



**School District of
Borough of Morrisville
Morrisville, Pennsylvania
Bucks County**

Financial Statements
Year Ended June 30, 2015



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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 Borough of Morrisville, Morrisville, Pennsylvania as of and for the year ended June 30, 2015, 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, 2015, 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 2014 financial statements, and our report dated November 19, 2014, 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, 2014, 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, other post-employment benefits schedule of funding progress, the schedules of the District's proportionate share of the net pension liability and pension plan contributions on pages 3 through 12 and 43 through 46 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 19, 2016 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 19, 2016**

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2015

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, 2015. 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 135 full and part-time employees. The teaching staff and administration consists of 66 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

- Effective 2014-2015, the District was required to comply with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The major impact of GASB Statement No. 68 is to present, on the Statement of Net Position (Deficit), certain items related to the District's proportionate liability from its participation in the Pennsylvania State Employee Retirement System ("**PSERS**"), which was not required to be presented in the prior years. For consistency purposes, the June 30, 2014 Statement of Net Position (Deficit) has been restated in the financial statements as if GASB Statement No. 68 had been applied, retroactively.

Elements of GASB Statement No. 68 included within the Statement of Net Position (Deficit) include an actuarially determined liability for PSERS of \$21,255,000 and deferred outflows of \$1,277,473 (primarily contributions by the District during 2014-2015 which were made after the measurement date of June 30, 2014 – an effective reduction of the liability) and deferred inflows of \$2,014,000 (investment return on pension assets over projected returns, to be recognized as a future reduction in pension expense – an effective increase in the liability until fully recognized).

- On a government-wide basis, including all governmental activities and business-type activities, the liabilities and deferred inflows of resources exceed the assets and deferred outflows of resources resulting in a deficit in total net position at the close of the 2014-2015 fiscal year of \$17,337,235. During the 2014-2015 fiscal year, the District had an increase in total net position of \$919,239. The net position of governmental activities increased by \$920,525 and net position of business-type activities decreased by \$1,286.
- The General Fund reported an increase in fund balance of \$1,523,805, bringing the cumulative balance to \$2,676,414 at the conclusion of the 2014-2015 fiscal year.
- At June 30, 2015, the General Fund fund balance includes \$2,586,414 committed for the payments of early retirement incentive benefits, compensated absences and employer retirement rate stabilization and unassigned amounts of \$90,000 or 0.50% of the \$17,959,158 2015-2016 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.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2015

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 (Deficit)* 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.

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.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2015

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.

Proprietary Funds

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. The Internal Service Fund is used to accumulate and allocate certain costs internally among the District's various functions. The District uses an Internal Service Fund to account for its participation in a consortium with other participating school districts and educational agencies to provide self-insurance programs for health and prescription coverage. Because an Internal Service Fund predominantly benefits governmental rather than business-type functions, it has been included within governmental 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 42 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, a schedule of the District's progress in funding its obligation to provide other post-employment benefits and schedules of net pension on liability and District pension contributions.

The required supplementary information can be found on Pages 43 through 46 of this report.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2015

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 2014-2015 fiscal year the District's the liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources by \$17,337,235. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2015 and 2014.

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
ASSETS						
Current assets	\$ 5,089,169	\$ 3,387,960	\$105,620	\$34,250	\$ 5,194,789	\$ 3,422,210
Noncurrent assets	<u>9,043,909</u>	<u>9,207,236</u>	<u>18,108</u>	<u>22,679</u>	<u>9,062,017</u>	<u>9,229,915</u>
Total assets	<u>14,133,078</u>	<u>12,595,196</u>	<u>123,728</u>	<u>56,929</u>	<u>14,256,806</u>	<u>12,652,125</u>
DEFERRED OUTFLOWS						
Deferred employer contributions – pensions	<u>1,277,473</u>	<u>1,096,350</u>	<u>-</u>	<u>-</u>	<u>1,277,473</u>	<u>1,096,350</u>
LIABILITIES						
Current liabilities	1,273,604	1,322,463	85,380	17,295	1,358,984	1,339,758
Noncurrent liabilities	<u>29,498,530</u>	<u>30,665,191</u>	<u>-</u>	<u>-</u>	<u>29,498,530</u>	<u>30,665,191</u>
Total liabilities	<u>30,772,134</u>	<u>31,987,654</u>	<u>85,380</u>	<u>17,295</u>	<u>30,857,514</u>	<u>32,004,949</u>
DEFERRED INFLOWS						
Deferred investment earnings – pensions	<u>2,014,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,014,000</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	1,990,986	2,281,627	18,108	22,679	2,009,094	2,304,306
Restricted	-	69,183	-	-	-	69,183
Unrestricted (deficit)	<u>(19,366,569)</u>	<u>(20,646,918)</u>	<u>20,240</u>	<u>16,955</u>	<u>(19,346,329)</u>	<u>(20,629,963)</u>
Total net position (deficit)	<u>\$(17,375,583)</u>	<u>\$(18,296,108)</u>	<u>\$ 38,348</u>	<u>\$39,634</u>	<u>\$(17,337,235)</u>	<u>\$(18,256,474)</u>

The District's total assets as of June 30, 2015 were \$14,256,806 of which \$3,617,560 or 25.37% consisted of cash and investments and \$9,062,017 or 63.56% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2015 were \$30,857,514 of which \$7,167,023 or 23.23% consisted of general obligation debt used to acquire and construct capital assets and \$21,255,000 or 68.88% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of \$19,346,329 at June 30, 2015. The District's unrestricted net position increased by \$1,283,634 during 2014-2015 primarily due to the results of current year operations.

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, 2015, the District's net investment in capital assets decreased by \$295,212 because the District's capital assets were being depreciated faster than the debt used to acquire the capital assets was repaid.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2015

The following table presents condensed information for the *Statement of Activities* of the District for 2015 and 2014:

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program revenues						
Charges for services	\$ 63,856	\$ 54,423	\$131,033	\$128,748	\$ 194,889	\$ 183,171
Operating grants and contributions	3,085,882	3,655,050	291,490	308,043	3,377,372	3,963,093
General revenues						
Property taxes levied for general purposes	11,316,845	10,813,438	-	-	11,316,845	10,813,438
Other taxes	125,170	110,912	-	-	125,170	110,912
Grants and entitlements not restricted to specific programs	3,401,403	3,401,776	-	-	3,401,403	3,401,776
Investment earnings	<u>7,791</u>	<u>7,806</u>	<u>37</u>	<u>-</u>	<u>7,828</u>	<u>7,806</u>
Total revenues	<u>18,000,947</u>	<u>18,043,405</u>	<u>422,560</u>	<u>436,791</u>	<u>18,423,507</u>	<u>18,480,196</u>
EXPENSES						
Instruction	11,700,191	12,209,480	-	-	11,700,191	12,209,480
Instructional student support services	722,925	737,388	-	-	722,925	737,388
Administrative and financial support services	1,948,001	1,670,199	-	-	1,948,001	1,670,199
Operation and maintenance of plant services	1,300,952	1,242,801	-	-	1,300,952	1,242,801
Pupil transportation	409,795	412,613	-	-	409,795	412,613
Student activities	393,911	343,272	-	-	393,911	343,272
Community services	42,840	51,269	-	-	42,840	51,269
Interest and amortization expense related to noncurrent liabilities	561,807	118,651	-	-	561,807	118,651
Food service	<u>-</u>	<u>-</u>	<u>423,846</u>	<u>432,467</u>	<u>423,846</u>	<u>432,467</u>
Total expenses	<u>17,080,422</u>	<u>16,785,673</u>	<u>423,846</u>	<u>432,467</u>	<u>17,504,268</u>	<u>17,218,140</u>
CHANGE IN NET POSITION (DEFICIT)						
	<u>\$ 920,525</u>	<u>\$ 1,257,732</u>	<u>\$ (1,286)</u>	<u>\$ 4,324</u>	<u>\$ 919,239</u>	<u>\$ 1,262,056</u>

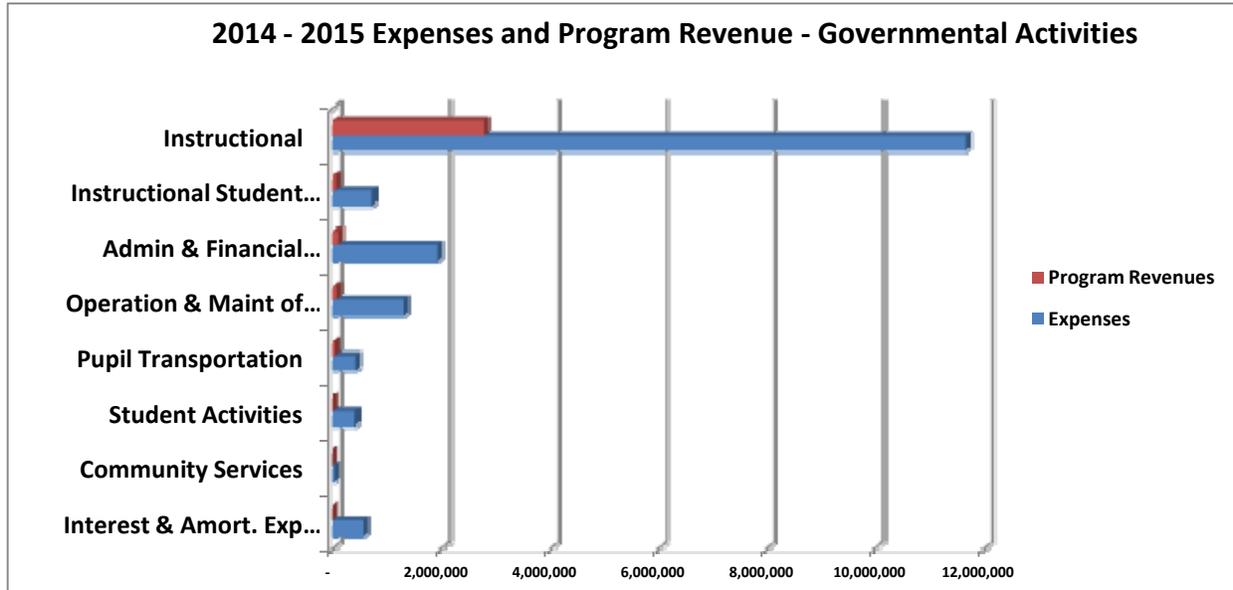
Overall, the District's financial position has been improving, but challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts have a potential to offset gains in future fiscal years. Management of the District continues to aggressively implement 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.

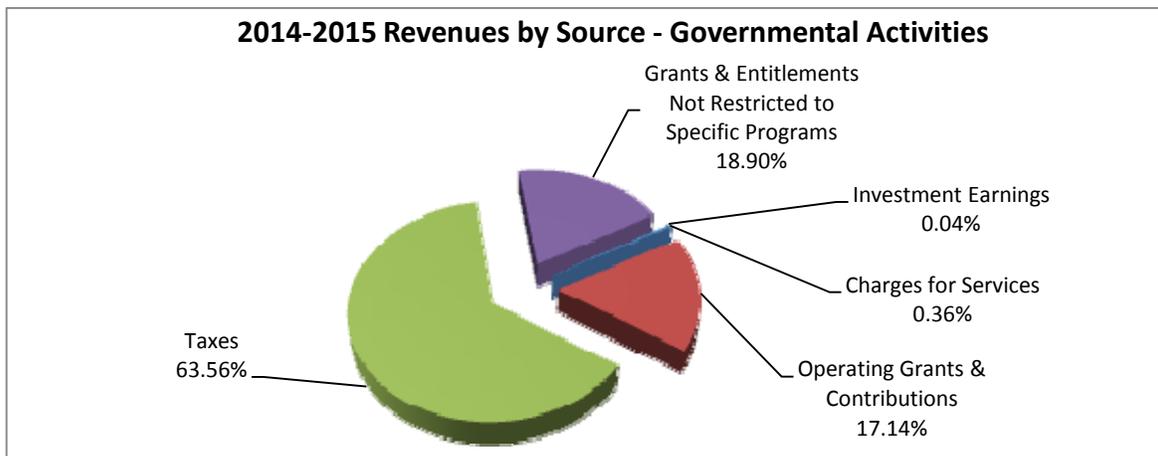
SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2015



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 and 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, 2015, the District's governmental funds reported a combined fund balance of \$2,790,514 which is an increase of \$1,568,722 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2015 and 2014 and the total 2015 change in governmental fund balances.

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>
General Fund	\$2,676,414	\$1,152,609	\$1,523,805
Capital Projects Fund	114,100	69,183	44,917
	<u>\$2,790,514</u>	<u>\$1,221,792</u>	<u>\$1,568,722</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

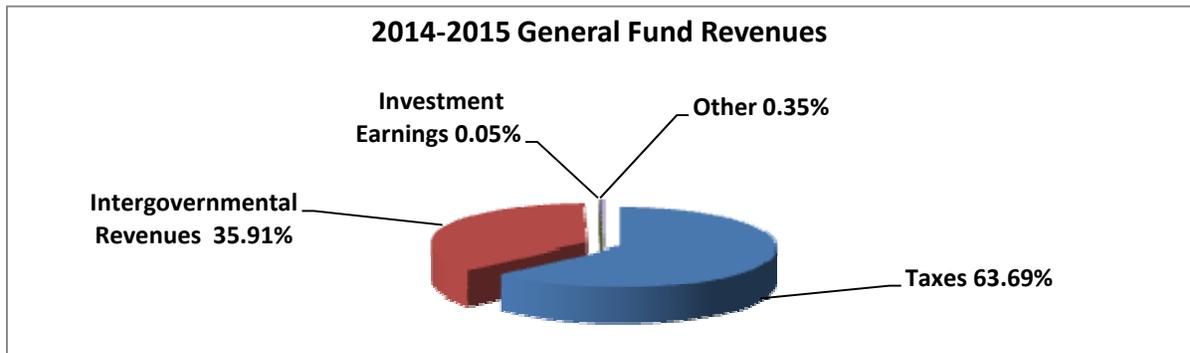
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2015

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2014-2015 fiscal year, the General Fund fund balance was \$2,676,414 representing an increase of \$1,523,805 in relation to the prior year. The increase 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 2014-2015 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 63.69% of General Fund revenues are derived from local taxes.



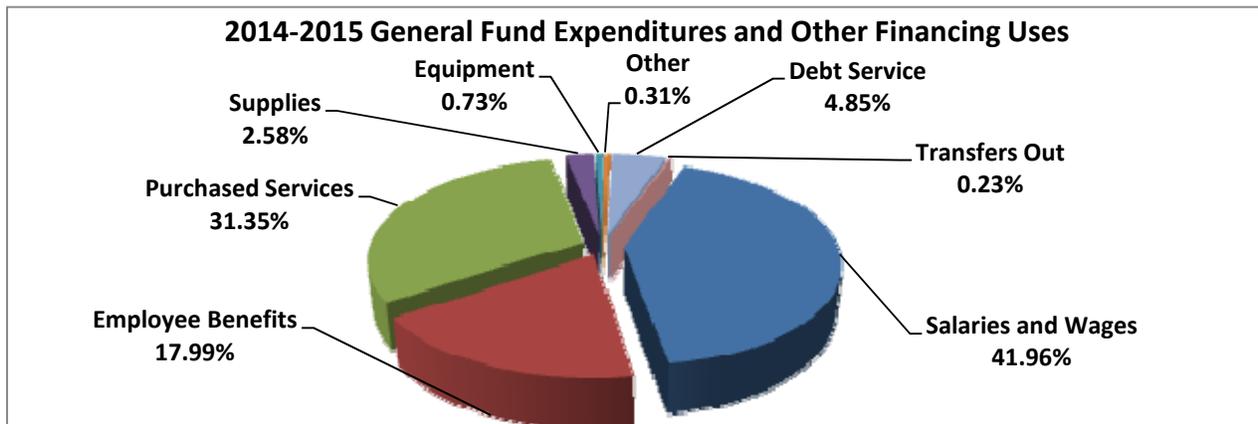
General Fund Revenues

	2015	2014	\$ Change	% Change
Taxes	\$11,507,034	\$10,827,726	\$ 679,308	6.27
Intergovernmental revenues	6,487,285	7,056,826	(569,541)	(8.07)
Investment earnings	7,771	7,779	(8)	(0.10)
Other	<u>63,855</u>	<u>54,423</u>	<u>9,432</u>	<u>17.33</u>
	<u>\$18,065,945</u>	<u>\$17,946,754</u>	<u>\$ 119,191</u>	<u>0.66</u>

Tax revenue increased by \$679,308 or 6.27% due to a real estate tax millage increase of 4.19% and an increase in delinquent real estate tax collections in 2014-2015.

Intergovernmental revenues decreased by \$569,541 or 8.07% in 2014-2015 when compared to 2013-2014, primarily due to a decrease in grant funding associated with 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, 2015

General Fund Expenditures and Other Financing Uses

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$ 6,941,561	\$ 7,751,603	\$(810,042)	(10.45)
Employee benefits	2,975,797	2,918,212	57,585	1.97
Purchased services	5,186,520	5,330,505	(143,985)	(2.70)
Supplies	427,332	440,850	(13,518)	(3.07)
Equipment	120,593	55,655	64,938	116.68
Other	50,518	87,014	(36,496)	(41.94)
Debt service	802,508	808,047	(5,539)	(0.69)
Transfers out	<u>37,311</u>	<u>-</u>	<u>37,311</u>	<u>100.00</u>
	<u>\$16,542,140</u>	<u>\$17,391,886</u>	<u>\$(849,746)</u>	<u>(4.89)</u>

Salaries and wages decreased by \$810,042 or 10.45% in 2014-2015 compared to 2013-2014 as a result of contracting out the business office function to a third party and a decrease in grant funding and associated costs with the 21st Century Community Learning Centers program.

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 2014-2015, the Capital Projects fund reported an increase in fund balance of \$44,917. The remaining fund balance of \$114,100 as of June 30, 2015 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 \$668,175 more than budgeted amounts and actual expenditures and other financing uses were \$855,630 less than budgeted amounts resulting in a net overall positive variance of \$1,523,805. Major budgetary highlights for 2014-2015 were as follows:

- Local sources revenues were \$357,976 more than budgeted amounts due to more than anticipated real estate, transfer and delinquent tax collections.
- Total instruction expenditures were \$446,302 less than budgeted amounts primarily within the regular programs function. Budgeted amounts for regular program expenditures were underspent primarily within employee benefit objects.
- Total support service expenditures were \$462,890 less than budgeted amounts primarily within the student transportation function. Expenditures under budgeted amounts were primarily due to less than anticipated costs for supplies and contracted services and savings from using in-house transportation in lieu of using contracted transportation providers.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2015

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

The net position of the business-type activities and food service fund decreased by \$1,286. As of June 30, 2015, the business-type activities and proprietary fund had net position of \$38,348.

CAPITAL ASSETS

The District's investment in capital asset for its governmental and business-type activities as of June 30, 2015 amounted to \$9,062,017 net of accumulated depreciation. This investment in capital assets includes 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 \$167,898 or 1.82%. Current year capital additions were \$296,948 and depreciation expense was \$464,846. Current year additions consisted of a network infrastructure upgrade.

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$7,167,023 consisting of \$5,160,000 in bonds payable, \$1,197,000 in notes payable and a \$810,023 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 increased by \$241,414 or 3.49% during the fiscal year. During 2014-2015, the District issued General Obligation Bonds, Series of 2014, which advance refunded, General Obligation Bond, Series of 2006. The District advance refunded the Series of 2006 to reduce total future debt service payments by approximately \$300,000.

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 \$7,167,023 is within the current debt limitation of the District which was \$40,250,729 as of June 30, 2015.

In 2014-2015, the District reported for the first time its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. As noted earlier, this reporting is being required by GASB Statement No. 68 and has been reported retroactively in the accompanying financial statements. The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$21,255,000 as of June 30, 2015. The District's net pension liability decreased by \$1,341,000 or 5.94% during the fiscal year.

Other noncurrent liabilities consist of the District's liabilities for compensated absences, early retirement incentive plans, and its net obligation for post-employment benefits, which totaled \$1,076,507 as of June 30, 2015. These liabilities decreased by \$67,075 or 5.87% 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:

- 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:

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2015

- ◆ 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, (2.30% for School District of Borough of Morrisville for 2015-2016) 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 2016-2017 is projected at 29.69%. Currently, the employer contribution rate for 2015-2016 is 25.84% which is an increase of 20.75% from the 2014-2015 employer contribution rate of 21.40%. The increase in the employer contribution rate in 2015-2016 is estimated to increase the District's retirement contribution by approximately \$280,000 of which the District's share is \$140,000.
- The District adopted a balanced 2015-2016 budget totaling \$17,959,158 and the real estate tax millage was increased by approximately 2.30%.

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 (DEFICIT)

June 30, 2015 with summarized comparative totals for 2014

	Governmental	Business-type	Totals	
	Activities	Activities	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 2,594,540	\$32,020	\$ 2,626,560	\$ 1,692,897
Investments	991,000	-	991,000	-
Taxes receivable	807,995	-	807,995	897,767
Due from other governments	352,188	9,350	361,538	592,562
Internal balances	(59,346)	59,346	-	-
Other receivables	21,751	-	21,751	54,197
Prepaid expenses	381,041	-	381,041	181,528
Inventories	-	4,904	4,904	3,259
Total current assets	5,089,169	105,620	5,194,789	3,422,210
NONCURRENT ASSETS				
Capital assets, net	9,043,909	18,108	9,062,017	9,229,915
Total assets	14,133,078	123,728	14,256,806	12,652,125
DEFERRED OUTFLOWS OF RESOURCES				
Deferred employer contributions - pensions	1,277,473	-	1,277,473	1,096,350
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	304,254	85,380	389,634	307,733
Accrued salaries, payroll withholdings and benefits	947,371	-	947,371	962,151
Other liabilities	12,591	-	12,591	10,805
Accrued interest payable	9,388	-	9,388	59,069
Total current liabilities	1,273,604	85,380	1,358,984	1,339,758
NONCURRENT LIABILITIES				
Due within one year	781,571	-	781,571	646,945
Due in more than one year	28,716,959	-	28,716,959	30,018,246
Total noncurrent liabilities	29,498,530	-	29,498,530	30,665,191
Total liabilities	30,772,134	85,380	30,857,514	32,004,949
DEFERRED INFLOWS OF RESOURCES				
Deferred investment earnings - pensions	2,014,000	-	2,014,000	-
NET POSITION (DEFICIT)				
Net investment in capital assets	1,990,986	18,108	2,009,094	2,304,306
Restricted	-	-	-	69,183
Unrestricted (deficit)	(19,366,569)	20,240	(19,346,329)	(20,629,963)
Total net position (deficit)	\$ (17,375,583)	\$38,348	\$ (17,337,235)	\$ (18,256,474)

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF ACTIVITIES

Year ended June 30, 2015 with summarized comparative totals for 2014

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position (Deficit)</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>2015</u>	<u>2014</u>
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 11,700,191	\$ 33,097	\$ 2,774,189	\$ -	\$ (8,892,905)	\$ -	\$ (8,892,905)	\$ (8,812,810)
Instructional student support services	722,925	-	72,637	-	(650,288)	-	(650,288)	(670,726)
Administrative and financial support services	1,948,001	-	112,036	-	(1,835,965)	-	(1,835,965)	(1,571,127)
Operation and maintenance of plant services	1,300,952	28,531	51,320	-	(1,221,101)	-	(1,221,101)	(1,168,979)
Pupil transportation	409,795	-	53,204	-	(356,591)	-	(356,591)	(362,203)
Student activities	393,911	2,228	14,383	-	(377,300)	-	(377,300)	(328,557)
Community services	42,840	-	-	-	(42,840)	-	(42,840)	(51,269)
Interest and amortization expense related to noncurrent liabilities	561,807	-	8,113	-	(553,694)	-	(553,694)	(110,529)
Total governmental activities	<u>17,080,422</u>	<u>63,856</u>	<u>3,085,882</u>	<u>-</u>	<u>(13,930,684)</u>	<u>-</u>	<u>(13,930,684)</u>	<u>(13,076,200)</u>
BUSINESS-TYPE ACTIVITIES								
Food service	423,846	131,033	291,490	-	-	(1,323)	(1,323)	4,324
Total primary government	<u>\$ 17,504,268</u>	<u>\$ 194,889</u>	<u>\$ 3,377,372</u>	<u>\$ -</u>	<u>(13,930,684)</u>	<u>(1,323)</u>	<u>(13,932,007)</u>	<u>(13,071,876)</u>
GENERAL REVENUES								
Property taxes levied for general purposes					11,316,845	-	11,316,845	10,813,438
Other taxes					125,170	-	125,170	110,912
Grants and entitlements not restricted to specific programs					3,401,403	-	3,401,403	3,401,776
Investment earnings					7,791	37	7,828	7,806
Total general revenues					<u>14,851,209</u>	<u>37</u>	<u>14,851,246</u>	<u>14,333,932</u>
CHANGE IN NET POSITION (DEFICIT)					920,525	(1,286)	919,239	1,262,056
NET POSITION (DEFICIT)								
Beginning of year					(18,296,108)	39,634	(18,256,474)	(19,518,530)
End of year					<u>\$ (17,375,583)</u>	<u>\$ 38,348</u>	<u>\$ (17,337,235)</u>	<u>\$ (18,256,474)</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015 with summarized comparative totals for 2014

	<u>Major Funds</u>		<u>Totals</u>	
	<u>General</u>	<u>Capital</u>		
	<u>Fund</u>	<u>Projects</u>	<u>2015</u>	<u>2014</u>
ASSETS				
Cash	\$ 2,480,440	\$ 114,100	\$ 2,594,540	\$ 1,676,676
Investments	991,000	-	991,000	-
Taxes receivable	807,995	-	807,995	897,767
Due from other governments	352,188	-	352,188	577,792
Other receivables	21,751	-	21,751	54,197
Total assets	<u>\$ 4,653,374</u>	<u>\$ 114,100</u>	<u>\$ 4,767,474</u>	<u>\$ 3,206,432</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 304,254	\$ -	\$ 304,254	\$ 290,438
Accrued salaries, payroll withholdings and benefits	887,942	-	887,942	905,551
Due to other funds	59,346	-	59,346	-
Other liabilities	12,591	-	12,591	10,805
Total liabilities	<u>1,264,133</u>	<u>-</u>	<u>1,264,133</u>	<u>1,206,794</u>
DEFERRED INFLOW OF RESOURCES				
Unavailable revenues - property taxes	712,827	-	712,827	777,846
FUND BALANCES				
Restricted for				
Capital projects	-	114,100	114,100	69,183
Committed to				
Early retirement incentive	262,997	-	262,997	348,198
Compensated absences	395,577	-	395,577	377,971
Employer retirement and healthcare rate stabilization	1,927,840	-	1,927,840	339,440
Unassigned	90,000	-	90,000	87,000
Total fund balances	<u>2,676,414</u>	<u>114,100</u>	<u>2,790,514</u>	<u>1,221,792</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,653,374</u>	<u>\$ 114,100</u>	<u>\$ 4,767,474</u>	<u>\$ 3,206,432</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2015

TOTAL GOVERNMENTAL FUND BALANCES	\$ 2,790,514
<p>Amounts reported for governmental activities in the statement of net position (deficit) are different because:</p>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	9,043,909
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.	712,827
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.	(736,527)
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(29,498,530)
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.	(9,388)
The Internal Service Fund is used by management to charge the cost of health and prescription insurance premiums and claims to the General Fund. The assets and liabilities of the Internal Service Fund are included in the governmental activities on the government-wide statement of net position (deficit).	<u>321,612</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (17,375,583)</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

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

Year ended June 30, 2015 with summarized comparative totals for 2014

	Major Funds		Totals	
	General	Capital	2015	2014
	Fund	Projects Fund		
REVENUES				
Local sources	\$ 11,578,661	\$ 20	\$ 11,578,681	\$ 10,889,955
State sources	5,504,383	-	5,504,383	5,390,240
Federal sources	982,901	-	982,901	1,666,586
Total revenues	<u>18,065,945</u>	<u>20</u>	<u>18,065,965</u>	<u>17,946,781</u>
EXPENDITURES				
Current				
Instruction	11,211,780	-	11,211,780	12,154,208
Support services	4,068,787	280,519	4,349,306	4,007,548
Operation of noninstructional services	420,529	-	420,529	386,711
Facilities acquisition, construction and improvement services	-	145,554	145,554	96,179
Debt service	802,508	-	802,508	808,047
Total expenditures	<u>16,503,604</u>	<u>426,073</u>	<u>16,929,677</u>	<u>17,452,693</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,562,341</u>	<u>(426,053)</u>	<u>1,136,288</u>	<u>494,088</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	(1,225)	-	(1,225)	(35,372)
Issuance of debt - refunding	-	5,505,000	5,505,000	-
Payment of debt - refunding	-	(5,100,393)	(5,100,393)	-
Bond premiums	-	29,052	29,052	-
Transfers in	-	37,311	37,311	-
Transfers out	(37,311)	-	(37,311)	-
Total other financing sources (uses)	<u>(38,536)</u>	<u>470,970</u>	<u>432,434</u>	<u>(35,372)</u>
NET CHANGE IN FUND BALANCES	1,523,805	44,917	1,568,722	458,716
FUND BALANCES				
Beginning of year	<u>1,152,609</u>	<u>69,183</u>	<u>1,221,792</u>	<u>763,076</u>
End of year	<u>\$ 2,676,414</u>	<u>\$ 114,100</u>	<u>\$ 2,790,514</u>	<u>\$ 1,221,792</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 (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2015

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,568,722

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	\$ 296,948	
Depreciation expense	<u>(460,275)</u>	(163,327)

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 June 30, 2014	(777,846)	
Deferred inflows of resources June 30, 2015	<u>712,827</u>	(65,019)

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 and notes payable	519,000	
Issuance of debt - refunding	(5,505,000)	
Repayment of bonds payable - refunding	4,700,000	
Proceeds from bond premiums	(29,052)	
Amortization of bond premiums	<u>73,638</u>	(241,414)

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 the governmental funds.

Current year change in accrued interest payable	49,681	
Current year change in early retirement incentive	85,201	
Current year change in compensated absences	(17,606)	
Current year change in net post-employment benefit (OPEB) obligation	(520)	
Current year change in net pension liability and deferred inflows and outflows	<u>(491,877)</u>	(375,121)

The Internal Service Fund is used by management to charge the cost of health and prescription insurance premiums and claims to the General Fund. The change in net position of the Internal Service Fund is included in the governmental activities on the government-wide statement of net position (deficit).

196,684

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES **\$ 920,525**

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2015 with summarized comparative totals for 2014

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>	<u>Totals</u>	
			<u>2015</u>	<u>2014</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 32,020	\$ -	\$ 32,020	\$ 16,221
Due from other governments	9,350	-	9,350	14,770
Due from other funds	59,346	-	59,346	-
Prepaid expenses	-	381,041	381,041	181,528
Inventories	4,904	-	4,904	3,259
Total current assets	<u>105,620</u>	<u>381,041</u>	<u>486,661</u>	<u>215,778</u>
NONCURRENT ASSETS				
Capital assets, net	18,108	-	18,108	22,679
Total assets	<u>123,728</u>	<u>381,041</u>	<u>504,769</u>	<u>238,457</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	85,380	-	85,380	17,295
Insurance claims payable	-	59,429	59,429	56,600
Total liabilities	<u>85,380</u>	<u>59,429</u>	<u>144,809</u>	<u>73,895</u>
NET POSITION				
Net investment in capital assets	18,108	-	18,108	22,679
Unrestricted	20,240	321,612	341,852	141,883
Total net position	<u>\$ 38,348</u>	<u>\$ 321,612</u>	<u>\$ 359,960</u>	<u>\$ 164,562</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

Year ended June 30, 2015 with summarized comparative totals for 2014

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2015</u>	<u>2014</u>
	<u>Fund</u>	<u>Fund</u>		
OPERATING REVENUES				
Charges for services	\$ 131,033	\$ 1,157,740	\$ 1,288,773	\$ 1,259,371
OPERATING EXPENSES				
Salaries	184,325	-	184,325	177,719
Employee benefits	40,963	855,850	896,813	940,241
Purchased services	36,561	105,206	141,767	140,814
Supplies	157,426	-	157,426	173,851
Depreciation	4,571	-	4,571	5,537
Total operating expenses	<u>423,846</u>	<u>961,056</u>	<u>1,384,902</u>	<u>1,438,162</u>
Operating income (loss)	<u>(292,813)</u>	<u>196,684</u>	<u>(96,129)</u>	<u>(178,791)</u>
NONOPERATING REVENUES				
Earnings on investments	37	-	37	-
State sources	12,321	-	12,321	12,666
Federal sources	279,169	-	279,169	295,377
Total nonoperating revenues	<u>291,527</u>	<u>-</u>	<u>291,527</u>	<u>308,043</u>
CHANGE IN NET POSITION	<u>(1,286)</u>	<u>196,684</u>	<u>195,398</u>	<u>129,252</u>
NET POSITION				
Beginning of year	<u>39,634</u>	<u>124,928</u>	<u>164,562</u>	<u>35,310</u>
End of year	<u>\$ 38,348</u>	<u>\$ 321,612</u>	<u>\$ 359,960</u>	<u>\$ 164,562</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2015 with summarized comparative totals for 2014

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2015</u>	<u>2014</u>
	<u>Fund</u>	<u>Fund</u>		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 131,033	\$ -	\$ 131,033	\$ 128,748
Cash received for assessments made to other funds	-	958,227	958,227	1,130,623
Cash payments for operating expenses	(164,143)	(105,206)	(269,349)	(540,905)
Cash payments for insurance claims	<u>(225,288)</u>	<u>(853,021)</u>	<u>(1,078,309)</u>	<u>(1,026,568)</u>
Net cash used for operating activities	<u>(258,398)</u>	<u>-</u>	<u>(258,398)</u>	<u>(308,102)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State sources	12,377	-	12,377	12,712
Federal sources	<u>261,783</u>	<u>-</u>	<u>261,783</u>	<u>270,286</u>
Net cash provided by noncapital financing activities	<u>274,160</u>	<u>-</u>	<u>274,160</u>	<u>282,998</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	-	-	(3,180)
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	<u>37</u>	<u>-</u>	<u>37</u>	<u>-</u>
Net increase (decrease) in cash	15,799	-	15,799	(28,284)
CASH				
Beginning of year	<u>16,221</u>	<u>-</u>	<u>16,221</u>	<u>44,505</u>
Ending of year	<u>\$ 32,020</u>	<u>\$ -</u>	<u>\$ 32,020</u>	<u>\$ 16,221</u>
Reconciliation of operating loss to net cash used for operating activities:				
Operating income (loss)	\$ (292,813)	\$ 196,684	\$ (96,129)	\$ (178,791)
Adjustments to reconcile operating income (loss) to net cash used for operating activities				
Depreciation	4,571	-	4,571	5,537
Donated commodities used	22,750	-	22,750	23,509
(Increase) decrease in				
Prepaid expenses	-	(199,513)	(199,513)	(181,528)
Due from other funds	(59,346)	-	(59,346)	-
Inventories	(1,645)	-	(1,645)	8,204
Increase (decrease) in				
Accounts payable	68,085	-	68,085	(37,492)
Insurance claims payable	-	2,829	2,829	56,600
Due to other funds	-	-	-	(4,141)
Net cash used for operating activities	<u>\$ (258,398)</u>	<u>\$ -</u>	<u>\$ (258,398)</u>	<u>\$ (308,102)</u>
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity				
USDA donated commodities	<u>\$ 22,750</u>	<u>\$ -</u>	<u>\$ 22,750</u>	<u>\$ 23,509</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2015

	Private- Purpose Trust	<u>Agency</u>
ASSETS		
Cash	<u>\$29,883</u>	<u>\$31,404</u>
 LIABILITIES		
Due to student groups	<u>-</u>	<u>\$31,404</u>
 NET POSITION		
Net assets held in trust for scholarships	<u>\$29,883</u>	

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND

Year ended June 30, 2015 with summarized comparative totals for 2014

	Private-Purpose Trust Fund	
	<u>2015</u>	<u>2014</u>
ADDITIONS		
Local contributions	\$ 3,004	\$ 2,021
DEDUCTIONS		
Scholarships awarded and fees paid	<u>1,062</u>	<u>3,100</u>
CHANGE IN NET POSITION	1,942	(1,079)
NET POSITION		
Beginning of year	<u>27,941</u>	<u>29,020</u>
End of year	<u>\$29,883</u>	<u>\$27,941</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(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 (deficit) 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 (deficit) 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 (deficit) 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, 2015

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, 2015

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 funds:

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

The Internal Service Fund is used to account for the District's participation in a consortium with other participating school districts and educational agencies to provide self-insurance programs for health and prescription coverage.

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.

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, 2015

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 2014-2015 was 187.6666 mills (\$187.67 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.

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, 2015.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 noncurrent 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:

Nonspendable

Nonspendable 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).

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.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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, 2014, 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, 2014, the District adopted the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27", GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", GASB Statement No. 70, "Accounting and Financial Reporting for Non-Exchange Financial Guarantees" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68".

GASB Statement No. 68 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. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures and identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB Statement No. 71 is required to be applied simultaneously with the provisions of GASB Statement No. 68 and addresses an issue regarding application of the transitions provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

GASB Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The implementation of GASB Statement No. 69 had no impact on the financial statements of the District.

GASB Statement No. 70 provides accounting and financial reporting guidance to a governmental financial reporting entity that offers nonexchange financial guarantees and for governmental entities that receive guarantees on their obligations. The implementation of GASB Statement No. 70 had no impact on the financial statements of the District.

New Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application* will be effective for the District for the year ended June 30, 2016. GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements.

(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.

(3) DEPOSITS AND INVESTMENTS

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.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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, 2015, the carrying amount of the District's deposits was \$2,687,847 and the bank balance was \$2,873,262. 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, \$272,603 was covered by federal depository insurance, and \$122,325 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 Local Government Investment Trust ("**PLGIT**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to independent annual audit. As of June 30, 2015, PLGIT was rated as AAA by a nationally recognized statistical rating agency.

Investments

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

At June 30, 2015, the District had the following investments:

Certificates due within one year –	
Collateral held by pledging bank's agent in the District's name	<u>\$991,000</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral security that are in the possession of an outside party. The District had no investments subject to custodial credit risk as of June 30, 2015.

Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates. The District had no investments subject to interest rate risk as of June 30, 2015.

Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal and state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Buildings and improvements	\$17,481,832	\$ -	\$ -	\$ 17,481,832
Land improvements	860,962	-	-	860,962
Furniture and equipment	<u>509,209</u>	<u>296,948</u>	<u>-</u>	<u>806,157</u>
Total capital assets being depreciated	<u>18,852,003</u>	<u>296,948</u>	<u>-</u>	<u>19,148,951</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Less accumulated depreciation for:			
Buildings and improvements	(8,692,299)	(368,825)	(9,061,124)
Land improvements	(631,747)	(20,036)	(651,783)
Furniture and equipment	<u>(320,721)</u>	<u>(71,414)</u>	<u>(392,135)</u>
Total accumulated depreciation	<u>(9,644,767)</u>	<u>(460,275)</u>	<u>(10,105,042)</u>
Total capital assets being depreciated, net			
	<u>9,207,236</u>	<u>(163,327)</u>	<u>9,043,909</u>
Governmental activities, net			
	<u>\$ 9,207,236</u>	<u>\$(163,327)</u>	<u>\$ 9,043,909</u>
Business-type activities			
Machinery and equipment	\$ 106,551	\$ -	\$ 106,551
Less accumulated depreciation	<u>(83,872)</u>	<u>(4,571)</u>	<u>(88,443)</u>
Business-type activities, net	<u>\$ 22,679</u>	<u>\$ (4,571)</u>	<u>\$ 18,108</u>

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

Governmental activities		
Instruction		\$338,397
Instructional student support services		20,694
Administrative and financial support services		52,173
Operation and maintenance of plant services		37,611
Student activities		<u>11,400</u>
Total depreciation expense – governmental activities		<u>\$460,275</u>
Business-type activities		
Food service		<u>\$ 4,571</u>

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2015 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Food Service Fund	<u>\$59,346</u>	General Fund	<u>\$59,346</u>

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

A summary of interfund transfers for the year ended June 30, 2015 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	<u>\$37,311</u>	General Fund	<u>\$37,311</u>

Transfers represent monies to subsidize costs associated with capital projects.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2015:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$ 4,700,000	\$5,505,000	\$5,045,000	\$ 5,160,000	\$425,000
Notes payable	1,371,000	-	174,000	1,197,000	180,000
Bond premium	<u>854,609</u>	<u>29,052</u>	<u>73,638</u>	<u>810,023</u>	<u>73,638</u>
Total general obligation debt	<u>6,925,609</u>	<u>5,534,052</u>	<u>5,292,638</u>	<u>7,167,023</u>	<u>678,638</u>
Other noncurrent liabilities					
Early retirement incentive	348,198	-	85,201	262,997	102,933
Compensated absences	377,971	93,936	76,330	395,577	-
OPEB obligation	417,413	134,216	133,696	417,933	-
Net pension liability (See Note 8)	<u>22,596,000</u>	<u>-</u>	<u>1,341,000</u>	<u>21,255,000</u>	<u>-</u>
Total other noncurrent liabilities	<u>23,739,582</u>	<u>228,152</u>	<u>1,636,227</u>	<u>22,331,507</u>	<u>102,933</u>
Total noncurrent liabilities	<u>\$30,665,191</u>	<u>\$5,762,204</u>	<u>\$6,928,865</u>	<u>\$29,498,530</u>	<u>\$781,571</u>

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, 2015 consisted of the following:

<u>Description</u>	<u>Interest</u> <u>Rate(s)</u>	<u>Issue</u> <u>Amount</u>	<u>Final</u> <u>Maturity</u>	<u>Principal</u> <u>Outstanding</u>
General obligation bonds				
Series of 2014	2.00% – 2.75%	\$5,505,000	12/01/2025	<u>\$5,160,000</u>
General obligation notes				
Series of 2001	4.084%	\$3,000,000	09/25/2021	935,000
Series of 2011	1.585%	\$446,000	09/25/2018	<u>262,000</u>
Total general obligation notes				<u>1,197,000</u>
Total general obligation debt				<u>\$6,357,000</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

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June 30, 2015

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 605,000	\$148,879	\$ 753,879
2017	621,000	134,992	755,992
2018	638,000	120,704	758,704
2019	655,000	105,979	760,979
2020	604,000	90,817	694,817
2021-2025	2,714,000	238,367	2,952,367
2026	<u>520,000</u>	<u>7,150</u>	<u>527,150</u>
	<u>\$6,357,000</u>	<u>\$846,888</u>	<u>\$7,203,888</u>

General Obligation Bonds, Series of 2014

On November 4, 2014, the District issued general obligation bonds, Series of 2014, in the amount of \$5,505,000. The bonds are payable in periodic installments through December 1, 2025 and bear interest payable semi-annually at rates ranging from 2.00% to 2.75%. The proceeds from the issuance of the bonds were used to: (a) advance refund all the District's outstanding general obligation bonds, Series of 2006, currently outstanding in the aggregate principal amount of \$4,700,000; (b) fund all or a portion of the costs and expenses of planning, designing, acquiring, constructing and installation of a certain electronic communication hardware and networking capital project; and (c) to pay for the cost of issuance. The District advance refunded general obligation bonds, Series of 2006, to reduce future debt service payments by \$295,698.

In-Substance Defeasance

The District has partially defeased general obligation bonds, Series of 2006, by creating separate irrevocable trusts 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, 2015, \$20,840,000 of bonds outstanding are considered defeased. The District has authorized to call the remaining defeased bonds for redemption on October 1, 2016.

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, 2015 was an asset of \$118,756. The value of the swap agreement relative to the General Obligation Notes is not reflected on the District's statement of net position (deficit).

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.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

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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, 2015, 9 retirees received benefits under the District's ERIP plans and the District paid \$102,539 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, 2015, 2014 and 2013 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$134,216	99.61%	\$417,933
2014	\$281,479	57.67%	\$417,413
2013	\$289,086	82.33%	\$298,253

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	\$ 210,515
Interest on net OPEB obligation	18,784
Adjustment to annual required contribution	<u>(95,083)</u>
Annual OPEB cost (expense)	134,216
Contributions made	<u>(133,696)</u>
Increase in net OPEB obligation	520
Net OPEB obligation – beginning of year	<u>417,413</u>
Net OPEB obligation – end of year	<u>\$ 417,933</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Funded Status and Funding Progress

As of March 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$814,631, all of which was unfunded. The covered payroll (annual payroll of active employees) was \$5,900,294, and the ratio of the UAAL to the covered payroll was 13.81%.

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 6.50%, 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, 5-year open period.

(7) LEASES

Lessee

The District leases office equipment under non-cancelable leases expiring at various dates through June 2019. Rent expense for the office equipment was \$26,708 for 2014-2015.

Future minimum lease payments under these agreements are \$23,250 per year from 2016 to 2018 and \$22,068 for 2019.

Lessor

The District leases a building to a private entity under a non-cancelable lease agreement that expires on June 15, 2016, 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 \$20,841 for 2016.

(8) PENSION PLAN

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees Retirement System ("**PSERS**") and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the system include all full-time public employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

Member Contributions

Active members who joined the system prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the system on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the system after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

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

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Employer Contributions

The school district's contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$1,257,710 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability of \$21,255,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2013 to June 30, 2014. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was 0.0537 percent, which was a decrease of 0.0015 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$491,877. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$1,519,000
Changes in proportions	-	495,000
Difference between employer contributions and proportionate share of total contributions	26,350	-
Contributions subsequent to the measurement date	<u>1,251,123</u>	<u>-</u>
	<u>\$1,277,473</u>	<u>\$2,014,000</u>

\$1,251,123 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ (492,413)
2017	(492,413)
2018	(492,412)
2019	(492,412)
2020	<u>(18,000)</u>
	<u>\$ (1,987,650)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the system's total pension liability as the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50% includes inflation at 3.00%

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real growth wage of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ended June 30, 2010. The recommended assumption changes based on this experience study were adopted by the board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	19 %	5.0%
Private markets (equity)	21 %	6.5%
Private real estate	13 %	4.7%
Global fixed income	8 %	2.0%
U.S. long-term treasuries	3 %	1.4%
TIPS	12 %	1.2%
High yield bonds	6 %	1.7%
Cash	3 %	0.9%
Absolute return	10 %	4.8%
Risk parity	5 %	3.9%
MLPs/Infrastructure	3 %	5.3%
Commodities	6 %	3.3%
Financing (LIBOR)	<u>(9)%</u>	1.1%
	<u>100 %</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	<u>1% Decrease</u> <u>6.50%</u>	<u>Current Discount Rate</u> <u>7.50%</u>	<u>1% Increase</u> <u>8.50%</u>
District's proportionate share of the net pension liability	\$26,512,000	\$21,255,000	\$16,766,000

Pension Plan Fiduciary Net Position

Detailed information about the PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the system's website at www.psers.state.pa.us.

(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 2014-2015 was \$368,866.

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 2014-2015 was \$58,729.

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

Year ending June 30,

2016	\$ 58,759
2017	58,717
2018	58,716
2019	<u>58,450</u>
	<u>\$234,642</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.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

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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.

Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any of these matters.

(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. For insured programs, there were no significant reductions in insurance coverages during 2014-2015. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District participates in a consortium with other participating school districts and educational agencies from Montgomery and Bucks County to provide self-insurance programs for health and prescription insurance coverage and related expenses for eligible employees, spouses and dependents. Accordingly benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. Since the District has not transferred its risk to the other participants in the consortium, GASB requires that it recognize and measure its claims, liabilities and related expenses. The District accounts for its participation in the consortium in an Internal Service Fund in the accompanying financial statements. The following table presents the components of the self-insurance claims surplus (liability) and the related changes claims surplus (liability) for the year ended June 30, 2015:

Insurance claims surplus (liability) – beginning of year	\$ 124,928
Insurance claims and fees paid	1,157,740
Current year insurance claims, fees and changes in estimates	<u>(961,056)</u>
Insurance claims surplus (liability) – end of year	<u>\$ 321,612</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

(12) PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 68, the District made a prior period adjustment to record its net pension liability and deferred outflows of resources related to employer pension contributions. This prior period adjustment and its effect on net position at July 1, 2013 are summarized in the following table:

Net position at July 1, 2013, as previously reported	\$ 1,981,120
Prior period adjustment to	
Record net pension liability	(22,596,000)
Record deferred outflows of resources	<u>1,096,350</u>
Net position at July 1, 2013, as restated	<u><u>\$(19,518,530)</u></u>

(13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 19, 2016, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2015 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, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 11,220,685	\$ 11,220,685	\$ 11,578,661	\$ 357,976
State sources	5,235,261	5,235,261	5,504,383	269,122
Federal sources	941,824	941,824	982,901	41,077
Total revenues	<u>17,397,770</u>	<u>17,397,770</u>	<u>18,065,945</u>	<u>668,175</u>
EXPENDITURES				
Instruction				
Regular programs	6,643,546	6,654,478	6,198,971	455,507
Special programs	4,211,357	4,211,357	4,214,348	(2,991)
Vocational programs	496,820	496,820	494,765	2,055
Other instructional programs	7,467	7,467	12,457	(4,990)
Pre-kindergarten	287,960	287,960	291,239	(3,279)
Total instruction	<u>11,647,150</u>	<u>11,658,082</u>	<u>11,211,780</u>	<u>446,302</u>
Support services				
Pupil support services	583,086	583,001	522,461	60,540
Instructional staff services	17,550	6,775	29	6,746
Administrative services	1,078,258	1,078,258	1,009,694	68,564
Pupil health	197,850	197,850	151,513	46,337
Business services	421,653	421,582	401,194	20,388
Operation and maintenance of plant services	1,276,042	1,276,042	1,246,134	29,908
Student transportation services	596,631	596,631	408,433	188,198
Support services - central	363,539	363,538	317,690	45,848
Other support services	8,000	8,000	11,639	(3,639)
Total support services	<u>4,542,609</u>	<u>4,531,677</u>	<u>4,068,787</u>	<u>462,890</u>
Operation of noninstructional services				
Student activities	328,730	328,730	377,689	(48,959)
Community services	35,000	35,000	42,840	(7,840)
Total operation of noninstructional services	<u>363,730</u>	<u>363,730</u>	<u>420,529</u>	<u>(56,799)</u>
Debt service	<u>844,281</u>	<u>844,281</u>	<u>802,508</u>	<u>41,773</u>
Total expenditures	<u>17,397,770</u>	<u>17,397,770</u>	<u>16,503,604</u>	<u>894,166</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>1,562,341</u>	<u>1,562,341</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	-	-	(1,225)	(1,225)
Transfers out	-	-	(37,311)	(37,311)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(38,536)</u>	<u>(38,536)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>1,523,805</u>	<u>\$ 1,523,805</u>
FUND BALANCE				
Beginning of year			1,152,609	
End of year			<u>\$ 2,676,414</u>	

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2015

<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>
03/01/2014	\$ -	\$ 814,631	\$ 814,631	0.00%	\$5,900,294	13.81%
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%

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year ended June 30, 2015

District's proportion of the net pension liability (asset)	0.0537%
District's proportionate share of the net pension liability (asset)	\$21,255,000
District's covered-employee payroll	\$6,851,026
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	310%
Plan fiduciary net position as a percentage of the total pension liability	57%

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS

Year ended June 30, 2015

Contractually required contribution	\$1,070,000
Contributions in relation to the contractually required contribution	<u>1,096,350</u>
Contribution deficiency (excess)	(26,350)
District's covered-employee payroll	\$6,851,026
Contributions as a percentage of covered-employee payroll	16%

SINGLE AUDIT

SCHOOL DISTRICT BOROUGH OF MORRISVILLE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2015

<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>Grand Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2014</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2015</u>
<u>U.S. Department of Education</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
Title I - Improving Basic Programs	I	84.010	013-140267	07/01/13 - 09/30/14	\$ 156,419	\$ 30,865	\$ 30,865	\$ -	\$ -	\$ -
Title I - Improving Basic Programs	I	84.010	013-150267	07/01/14 - 09/30/15	148,760	124,867	-	148,760	148,760	23,893
Title II - Improving Teacher Quality	I	84.367	020-140267	07/01/13 - 09/30/14	45,542	9,088	9,088	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-150267	07/01/14 - 09/30/15	45,347	18,911	-	18,911	18,911	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-140267	07/01/13 - 09/30/14	15,752	4,726	4,726	-	-	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-150267	07/01/14 - 09/30/15	15,968	6,653	-	6,653	6,653	-
21 st Century Community Learning Centers	I	84.287	#41-00058698	10/01/12 - 09/30/13	499,199	43,923	43,923	-	-	-
21 st Century Community Learning Centers	I	84.287	#41-00058698	10/01/13 - 09/30/14	499,199	188,547	91,658	96,889	96,889	-
21 st Century Community Learning Centers	I	84.287	#41-00060863	10/01/13 - 09/30/14	499,978	232,080	156,021	76,059	76,059	-
21 st Century Community Learning Centers	I	84.287	#41-00060863	10/01/14 - 09/30/15	499,978	363,837	-	439,998	439,998	76,161
<u>Passed-Through the Bucks County I.U.</u>										
I.D.E.A. - Part B - Section 611	I	84.027	062-140022	07/01/13 - 06/30/14	180,405	32,979	32,979	-	-	-
I.D.E.A. - Part B - Section 611	I	84.027	062-150022	07/01/14 - 06/30/15	189,006	189,006	-	189,006	189,006	-
I.D.E.A. - Part B - Section 619	I	84.173	131-130022	07/01/13 - 06/30/14	1,412	1,412	1,412	-	-	-
I.D.E.A. - Part B - Section 619	I	84.173	131-140022	07/01/14 - 06/30/15	507	507	-	507	507	-
Total U.S. Department of Education						<u>1,247,401</u>	<u>370,672</u>	<u>976,783</u>	<u>976,783</u>	<u>100,054</u>

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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>Grand Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2014</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2015</u>
<u>U.S. Department of Agriculture</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
National School Lunch Program	I	10.555	N/A	07/01/13 - 06/30/14	N/A	7,860	7,860	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/14 - 06/30/15	N/A	210,109	-	217,506	217,506	7,397
Breakfast Program	I	10.553	N/A	07/01/13 - 06/30/14	N/A	1,734	1,734	-	-	-
Breakfast Program	I	10.553	N/A	07/01/14 - 06/30/15	N/A	25,988	-	27,489	27,489	1,501
Summer Food Program	I	10.559	N/A	07/01/14 - 06/30/15	N/A	11,424	-	11,424	11,424	-
Fresh Fruit and Vegetable Program	I	10.582	N/A	07/01/13 - 06/30/14	N/A	4,669	4,669	-	-	-
State Matching Share	S	N/A	N/A	07/01/13 - 06/30/14	N/A	507	507	-	-	-
State Matching Share	S	N/A	N/A	07/01/14 - 06/30/15	N/A	11,870	-	12,321	12,321	451
<u>Passed-Through the Pennsylvania Department of Agriculture</u>										
National School Lunch Program	I	10.555	N/A	07/01/14 - 06/30/15	N/A	<u>22,750</u>	<u>-</u>	<u>22,750</u>	<u>22,750</u>	<u>-</u>
Total U.S. Department of Agriculture						<u>296,911</u>	<u>14,770</u>	<u>291,490</u>	<u>291,490</u>	<u>9,349</u>
Total Federal Awards and Certain State Grants						<u>\$ 1,544,312</u>	<u>\$ 385,442</u>	<u>\$ 1,268,273</u>	<u>\$ 1,268,273</u>	<u>\$ 109,403</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, 2015

(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 2014-2015 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, 2015 was \$6,118.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2015

There were no audit findings for the year ended June 30, 2014.



**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, 2015, 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 19, 2016.

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 Borough of Morrisville's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (**See Finding 2015-01**).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of 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*.

School District of Borough of Morrisville's Response to Finding

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

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
January 19, 2016**



**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, 2015. 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, 2015.

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 19, 2016**

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2015

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. A material weakness relating to the audit of the financial statements of the School District of Borough of Morrisville is 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:

21st 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

2015-01 – INTERNAL CONTROL OVER FINANCIAL REPORTING

Criteria

Statement on Auditing Standards No. 115 "*Communicating Internal Control Related Matters Identified in an Audit*" ("**SAS 115**") focuses on how the auditor communicates matters related to internal controls to the client. One area SAS 115 emphasizes is internal control over financial reporting.

Condition

Our audit procedures identified material misstatements such that we concluded that the District was unable to present its accounting records in accordance with generally accepted accounting principles. As a result, we proposed and management recorded journal entries to correct the misstatements that had a material effect on the District's accounting records.

Cause

During the year, the Business Office experienced turnover in key finance positions.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2015

Effect

Errors and/or fraud can occur and not be detected and corrected on a timely basis.

Auditor Recommendation

We recommend that procedures and controls are implemented in order to prepare timely and accurate financial information in accordance with generally accepted accounting principles.

Views of Responsible Officials and Corrective Actions

Management has hired qualified employees in the Business Office to ensure that timely and accurate financial information is prepared in accordance with generally accepted accounting principles.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None