cash used for operating activities</b>		
Depreciation	5,918	4,521
Donated commodities used	26,661	14,864
(Increase) decrease in Inventories	(4,267)	(937)
Increase (decrease) in Accounts payable	(12,912)	1,341
Unearned revenue	-	(2,527)
Due to other funds	<u>4,141</u>	<u>-</u>
<b>Net cash used for operating activities</b>	<u>\$(275,579)</u>	<u>\$(244,629)</u>
<b>SUPPLEMENTAL DISCLOSURE</b>		
<b>Noncash noncapital financing activity</b>		
USDA donated commodities	<u>\$ 26,661</u>	<u>\$ 14,864</u>

See accompanying notes

**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

**STATEMENT OF NET POSITION – FIDUCIARY FUNDS**

June 30, 2013

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	<u>Private- Purpose Trust</u>	<u>Agency</u>
<b>ASSETS</b>		
Cash	\$29,020	\$26,684
<b>LIABILITIES</b>		
Due to student groups	-	\$26,684
<b>NET POSITION</b>		
Net assets held in trust for scholarships	<u>\$29,020</u>	

**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

**STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUND**

Year ended June 30, 2013 with summarized comparative totals for 2012

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	<b>Private-Purpose Trust Fund</b>	
	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>ADDITIONS</b>		
Local contributions	\$ 4,514	\$ 2,475
<b>DEDUCTIONS</b>		
Scholarships awarded and fees paid	<u>3,600</u>	<u>4,000</u>
<b>CHANGE IN NET POSITION</b>	914	(1,525)
<b>NET POSITION</b>		
Beginning of year	<u>28,106</u>	<u>29,631</u>
<b>End of year</b>	<b><u>\$29,020</u></b>	<b><u>\$28,106</u></b>

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See accompanying notes

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District of Borough of Morrisville (the "**District**") operates one elementary school and an intermediate/high school to provide education and related services to the residents of the Borough of Morrisville. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

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

#### **Reporting Entity**

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

#### **Basis of Presentation**

##### ***Government-Wide Financial Statements***

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

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

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

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

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

### ***Fund Financial Statements***

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the 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. Fiduciary fund financial statements are presented by fund type.

### ***Governmental Funds***

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

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

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

### ***Revenue Recognition***

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows or resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

### ***Expenditure Recognition***

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

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### ***Proprietary Funds***

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following major proprietary fund:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

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

### ***Fiduciary Funds***

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

### **Cash and Cash Equivalents**

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

### **Investments**

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

### **Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

### **Property Taxes**

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

July 1 – August 31	- Discount period, 2% of gross levy
September 1 – October 31	- Face period
November 1 to collection	- Penalty period, 10% of gross levy
January 1	- Lien date

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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The Bucks County Board of Assessments determines assessed valuations of property, and the District's taxes are billed and collected by a local elected tax collector. The tax on real estate for public school purposes for fiscal 2012-2013 was 177.30 mills (\$177.30 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Taxpayers who have a primary residence within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	-	August 15
Installment Two	-	October 15
Installment Three	-	December 15

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

### **Prepaid Items and Inventories**

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

All inventories are valued at the lower of cost (first-in, first-out method) or market.

### **Unearned Revenues**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

### **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$1,000 and composite assets of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 10-50 years; land improvements – 15-20 years and furniture and equipment – 5-20 years.

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### **Impairment of Long-Lived Assets**

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment should be measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2013.

### **Compensated Absences**

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a non-current liability in the government-wide financial statements. A liability for these amounts is recorded in the governmental funds financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

### **Long-Term Obligations**

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

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

### **Fund Equity**

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

#### ***Non-spendable***

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

#### ***Restricted***

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

#### ***Committed***

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

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### ***Assigned***

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

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

### ***Unassigned***

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

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

The School Board has set a policy to maintain an unassigned General Fund fund balance of not less than 0.50% and a maximum General Fund fund balance of 15% of the following year's expenditure budget. Unassigned General Fund fund balance in excess of 0.50% of the following year's expenditure budget may be appropriated by the School Board for nonrecurring expenditures.

### **Comparative Data**

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

### **Use of Estimates**

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

### **Implementation of New Accounting Pronouncements**

Effective July 1, 2012, the District adopted the provisions of GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Announcements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities."

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements ("SCAs") which are a type of public-private or public-public partnership. As used in this statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 had no impact on the financial statements of the District for the year ended June 30, 2013.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends Statement No. 14, "*The Financial Reporting Entity*", and the related financial reporting requirements of Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments*". The implementation of GASB Statement No. 61 had no impact on the financial statements of the District for the year ended June 30, 2013.

GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of GASB Statement No. 62 had no impact on the financial statements of the District for the year ended June 30, 2013.

GASB Statement No. 63 standardizes the presentation of deferred balances and their effects on a government's net position. As a result of the implementation of GASB Statement No. 63 the District reports deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and reports net position instead of net assets in its financial statements for the year ended June 30, 2013.

GASB Statement No. 65 clarifies the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources and when to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). As a result of the implementation of GASB Statement No. 65, the District reports debt issuance costs, which were previously reported as assets, as outflows of resources in its financial statements for the year ended June 30, 2013.

### **New Accounting Pronouncements**

GASB has issued the following statements not yet implemented by the District. The District's management has not yet determined the effect, if any; these statements will have on the District's financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans—an Amendment of FASB Statement 25* will be effective for the District for the year ending June 30, 2014. GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27* will be effective for the District for the year ending June 30, 2015. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### (2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgetary Information

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

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

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

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

#### Excess of Expenditures over Appropriations

The following General Fund functions incurred expenditures and other financing uses in excess of appropriations in the following amounts for the year ended June 30, 2013:

Instruction	
Regular programs	\$ 77,414
Special programs	\$447,105
Other instructional programs	\$ 2,767
Support services	
Administrative services	\$ 62,194
Public health	\$ 8,346
Business services	\$ 2,811
Other support services	\$ 9,248
Operation of non-instructional services	
Student activities	\$ 28,207
Debt service	\$ 4,609
Other financing sources (uses)	
Refund of prior year receipts	\$ 681
Transfers out	\$130,000

The excess of expenditures over appropriations was financed by expenditures under budget within other functions and the use of accumulated fund balance.

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

### (3) DEPOSITS

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

#### Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. At June 30, 2013, the carrying amount of the District's deposits was \$1,332,896 and the bank balance was \$1,882,966. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, the Commonwealth of Pennsylvania or any other political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$5,432 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**") and the Pennsylvania Local Government Investment Trust ("**PLGIT**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, are rated by a nationally recognized statistical rating organization and are subject to independent annual audit. As of June 30, 2013, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating agency.

### (4) CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated:</b>				
Construction-in-progress	\$ 4,121	\$ -	\$ 4,121	\$ -
<b>Capital assets being depreciated:</b>				
Buildings and improvements	17,314,602	126,658	-	17,441,260
Land improvements	850,162	10,800	-	860,962
Furniture and equipment	<u>561,327</u>	<u>19,983</u>	<u>-</u>	<u>581,310</u>
<b>Total capital assets being depreciated</b>	<u>18,726,091</u>	<u>157,441</u>	<u>-</u>	<u>18,883,532</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(7,936,508)	(382,210)	-	(8,318,718)
Land improvements	(588,639)	(21,957)	-	(610,596)
Furniture and equipment	<u>(311,144)</u>	<u>(46,056)</u>	<u>-</u>	<u>(357,200)</u>
<b>Total accumulated depreciation</b>	<u>(8,836,291)</u>	<u>(450,223)</u>	<u>-</u>	<u>(9,286,514)</u>
<b>Total capital assets being depreciated, net</b>	<u>9,889,800</u>	<u>(292,782)</u>	<u>-</u>	<u>9,597,018</u>
<b>Governmental activities, net</b>	<u>\$ 9,893,921</u>	<u>\$ (292,782)</u>	<u>\$ 4,121</u>	<u>\$ 9,597,018</u>
<b>Business-type activities</b>				
Machinery and equipment	\$ 99,907	\$ 6,664	\$ 3,200	\$ 103,371
Less accumulated depreciation	<u>(75,617)</u>	<u>(5,918)</u>	<u>(3,200)</u>	<u>(78,335)</u>
<b>Business-type activities, net</b>	<u>\$ 24,290</u>	<u>\$ 746</u>	<u>\$ -</u>	<u>\$ 25,036</u>

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

<b>Governmental activities</b>	
Instruction	\$351,762
Instructional student support services	19,976
Administrative and financial support services	39,592
Operation and maintenance of plant services	30,009
Student activities	<u>8,884</u>
<b>Total depreciation expense – governmental activities</b>	<b><u>\$450,223</u></b>
<b>Business-type activities</b>	
Food service	<u>\$ 5,918</u>

### (5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2013 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	<u>\$4,141</u>	Food Service Fund	<u>\$4,141</u>

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

A summary of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	<u>\$150,000</u>	General Fund	<u>\$150,000</u>

Transfers from the General Fund to the Capital Projects Fund represent transfers to subsidize costs associated with capital purchases.

### (6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2013:

	<u>Balance</u>			<u>Balance</u>	<u>Amount</u>
	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>	<u>Due Within</u>
					<u>One Year</u>
<b>Governmental activities</b>					
<b>General obligation debt</b>					
Bonds payable	\$ 5,630,000	\$ -	\$ 455,000	\$5,175,000	\$475,000
Notes payable	1,699,000	-	161,000	1,538,000	167,000
Bond premium	<u>1,005,421</u>	<u>-</u>	<u>75,406</u>	<u>930,015</u>	<u>75,406</u>
<b>Total general obligation debt</b>	<u>8,334,421</u>	<u>-</u>	<u>691,406</u>	<u>7,643,015</u>	<u>717,406</u>
<b>Other noncurrent liabilities</b>					
Early retirement incentive	762,484	125,000	310,204	577,280	229,082
Compensated absences	510,185	145,348	195,011	460,522	-
OPEB obligation	247,159	289,086	237,992	298,253	-
Claim payable	<u>200,000</u>	<u>-</u>	<u>150,000</u>	<u>50,000</u>	<u>-</u>
<b>Total other noncurrent liabilities</b>	<u>1,719,828</u>	<u>559,434</u>	<u>893,207</u>	<u>1,386,055</u>	<u>229,082</u>
<b>Total noncurrent liabilities</b>	<u>\$10,054,249</u>	<u>\$559,434</u>	<u>\$1,584,613</u>	<u>\$9,029,070</u>	<u>\$946,488</u>

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Noncurrent liabilities are generally liquidated by the General Fund.

### **General Obligation Debt**

General obligation debt is a direct obligation of the District from which full faith and credit are pledged and are payable from unrestricted local sources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of June 30, 2013 consisted of the following:

<b><u>Description</u></b>	<b><u>Interest Rate(s)</u></b>	<b><u>Issue Amount</u></b>	<b><u>Final Maturity</u></b>	<b><u>Principal Outstanding</u></b>
<b>General obligation bonds</b>				
Series of 1998	4.55%	\$2,000,000	07/01/2013	\$ 190,000
Series of 2006	3.50% – 5.00%	\$6,500,000	04/01/2026	<u>4,985,000</u>
<b>Total general obligation bonds</b>				<u>5,175,000</u>
<b>General obligation notes</b>				
Series of 2001	4.084%	\$3,000,000	09/25/2021	1,152,000
Series of 2011	1.585%	\$446,000	09/25/2018	<u>386,000</u>
<b>Total general obligation notes</b>				<u>1,538,000</u>
<b>Total general obligation debt</b>				<u>\$6,713,000</u>

Annual debt service requirements to maturity on these obligations is as follows:

<b><u>Year ending June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2014	\$ 642,000	\$ 299,993	\$ 941,993
2015	469,000	278,686	747,686
2016	490,000	258,848	748,848
2017	511,000	238,060	749,060
2018	533,000	216,322	749,322
2019-2023	2,623,000	723,135	3,346,135
2024-2026	<u>1,445,000</u>	<u>146,750</u>	<u>1,591,750</u>
	<u>\$6,713,000</u>	<u>\$2,161,794</u>	<u>\$8,874,794</u>

### **In-Substance Defeasance – Prior Year**

On February 13, 2008, the District partially defeased general obligation bond Series of 2006 in the amount of \$22,000,000 which was placed in an irrevocable trust under an Escrow Agreement between the District and the Escrow Holder. The Escrow Holder used the proceeds to purchase a portfolio of obligations of the United States of America. The government obligations will have maturities and interest rates sufficient to pay principal and interest payments and redemption premiums on the defeased bonds on the date the payments are due. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2013, \$18,140,000 of bonds outstanding are considered defeased. The District has authorized to call the remaining defeased bonds for redemption on October 1, 2016.

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### **Interest Rate Management Plan**

The General Obligation Notes of the District have been issued to the Delaware Valley Regional Finance Authority ("**DVRFA**"). The DVRFA was formed by certain counties in Southeastern Pennsylvania to provide financing to local government units ("**participants**") for various projects. DVRFA obtained the funds used to finance these projects by issuing its Local Government Revenue Bonds. In order to reduce the interest costs of participants in its loan program and to enhance their ability to manage their interest rate risks, DVRFA and the participants in its loan program, including the District, have entered into an Interest Rate Management Plan, the provisions of which allow the participants to select fixed or variable rates of interest on their loans. In order to provide this option to the participants, DVRFA has entered into an interest rate swap agreement with a financial institution. In the event that the swap agreement between DVRFA and the financial institution is terminated and the value of the swap to DVRFA at the time of termination is a liability, the participants are required to pay their proportionate share of the liability. The value of the swap agreement relative to the General Obligation Notes at June 30, 2013 was an asset of \$113,763. The value of the swap agreement relative to the General Obligation Notes is not reflected on the District's statement of net position.

### **Early Retirement Incentive**

The District from time to time offers additional retirement incentives known as early retirement incentive plans ("**ERIP**") to senior professional staff and administrators contemplating retirement. There is no contractual requirement for the District to offer ERIP incentives. An ERIP is formally approved by School Board action in the year an ERIP plan is implemented.

In order for an employee to retire and participate in a District sponsored ERIP, the District must first decide whether or not to offer an ERIP in the year the employee is retiring and a specified minimum number of employees must opt into the ERIP. The District's various ERIP plans provide for the payment of specific annuity amounts to the participating retiree or the payment of a specified dollar amount to be applied toward participating retiree healthcare premiums through Medicare eligible age.

The District's liability for its ERIP plans has been reported at the discounted present value of expected future benefit payments in the government-wide financial statements. For the year ended June 30, 2013, 22 retirees received benefits under the District's ERIP plans and the District paid \$405,869 in ERIP benefits to retirees.

### **Other Post-Employment Benefits**

The District's other post-employment benefits plan is a single-employer defined benefit plan that provides medical and life insurance to certain eligible retirees and their spouses. The School Board has the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

### **Funding Policy**

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

### **Annual OPEB Cost and Net OPEB Obligation**

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("**ARC**"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 8 years. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2013, 2012 and 2011 were as follows:

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$289,086	82.33%	\$298,253
2012	\$302,112	71.04%	\$247,159
2011	\$179,948	81.32%	\$159,672

The following table shows the components of the District's OPEB cost for the year, the amount actually contributed by the District and changes in the District's net OPEB obligation:

Annual required contribution	\$ 325,883
Interest on net OPEB obligation	11,122
Adjustment to annual required contribution	<u>(47,919)</u>
Annual OPEB cost (expense)	289,086
Contributions made	<u>(237,992)</u>
Increase in net OPEB obligation	51,094
Net OPEB obligation – beginning of year	<u>247,159</u>
Net OPEB obligation – end of year	<u>\$ 298,253</u>

### **Funded Status and Funding Progress**

As of March 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,381,100, all of which was unfunded. The covered payroll (annual payroll of active employees) was \$7,650,685, and the ratio of the UAAL to the covered payroll was 18.05%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### **Actuarial Methods and Assumptions**

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

In the most recent actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 8.00%, decreasing 0.50% per year to an ultimate rate of 5.50% in 2016 and later. The UAAL is being amortized based on the level dollar, 6-year open period.

## **(7) LEASES**

### **Lessee**

The District leases office equipment under non-cancelable leases expiring at various dates through June 2014. Rent expense for the office equipment was \$32,891 for 2012-2013.

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# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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Future minimum lease payments under these agreements are as follows:

2014	<u>\$25,793</u>
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### Lessor

The District leases a building to a private entity under a non-cancelable lease agreement that expires on June 16, 2014, provides for monthly rent and may be extended for an additional five-year term at the option of the tenant. Under the terms of the lease agreement, the tenant is responsible for all expenses associated with the building.

Future minimum lease payments to be received under this agreement are as follows:

2014	<u>\$20,316</u>
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## (8) PENSION PLAN

### Plan Description

The District contributes to the Public School Employees' Retirement System ("**PSERS**"), a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees' Retirement System. The PSERS provides retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments and certain health care insurance premium assistance to plan members and beneficiaries. The Public School Employees' Retirement Code (Act No. 96, of October 2, 1975, as amended) provides the authority to establish and amend benefit provisions. The PSERS issues a comprehensive 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 Public School Employees' Retirement System, 5 North 5<sup>th</sup> Street, Harrisburg, PA 17101-0125; or by accessing its website at <http://www.psers.state.pa.us/publications/general/cafr.htm>.

### Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Individual employees contribute between 5.25% and 10.30% of annual salary depending on their membership status. Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the rate of employer contribution was 12.36% of covered payroll. The District's contributions to PSERS for the years ended June 30, 2013, 2012 and 2011 were \$873,280, \$662,219 and \$447,942, respectively, equal to the required contribution for each year. The Commonwealth contributes to PSERS by reimbursing the District 50% of its contribution each year.

## (9) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

### Bucks County Technical High School

The District and five other Bucks County school districts participate in the Bucks County Technical High School (the "**BCTHS**"). The BCTHS provides vocational-technical training and education to students of the participating school districts. The BCTHS is controlled by a joint board comprised of representative school board members of the participating school districts. District oversight of the BCTHS operations is the responsibility of the joint board. The District's share of operating costs for the BCTHS fluctuates based on the District's percentage of enrollment. The District share of operating costs for 2012-2013 was \$604,402.

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### Bucks County Technical School Authority

The District and five other Bucks County school districts also participate in a joint venture for the operation of the Bucks County Technical School Authority (the "**Authority**"). The Authority oversees acquiring, holding, constructing, improving and maintaining the BCTHS school buildings. The Authority is controlled by a joint board comprised of representative school board members of the participating school districts in the BCTHS. The participating school districts have entered into a long-term lease agreement with the Authority to provide rental payments sufficient to retire the Authority's outstanding debt obligations. The agreement expires on August 15, 2018 unless the related debt is retired earlier. The District's share of rent expense for 2012-2013 was \$59,220.

The District's annual lease rental payments are as follows:

#### Year ending June 30,

2014	\$ 58,789
2015	58,729
2016	58,759
2017	58,717
2018	58,716
2019	<u>58,450</u>
	<u>\$352,160</u>

Both the BCTHS and the Authority prepare financial statements that are available to the public from their administrative offices located at 610 Wistar Road, Fairless Hills, PA 19030.

### Bucks County Intermediate Unit

The District and the other Bucks County school districts are participating members of the Bucks County Intermediate Unit (the "**BCIU**"). The BCIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual operating budget of the BCIU but the participating districts have no ongoing fiduciary interest or responsibility to the BCIU. The BCIU is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and state and federal liaison services.

## (10) CONTINGENCIES AND COMMITMENTS

### Government Grants and Awards

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

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. At June 30, 2013, the District has recorded a claim payable of \$50,000 in the government-wide Statement of Net Position for the estimated net loss that it expected to incur as a result of an outstanding claim. The claim payable has not been recorded in the Balance Sheet – Governmental Funds because it was not due and payable as of June 30, 2013. However, due to the uncertainty in the settlement process, it is at least reasonably possible that the amount of loss could change materially in the long-term.

### (11) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs including workers compensation and employee health and accident insurance. For insured programs, there were no significant reductions in insurance coverages during 2012-2013. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

### (12) PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 65, the District made a prior period adjustment to reclassify debt issuance costs, which were previously reported as assets, to outflows of resources. This prior period adjustment and its effect on net position at July 1, 2011 and on changes in net position for the year ended June 30, 2012 are summarized in the following table:

Net position at July 1, 2011, as previously reported	\$2,867,020
Prior period adjustment to Reclassify debt issuance costs from an asset to outflows of resources	<u>(178,798)</u>
Net position at July 1, 2011, as restated	<u>2,688,222</u>
Change in net position for the year ended June 30, 2012, as previously reported	(704,345)
Prior period adjustment to Reverse amortization expense recorded for debt issuance costs	<u>12,476</u>
Change in net position for the year ended June 30, 2012, as restated	<u>(691,869)</u>
Net position at June 30, 2012, as restated	<u>\$1,996,353</u>

### (13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 16, 2014, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$11,074,490	\$11,074,490	\$10,738,909	\$ (335,581)
State sources	5,040,307	5,040,307	5,158,481	118,174
Federal sources	1,173,697	1,672,830	1,833,238	160,408
<b>Total revenues</b>	<u>17,288,494</u>	<u>17,787,627</u>	<u>17,730,628</u>	<u>(56,999)</u>
<b>EXPENDITURES</b>				
<b>Instruction</b>				
Regular programs	7,078,983	7,735,093	7,812,507	(77,414)
Special programs	4,015,263	3,823,291	4,270,396	(447,105)
Vocational programs	1,024,107	1,024,106	719,979	304,127
Other instructional programs	2,200	2,200	4,967	(2,767)
Pre-kindergarten	280,800	282,960	282,960	-
<b>Total instruction</b>	<u>12,401,353</u>	<u>12,867,650</u>	<u>13,090,809</u>	<u>(223,159)</u>
<b>Support services</b>				
Pupil support services	458,540	458,540	456,705	1,835
Instructional staff services	137,227	136,977	113,565	23,412
Administrative services	709,586	743,555	805,749	(62,194)
Pupil health	147,546	147,546	155,892	(8,346)
Business services	355,402	354,556	357,367	(2,811)
Operation and maintenance of plant services	1,411,766	1,400,642	1,116,764	283,878
Student transportation services	665,775	676,899	543,377	133,522
Information services	352,908	352,908	310,285	42,623
Other support services	8,000	8,000	17,248	(9,248)
<b>Total support services</b>	<u>4,246,750</u>	<u>4,279,623</u>	<u>3,876,952</u>	<u>402,671</u>
<b>Operation of non-instructional services</b>				
Student activities	302,421	302,421	330,628	(28,207)
Community services	35,000	35,000	24,824	10,176
<b>Total operation of non-instructional services</b>	<u>337,421</u>	<u>337,421</u>	<u>355,452</u>	<u>(18,031)</u>
<b>Debt service</b>				
	1,001,840	1,001,803	1,006,412	(4,609)
<b>Total expenditures</b>	<u>17,987,364</u>	<u>18,486,497</u>	<u>18,329,625</u>	<u>156,872</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(698,870)</u>	<u>(698,870)</u>	<u>(598,997)</u>	<u>99,873</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refund of prior year receipts	-	-	(681)	(681)
Transfers out	(20,000)	(20,000)	(150,000)	(130,000)
<b>Total other financing sources (uses)</b>	<u>(20,000)</u>	<u>(20,000)</u>	<u>(150,681)</u>	<u>(130,681)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (718,870)</u>	<u>\$ (718,870)</u>	<u>(749,678)</u>	<u>\$ (30,808)</u>
<b>FUND BALANCE</b>				
Beginning of year			1,347,419	
<b>End of year</b>			<u>\$ 597,741</u>	

**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

**OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS**

Year ended June 30, 2013

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<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
03/01/2011	\$ -	\$1,381,100	\$1,381,100	0.00%	\$7,650,685	18.05%
03/01/2008	\$ -	\$1,065,868	\$1,065,868	0.00%	\$7,413,545	14.38%

**SINGLE AUDIT**

# SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2012</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2013</u>
<b>U.S. Department of Education</b>										
<b>Passed-Through the Pennsylvania Department of Education</b>										
Title I – Improving Basic Programs	I	84.010	013-120267	07/01/11 – 09/30/12	\$143,373	\$ (11)	\$ (11)	\$ -	\$ -	\$ -
Title I – Improving Basic Programs	I	84.010	013-130267	07/01/12 – 09/30/13	175,997	141,714	-	175,997	175,997	34,283
Title II – Improving Teacher Quality	I	84.367	020-120267	07/01/11 – 09/30/12	47,387	(258)	(258)	-	-	-
Title II – Improving Teacher Quality	I	84.367	020-130267	07/01/12 – 09/30/13	47,980	47,980	-	47,980	47,980	-
Title III – Language Instruction LEP/ Immigrant Students	I	84.365	010-120267	07/01/11 – 09/30/12	17,151	5,699	5,699	-	-	-
Title III – Language Instruction LEP/ Immigrant Students	I	84.365	010-130267	07/01/12 – 09/30/13	23,978	17,584	-	23,978	23,978	6,394
21 <sup>st</sup> Century Community Learning Centers	I	84.287	FC #41-00052166	07/01/11 – 06/30/12	499,133	82,608	82,608	-	-	-
21 <sup>st</sup> Century Community Learning Centers	I	84.287	FC #41-00052166	07/01/12 – 06/30/13	499,133	379,747	-	499,133	499,133	119,386
21 <sup>st</sup> Century Community Learning Centers	I	84.287	FC #41-00058698	07/01/11 – 09/30/12	499,199	374,399	127,617	246,782	246,782	-
21 <sup>st</sup> Century Community Learning Centers	I	84.287	FC #41-00058698	10/01/12 – 09/30/13	499,199	195,104	-	292,078	292,078	96,974
21 <sup>st</sup> Century Community Learning Centers	I	84.287	FC #41-00060863	10/01/12 – 09/30/13	499,978	271,013	-	283,596	283,596	12,583
ARRA – Education Jobs Fund	I	84.410	140-657584	07/01/11 – 06/30/12	3,217	3,217	3,217	-	-	-
<b>Passed Through the Bucks County I. U.</b>										
I.D.E.A. – Part B – Section 611	I	84.027	062-120022	07/01/11 – 06/30/12	202,166	198,219	198,219	-	-	-
I.D.E.A. – Part B – Section 611	I	84.027	062-130022	07/01/12 – 06/30/13	194,337	3,983	-	194,337	194,337	190,354
I.D.E.A. – Part B – Section 619	I	84.391	131-110022	07/01/11 – 06/30/12	1,615	1,615	1,615	-	-	-
I.D.E.A. – Part B – Section 619	I	84.391	131-120022	07/01/12 – 06/30/13	2,097	-	-	2,097	2,097	2,097
<b>Total U.S. Department of Education</b>						<u>1,722,613</u>	<u>418,706</u>	<u>1,765,978</u>	<u>1,765,978</u>	<u>462,071</u>

Continued on next page

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2012</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2013</u>
<b><u>U.S. Department of Agriculture</u></b>										
<b><u>Passed-Through the Pennsylvania Department of Education</u></b>										
National School Lunch Program	I	10.555	N/A	07/01/11 – 06/30/12	N/A	6,401	6,401	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/12 – 06/30/13	N/A	219,633	-	230,779	230,779	11,146
Breakfast Program	I	10.553	N/A	07/01/11 – 06/30/12	N/A	1,327	1,327	-	-	-
Breakfast Program	I	10.553	N/A	07/01/12 – 06/30/13	N/A	25,792	-	27,327	27,327	1,535
State Matching Share	S	N/A	N/A	07/01/11 – 06/30/12	N/A	532	532	-	-	-
State Matching Share	S	N/A	N/A	07/01/12 – 06/30/13	N/A	12,020	-	12,573	12,573	553
<b><u>Passed-Through the Pennsylvania Department of Agriculture</u></b>										
USDA Donated Commodities	I	10.555	N/A	07/01/12 – 06/30/13	N/A	<u>26,661</u>	<u>-</u>	<u>26,661</u>	<u>26,661</u>	<u>-</u>
<b>Total U.S. Department of Agriculture</b>						<u>292,366</u>	<u>8,260</u>	<u>297,340</u>	<u>297,340</u>	<u>13,234</u>
<b>Total Federal Awards and Certain State Grants</b>						<u>\$2,014,979</u>	<u>\$426,966</u>	<u>\$2,063,318</u>	<u>\$2,063,318</u>	<u>\$475,305</u>

**Source Codes**

D – Direct Funding

I – Indirect Funding

S – State Share

# **SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

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

**June 30, 2013**

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### **(1) FEDERAL EXPENDITURES**

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

### **(2) BASIS OF ACCOUNTING**

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

### **(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD**

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555, USDA Donated Commodities, represent federal surplus food consumed by the District during the 2012-2013 fiscal year.

### **(4) ACCESS PROGRAM**

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2013 was \$67,260.

**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***

**Year ended June 30, 2013**

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There were no audit findings for the year ended June 30, 2012.



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

**Board of School Directors  
School District of Borough of Morrisville  
Morrisville, 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 the School District of Borough of Morrisville, Morrisville, Pennsylvania, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District of Borough of Morrisville's basic financial statements, and have issued our report thereon dated January 16, 2014.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the School District of Borough of Morrisville'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 School District of Borough of Morrisville's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District of the Borough of Morrisville's internal control.

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

*BBD, LLP*

**Philadelphia, Pennsylvania  
January 16, 2014**



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

**Board of School Directors  
School District of Borough of Morrisville  
Morrisville, Pennsylvania**

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

We have audited the School District of Borough of Morrisville's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District of Borough of Morrisville's major federal programs for the year ended June 30, 2013. The School District of Borough of Morrisville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School District of Borough of Morrisville'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 School District of Borough of Morrisville'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 School District of Borough of Morrisville's compliance.

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

In our opinion, the School District of Borough of Morrisville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control over Compliance**

Management of the School District of Borough of Morrisville 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 School District of Borough of Morrisville's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District of Borough of Morrisville's internal control over compliance.

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

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

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

BBD, LLP

**Philadelphia, Pennsylvania  
January 16, 2014**

# **SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Year ended June 30, 2013**

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### **SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of the School District of Borough of Morrisville.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of the School District of Borough of Morrisville are reported in the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the School District of Borough of Morrisville, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the School District of Borough of Morrisville expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was:
  - 21<sup>st</sup> Century Community Learning Centers – CFDA Number 84.287
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The School District of Borough of Morrisville did qualify as a low-risk auditee.

### **FINDINGS—FINANCIAL STATEMENT AUDIT**

None

### **FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None