

Financial Statements

Phoenixville Area School District

June 30, 2014

R*ainer*
& Company

A Professional Corporation
Certified Public Accountants

TABLE OF CONTENTS

<u>Title</u>	<u>Page No.</u>
Independent Auditors' Report on Financial Statements	1-2
Management's Discussion and Analysis	3-13

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements:

Statement of Net Position	14
Statement of Activities	15

Fund Financial Statements:

Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Statement of Net Position - Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22
Statement of Fiduciary Net Position	23
Statement of Changes in Fiduciary Net Position	24
Notes to the Financial Statements	25-42

TABLE OF CONTENTS
(Continued)

<u>Title</u>	<u>Page No.</u>
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule - General Fund	43
Schedule of Post Employment Benefit Obligation Funding Progress	44



INDEPENDENT AUDITORS' REPORT

Board of School Directors
Phoenixville Area School District
Phoenixville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Phoenixville Area School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Phoenixville Public Library, which represent 1%, 6%, and 1% of the assets, net position, and revenues of the Phoenixville Public Library. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Phoenixville Public Library, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Phoenixville Area School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note 10 to the financial statements, during the fiscal year ended June 30, 2014, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, budgetary comparison information on page 42, and the schedule of post employment benefit obligation funding progress on page 43 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of Phoenixville Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Phoenixville Area School District's internal control over financial reporting and compliance.

Rainer & Company
Rainer & Company

PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

The discussion and analysis of Phoenixville Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the transmittal letter, notes to the financial statements, and the financial statements.

Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- In the budgeting process, the Board of School Directors was able to balance the budget with only a .40 mill increase (\$.40 per \$1,000 of assessed value) to the taxpayers.
- The District's unassigned fund balance for the General Fund is \$6,167,011 (7.6%), which is just under the state maximum. The district also has \$5,885,922 committed and assigned for future benefit increases (PSERS and Health Care). These factors are a major reason why the District has an Aa2 (Moody's) credit rating.
- The District's General Fund revenues increased by \$2,029,570. The increase was due to the increase in property taxes and the increased state revenue for the state's share of PSERS.
- Compared to the prior year, the District's expenditures (General Fund) increased by \$1,829,919, an increase of 2.4%. Major increases are salaries which increased by \$810,685, PSERS costs increased by \$1,350,774 and health care costs increased \$847,321.
- Transfers to other funds and the library were \$1,948,416.

OVERVIEW OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement Number 34 and present both government-wide and fund level financial statements using both the accrual basis and modified accrual basis of accounting, respectively.

PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

Government-Wide Financial Statements

The first two statements are government-wide financial statements - the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

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

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

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

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

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

- **Governmental Activities** - All of the District's basic services are included here, such as instruction, administration and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business-Type Activities** - The District operates a food service operation and charges fees to staff and students to cover the costs of the food service operation.

Fund Level Financial Statements

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The Governmental funds statements tell how the District's general services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short and long-term financial information about the activities that the District operates like a business. For this District, this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others.

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

PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

Fund Level Financial Statements (Continued)

- Proprietary Funds - These funds are used to account for District activities that are similar to business operations in the private sector; or where the reporting is focused on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements.
- Fiduciary Funds - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE DISTRICT - GOVERNMENT-WIDE STATEMENTS

The District's total net position was \$32,569,231 at June 30, 2014. This represents an increase of \$1,507,127 over last year. The following table presents condensed financial information for the net position of the District as of June 30, 2014 and June 30, 2013. At June 30, 2014, the District had \$101,042,337 invested in a broad range of capital assets, including land, buildings and furniture and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$152,611 from last year.

	Governmental Activities		Business-Type Activities		Total	
	2014	(RESTATED) 2013	2014	2013	2014	(RESTATED) 2013
Current Assets	\$ 60,049,457	\$ 53,511,081	\$ 117,754	\$ 141,903	\$ 60,167,211	\$ 53,652,984
Capital Assets	100,528,949	100,636,723	513,388	558,225	101,042,337	101,194,948
TOTAL ASSETS	160,578,406	154,147,804	631,142	700,128	161,209,548	154,847,932
Current Liabilities	15,707,561	14,885,135	186,983	209,444	15,894,544	15,094,579
Noncurrent Liabilities	112,745,773	108,691,249	0	0	112,745,773	108,691,249
TOTAL LIABILITIES	128,453,334	123,576,384	186,983	209,444	128,640,317	123,785,828
Net Position:						
Invested in Capital Assets, Net of Related Debt	14,651,934	13,900,336	513,388	558,225	15,165,322	14,458,561
Restricted for: Capital Projects	3,406,810	4,199,575	0	0	3,406,810	4,199,575
Unrestricted (Deficit)	14,066,328	12,471,509	(69,229)	(67,541)	13,997,099	12,403,968
TOTAL NET POSITION	\$ 32,125,072	\$ 30,571,420	\$ 444,159	\$ 490,684	\$ 32,569,231	\$ 31,062,104

The restricted net position in the amount of \$3,406,810 represents funds set aside to fund capital improvements, the replacement of and additions to public works and improvements, and for deferred maintenance. The balance remaining in the unrestricted net position is not restricted for any specific purpose.

PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

The result of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The largest revenues are property taxes, local taxes and the state basic education subsidy.

The following table presents condensed financial information for the Statement of Activities in a different format to show total revenues for the year. Compared to the prior year, the District's total revenues increased by \$2,049,687. The net increase in revenue in fiscal year 2014 compared to fiscal year 2013 is primarily due to the increase in property and earned income taxes. Expenses increased by \$1,732,398 due to increases in PSERS retirement contributions.

	Governmental Activities		Business-Type Activities		Total	
	2014	(RESTATED) 2013	2014	2013	2014	(RESTATED) 2013
REVENUES:						
Program Services:						
Charges for Services	\$ 295,297	\$ 222,889	\$ 734,945	\$ 826,967	\$ 1,030,242	\$ 1,049,856
Operating Grants and Contributions	9,041,838	8,415,928	465,431	412,437	9,507,269	8,828,365
General Revenues:						
Property Taxes	56,318,783	55,242,240	0	0	56,318,783	55,242,240
Other Taxes	8,364,376	8,131,740	0	0	8,364,376	8,131,740
Grants, Subsidies and Contributions Not Restricted	4,208,069	4,145,753	0	0	4,208,069	4,145,753
Investment Earnings	105,365	79,398	0	0	105,365	79,398
Other Revenue	476,823	483,865	0	23	476,823	483,888
TOTAL REVENUES	78,810,551	76,721,813	1,200,376	1,239,427	80,010,927	77,961,240
EXPENSES:						
Instruction	44,979,516	43,057,923	0	0	44,979,516	43,057,923
Support Services	5,477,406	4,904,976	0	0	5,477,406	4,904,976
Administration and Financial Support	7,348,464	6,698,450	0	0	7,348,464	6,698,450
Operation and Maintenance of Plant Services	5,473,689	6,417,697	0	0	5,473,689	6,417,697
Pupil Transportation	4,054,940	4,184,845	0	0	4,054,940	4,184,845
Student Activities	1,579,744	1,474,035	0	0	1,579,744	1,474,035
Community Services	52,565	65,015	0	0	52,565	65,015
Interest on Long-Term Debt	3,544,802	3,859,427	0	0	3,544,802	3,859,427
Unallocated Depreciation Expense	4,232,524	4,272,289	0	0	4,232,524	4,272,289
Food Services	0	0	1,251,824	1,328,419	1,251,824	1,328,419
TOTAL EXPENSES	76,743,650	74,934,657	1,251,824	1,328,419	77,995,474	76,263,076
Transfers	(513,249)	(1,074,548)	4,923	566,222	(508,326)	(508,326)
CHANGE IN NET POSITION	\$ 1,553,652	\$ 712,608	\$ (46,525)	\$ 477,230	\$ 1,507,127	\$ 1,189,838

PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

EXPENSES

The following table presents condensed financial information on the expenses of the District by function. The table illustrates both the gross and net costs of services. Unrestricted grants, subsidies and contributions are deducted to reflect the amount needed to be funded by other revenue sources. The amount needed to be funded by other revenue sources increased by \$856,968, or 1.4%, more than the prior year. The table for business-type activity reflects condensed financial activities of the food service program, the only business-type activity of the District.

	Total Cost of Services		Net Cost of Services	
	(RESTATED)		(RESTATED)	
	2014	2013	2014	2013
Expenses - Governmental Activities:				
Instruction	\$ 44,979,516	\$ 43,057,923	\$ 37,385,409	\$ 36,100,939
Support Services	5,477,406	4,904,976	5,405,416	4,833,149
Administration and Financial Support	7,348,464	6,698,450	7,348,464	6,698,450
Operation and Maintenance of				
Plant Services	5,473,689	6,417,697	5,097,406	6,033,393
Pupil Transportation	4,054,940	4,184,845	2,859,144	3,040,210
Student Activities	1,579,744	1,474,035	1,480,785	1,392,968
Community Services	52,565	65,015	52,565	65,015
Interest on Long-Term Debt	3,544,802	3,859,427	3,544,802	3,859,427
Unallocated Depreciation Expense	4,232,524	4,272,289	4,232,524	4,272,289
Transfers	513,249	1,074,548	513,249	1,074,548
TOTAL EXPENSES	\$ 77,256,899	\$ 76,009,205	67,919,764	67,370,388
Less: Grants, Subsidies and Contributions Not Restricted			(4,208,069)	(4,145,753)
AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES			\$ 63,711,695	\$ 63,224,635

The following table reflects condensed financial activities of the food service program, the only business-type activity of the District.

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Expenses - Business-Type Activities:				
Food Services	\$ 1,251,824	\$ 1,328,419	\$ 46,525	\$ (477,230)

The net cost of services for the year ended June 30, 2014 reflects a decrease of \$46,525.

PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

THE DISTRICT FUNDS

GENERAL FUND

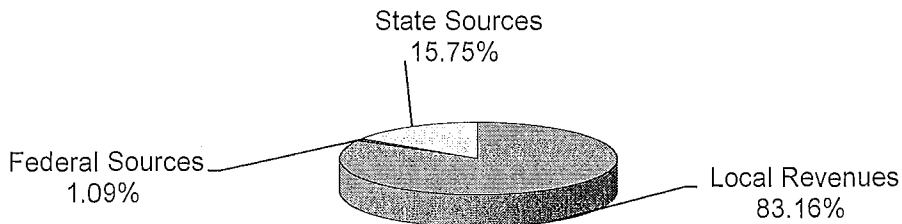
At June 30, 2014, the District reported an unassigned fund balance of \$6,167,011, which represents 8.06% of total budgeted expenditures. The School Board committed fund balance of \$2,943,900 for future PSERS obligations. In addition, the District assigned fund balance of \$2,942,022 is for future health claims. The School Board of the Phoenixville Area School District consciously maintains a modest fund balance needed to respond to unforeseen contingencies. This philosophy was established in response to a healthy and growing economy within our District and accurate and timely forecasting which allows the District to constantly monitor economic trends within our community. This philosophy conforms to the Board's belief that the tax burden should be aligned with the current funding needs of the District.

REVENUE

Revenues and other financing sources, which total \$78,676,305, increased \$2,029,570 or 2.7%, over the prior year revenues. The following table reflects a comparison of current year revenues to prior year revenues:

	Revenue 2014	% of Total	Increase (Decrease) From 2013	Percentage Increase (Decrease)
Local Revenues	\$ 65,426,398	83.16%	\$ 1,341,344	2.09%
State Sources	12,389,735	15.75%	718,274	6.15%
Federal Sources	860,172	1.09%	(30,048)	-3.38%
	<u>\$ 78,676,305</u>	<u>100.00%</u>	<u>\$ 2,029,570</u>	

Distribution of Funding Sources



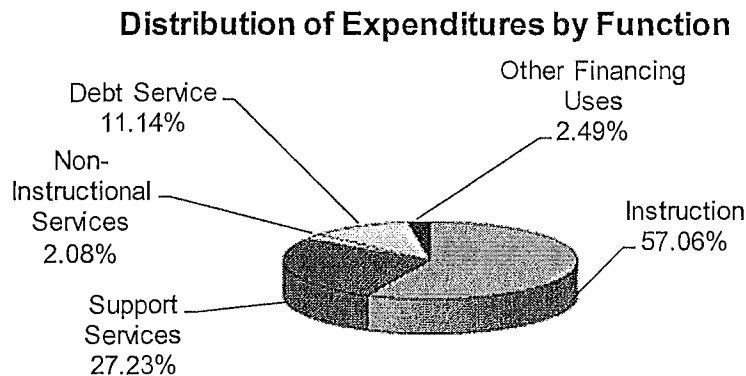
PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

The District balanced the budget by increasing the 2013-2014 tax rate to 28.64 mills from 28.24 mills. As a result of the increase in millage and changes in real estate assessments, revenues from current real estate taxes increased by \$1,219,1050. Earned income tax collections increased by \$219,881 compared to the prior year. State Subsidies increased in total by \$718,274, with the state subsidy for basic education increasing by \$62,316, sinking fund payments decreased \$45,512, and state share of social security/retirement increased \$729,784. Federal Subsidies decreased in total by \$30,048 compared to the prior year.

EXPENDITURES

Expenditures and other financing uses, which total \$78,439,570 increased \$1,829,919 over 2012-2013 expenses. The expenditures were segregated into various programs depending on the functions of the activity. These programs and the costs associated with each are as follows:

	Expenditures 2014	% of Total	Increase (Decrease) From 2013	Variance with Final Budget - Positive (Negative)
Instruction	\$ 44,757,590	57.06%	\$ 1,765,696	\$ 428,556
Support Services	21,362,867	27.23%	1,405,046	488,986
Non-Instructional Services	1,632,309	2.08%	93,259	(170,690)
Debt Service	8,738,388	11.14%	(353,817)	620
Other Financing Uses	1,948,416	2.49%	(1,080,265)	(465,203)
TOTAL EXPENDITURES BY FUNCTION	\$ 78,439,570	100.00%	\$ 1,829,919	\$ 282,269



PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

The increase in expenditures from the prior fiscal year is due to changes in a variety of expenditures. Major increases are salaries which increased by \$810,685, PSERS costs increased by \$1,350,774 and health care costs increased \$847,321. Transfers to other funds and the library were \$1,948,416.

CAPITAL PROJECTS FUND

At June 30, 2014, the District reported a fund balance of \$31,060,781, which is an increase of \$7,215,906 over last year. During 2013-2014 this fund expended \$1,957,138 in construction and capital improvement expenditures as well as \$802,008 in bond issuance costs. Increases in this fund include new bond proceeds in the amount of \$9,835,000, investment earnings of \$67,545, and other local revenues of \$72,507.

CAPITAL RESERVE FUND

At June 30, 2014, the District reported a fund balance of \$3,406,810, which is a decrease of \$792,765 from the prior year. Increases in this fund during 2013-14 include a \$1,435,167 transfer from the general fund and investment earnings of \$361. The capital reserve fund expended \$2,228,293 in capital outlay expenditures.

GENERAL FUND BUDGET

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted. This is done after the end of the fiscal year in accordance with state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided as required supplementary information to the financial statements.

The School District's formally adopted budget filed with the State includes estimated amounts for revenues and expenditures. In the Budgetary Comparison Schedule, the formally adopted budget reflects revenues in the amount of \$78,721,839 with actual revenues received in the amount of \$78,676,305, a negative variance in the amount of \$45,534. In addition, the formally adopted budget reflects expenditures in the amount of \$78,721,839 with the actual expenditures in the amount of \$78,439,570, a positive variance in the amount of \$282,269.

The Budgetary Reserve includes amounts that will be funded for operating contingencies, such as additional staffing, charter school tuition and the occurrence of events which are vaguely perceptible during the time of the budget process but which nonetheless may require expenditures by the District during the year of operation. If the expenditures materialize, funds are transferred from the Budgetary Reserve to the appropriate area.

PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

CAPITAL ASSETS

At June 30, 2014, the District had \$101,042,337 invested in a broad range of capital assets, including land, buildings and furniture and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$152,611 from last year.

The following schedule depicts the change in capital assets for the period July 1, 2013 through June 30, 2014.

Schedule of Capital Assets

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>			
Capital Assets:			
Land	\$ 504,962	\$ 0	\$ 504,962
Land Improvements	3,256,988	234,897	3,491,885
Buildings	124,291,783	2,403,451	126,695,234
Construction in Progress	67,264	692,082	759,346
Furniture and Equipment	15,625,342	794,320	16,419,662
TOTAL CAPITAL ASSETS	<u>143,746,339</u>	<u>4,124,750</u>	<u>147,871,089</u>
Accumulated Depreciation for:			
Land Improvements	2,186,715	112,066	2,298,781
Buildings	26,882,400	3,108,504	29,990,904
Furniture and Equipment	14,040,501	1,011,954	15,052,455
TOTAL ACCUMULATED DEPRECIATION	<u>43,109,616</u>	<u>4,232,524</u>	<u>47,342,140</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$100,636,723</u>	<u>\$ (107,774)</u>	<u>\$100,528,949</u>
<u>Business-Type Activities:</u>			
Capital Assets:			
Furniture and Equipment	\$ 1,152,324	\$ 4,923	\$ 1,157,247
Accumulated Depreciation for:			
Furniture and Equipment	594,099	49,760	643,859
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 558,225</u>	<u>\$ (44,837)</u>	<u>\$ 513,388</u>

PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

DEBT ADMINISTRATION

As of June 30, 2014, the District had total long-term debt of \$114,865,000, an increase of \$4,730,000 over last year.

Debt Service Schedule
June 30, 2014

	<u>Principal Outstanding July 1, 2013</u>	<u>Maturities</u>	<u>Additions (Refinancing)</u>	<u>Principal Outstanding June 30, 2014</u>
General Obligation Note Series of 2000	\$ 5,275,000	\$ 555,000	\$ 0	\$ 4,720,000
General Obligation Bonds Series of 2009	5,540,000	1,690,000	0	3,850,000
General Obligation Bonds Series A of 2009	10,685,000	740,000	0	9,945,000
General Obligation Bonds Series of 2010	26,630,000	5,000	0	26,625,000
General Obligation Bonds Series of 2011	8,800,000	395,000	0	8,405,000
General Obligation Bonds Series A of 2011	6,870,000	5,000	0	6,865,000
General Obligation Bonds Series of 2012	13,340,000	100,000	0	13,240,000
General Obligation Bonds Series A of 2012	24,265,000	940,000	0	23,325,000
General Obligation Bonds Series of 2013	8,730,000	475,000	0	8,255,000
General Obligation Bonds Series A of 2013	0	200,000	9,835,000	9,635,000
SUBTOTAL	<u>110,135,000</u>	<u>5,105,000</u>	<u>9,835,000</u>	<u>114,865,000</u>
Less Deferred Amounts:				
Issuance (Discounts) Premium	2,285,447	136,093	44,886	2,194,240
Refunding Deferred Charge	<u>(156,192)</u>	<u>0</u>	<u>34,748</u>	<u>(121,444)</u>
LONG-TERM DEBT	<u>\$ 112,264,255</u>	<u>\$ 5,241,093</u>	<u>\$ 9,914,634</u>	<u>\$ 116,937,796</u>

PHOENIXVILLE AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2014

In September, 2008 the Phoenixville Area School District Board of School Directors adopted a new strategic plan that has focused our purpose and resources as we prepare for the 21st Century. A team of 80 people, including School Board members, administrators, teachers, parents, community members, senior citizens and business leaders assembled to create the following five goals:

- Parent Involvement Through Partnerships - Strengthen parent involvement through community partnerships and programs that increase collaboration between parent and school entities from Pre-K through graduation.
- 21st Century Technology - Increase access to, integration of, and understanding of 21st Century technology skills that include students, teachers and parents.
- Motivation and Achievement - Increase student motivation and achievement so that all students perform at their highest level. We will recruit, hire, develop and retain a high quality and diverse administrative, professional and support staff.
- Social Interactions and Critical Communication - Improve social interactions and critical communication across social, economic, education and cultural divides.
- Diversity - Respect the diversity in our community (locally and globally) and integrate that culture into the learning environment

The District updates the strategic plan in accordance with requirements by the Pennsylvania Department of Education. The district is currently working on a new strategic plan that will be completed by the summer of 2015.

THE DISTRICT'S FUTURE

The District is projected to continue to experience enrollment growth in the next five years. Total enrollment is projected to increase to 4091 students in the 2019-2020 school year. This is an estimated increase of 440 students over the next 5 year period.

Major projects to be completed over the next five years include the construction of elementary space to meet enrollment increases and to replace the obsolete space at East Pikeland Elementary School and the Kindergarten Center. These projects are estimated to cost \$70 to \$80 million.

In the future, the District will need to borrow additional funds to finance the proposed capital projects. The District has a conceptual plan for the future financings. As in the past, the District could use a series of interim financings as well as General Obligation Bonds. The financial impact of the funding needed for the District's capital program is projected to increase debt service significantly over the next three to five years.

FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Stan Johnson, Executive Director of Operations at the Phoenixville Area School District, 386 City Line Ave, Phoenixville, PA 19460, (484) 927-5000.

PHOENIXVILLE AREA SCHOOL DISTRICT

Statement of Net Position

June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Phoenixville Public Library
ASSETS				
Current:				
Cash and Cash Equivalents	\$ 135,718	\$ 31,645	\$ 167,363	\$ 270,059
Investments	52,546,813	0	52,546,813	392,555
Taxes Receivable, Net	4,556,985	0	4,556,985	0
Due from Other Funds	(51,879)	51,879	0	0
Due from Other Governments	1,467,690	21,609	1,489,299	0
Other Receivables	1,290,423	0	1,290,423	12,500
Inventories	0	12,621	12,621	0
Prepaid Expenses	103,707	0	103,707	2,520
TOTAL CURRENT ASSETS	60,049,457	117,754	60,167,211	677,634
Capital Assets:				
Land	504,962	0	504,962	0
Land Improvements	3,491,885	0	3,491,885	0
Buildings	126,695,234	0	126,695,234	1,447,162
Construction in Progress	759,346	0	759,346	0
Furniture and Equipment	16,419,662	1,157,247	17,576,909	670,250
Book Collection	0	0	0	1,030,622
Less: Accumulated Depreciation	(47,342,140)	(643,859)	(47,985,999)	(1,670,633)
TOTAL CAPITAL ASSETS	100,528,949	513,388	101,042,337	1,477,401
TOTAL ASSETS	\$ 160,578,406	\$ 631,142	\$ 161,209,548	\$ 2,155,035
LIABILITIES				
Current:				
Accounts Payable and Other Current Liabilities	\$ 2,961,090	\$ 166,091	\$ 3,127,181	\$ 22,827
Bonds and Notes Payable Due Within One Year	5,830,000	0	5,830,000	0
Accrued Salaries and Benefits	6,241,830	0	6,241,830	0
Unearned Revenues	42,917	20,892	63,809	0
Accrued Interest	631,724	0	631,724	0
TOTAL CURRENT LIABILITIES	15,707,561	186,983	15,894,544	22,827
Noncurrent:				
Bonds and Notes Payable Due After One Year	111,107,796	0	111,107,796	0
Compensated Absences	1,375,446	0	1,375,446	0
Accrued Post-Employment Benefits	262,531	0	262,531	0
TOTAL LONG-TERM LIABILITIES	112,745,773	0	112,745,773	0
TOTAL LIABILITIES	128,453,334	186,983	128,640,317	22,827
NET POSITION				
Invested in Capital Assets, Net of Related Debt	14,651,934	513,388	15,165,322	654,807
Restricted for: Capital Projects	3,406,810	0	3,406,810	0
Unrestricted	14,066,328	(69,229)	13,997,099	1,477,401
TOTAL NET POSITION	32,125,072	444,159	32,569,231	2,132,208
TOTAL LIABILITIES AND NET POSITION	\$ 160,578,406	\$ 631,142	\$ 161,209,548	\$ 2,155,035

The accompanying notes are an integral part of this statement.

PHOENIXVILLE AREA SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Component Unit Phoenixville Public Library
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental Activities:							
Instruction	\$ 44,979,516	\$ (77,244)	\$ (7,516,863)	\$(37,385,409)	\$ 0	\$(37,385,409)	\$ 0
Instructional Student Support	5,477,406	0	(71,990)	(5,405,416)	0	(5,405,416)	0
Administrative and Financial Support Services	7,348,464	0	0	(7,348,464)	0	(7,348,464)	0
Operation and Maintenance of Plant Operation	5,473,689	(119,094)	(257,189)	(5,097,406)	0	(5,097,406)	0
Pupil Transportation	4,054,940	0	(1,195,796)	(2,859,144)	0	(2,859,144)	0
Student Activities	1,579,744	(98,959)	0	(1,480,785)	0	(1,480,785)	0
Community Services	52,565	0	0	(52,565)	0	(52,565)	0
Interest on Long-Term Debt	3,544,802	0	0	(3,544,802)	0	(3,544,802)	0
Unallocated Depreciation Expense	4,232,524	0	0	(4,232,524)	0	(4,232,524)	0
TOTAL GOVERNMENTAL ACTIVITIES	76,743,650	(295,297)	(9,041,838)	(67,406,515)	0	(67,406,515)	0
Business-Type Activities:							
Food Services	1,251,824	(734,945)	(465,431)	0	(51,448)	(51,448)	0
TOTAL PRIMARY GOVERNMENT	\$ 77,995,474	\$ (1,030,242)	\$ (9,507,269)	\$(67,406,515)	\$ (51,448)	\$(67,457,963)	\$ 0
Component-Unit Activities:							
Phoenixville Public Library	\$ 982,401	\$ (141,919)	\$ (304,123)				(536,359)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, Net				\$ 56,318,783	0	56,318,783	0
Public Utility Realty, Earned Income and Realty Transfer Taxes,							
Personal Taxes, Levied for General Purposes, Net				8,364,376	0	8,364,376	0
Grants, Subsidies and Contributions Not Restricted				4,208,069	0	4,208,069	0
Investment Earnings				105,365	0	105,365	32,893
Miscellaneous Income				476,823	0	476,823	0
TOTAL GENERAL REVENUES AND SPECIAL ITEMS				69,473,416	0	69,473,416	32,893
Transfers				(513,249)	4,923	(508,326)	508,326
CHANGE IN NET POSITION				1,553,652	(46,525)	1,507,127	4,860
Net Assets - July 1, 2013				32,138,464	490,684	32,629,148	2,127,348
Prior Period Adjustment				(1,567,044)	0	(1,567,044)	0
NET POSITION - JULY 1, 2013 (RESTATED)				30,571,420	490,684	31,062,104	2,127,348
NET POSITION - JUNE 30, 2014				\$ 32,125,072	\$ 444,159	\$ 32,569,231	\$ 2,132,208

The accompanying notes are an integral part of this statement.

PHOENIXVILLE AREA SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2014

**R
& Company**
 A Professional Corporation
 Certified Public Accountants
 Business Consultants

<u>ASSETS</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents	\$ 135,718	\$ 0	\$ 0	\$ 135,718
Investments	18,487,935	31,086,436	2,972,442	52,546,813
Taxes Receivable	4,556,985	0	0	4,556,985
Due from Other Funds	1,401,004	0	487,000	1,888,004
Due from Other Governments	1,467,690	0	0	1,467,690
Other Receivables	99,624	1,190,799	0	1,290,423
Prepaid Expenses	103,707	0	0	103,707
TOTAL ASSETS	<u>\$ 26,252,663</u>	<u>\$ 32,277,235</u>	<u>\$ 3,459,442</u>	<u>\$ 61,989,340</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u> 				
Liabilities:				
Accounts Payable	\$ 2,287,755	\$ 513,617	\$ 52,632	\$ 2,854,004
Accrued Salaries and Benefits	6,463,127	0	0	6,463,127
Due to other funds	1,237,046	702,837	0	1,939,883
Unearned Revenues	42,917	0	0	42,917
TOTAL LIABILITIES	<u>10,030,845</u>	<u>1,216,454</u>	<u>52,632</u>	<u>11,299,931</u>
Deferred Inflows of Resources:				
Unavailable Revenue - Property Taxes	4,065,178	0	0	4,065,178
Fund Balances:				
Nonspendable	103,707	0	0	103,707
Committed	2,943,900	0	0	2,943,900
Assigned	2,942,022	31,060,781	3,406,810	37,409,613
Unassigned	6,167,011	0	0	6,167,011
TOTAL FUND BALANCES	<u>12,156,640</u>	<u>31,060,781</u>	<u>3,406,810</u>	<u>46,624,231</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 26,252,663</u>	<u>\$ 32,277,235</u>	<u>\$ 3,459,442</u>	<u>\$ 61,989,340</u>

The accompanying notes are an integral part of this statement.

PHOENIXVILLE AREA SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2014

Total Fund Balances - Governmental Funds		\$ 46,624,231
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$147,871,089, and the accumulated depreciation is \$47,342,140.</p>		
	100,528,949	
<p>Some of the District's revenues will be collected after year end and are, therefore, not reported in the funds statements.</p>		
	4,065,178	
<p>Some of the District's liabilities are not due and payable in the current period and are, therefore, not reported in the fund statements:</p>		
Bonds and Notes Payable	\$ 116,937,796	
Accrued Interest on the Bonds	631,724	
Accrued Post-Employment Benefits	262,531	
Compensated Absences	<u>1,261,235</u>	<u>(119,093,286)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u>\$ 32,125,072</u>

PHOENIXVILLE AREA SCHOOL DISTRICT
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	General Fund	Capital Projects Fund	Capital Reserve Fund	Total Governmental Funds
Revenues:				
Local Sources:				
Real Estate Taxes	\$ 56,318,783	\$ 0	\$ 0	\$ 56,318,783
Realty Transfer Tax	920,508	0	0	920,508
Earned Income Taxes	6,116,681	0	0	6,116,681
Other Taxes	1,333,354	0	0	1,333,354
Earnings from Investments	37,459	67,545	361	105,365
Other Local Revenues	699,613	72,507	0	772,120
State Sources	12,389,735	0	0	12,389,735
Federal Sources	860,172	0	0	860,172
TOTAL REVENUES	<u>78,676,305</u>	<u>140,052</u>	<u>361</u>	<u>78,816,718</u>
Expenditures:				
Instruction	44,757,590	0	0	44,757,590
Support Services	21,362,867	802,008	0	22,164,875
Non-Instructional Services	1,632,309	0	0	1,632,309
Capital Outlay	0	1,957,138	2,228,293	4,185,431
Debt Service	8,738,388	0	0	8,738,388
TOTAL EXPENDITURES	<u>76,491,154</u>	<u>2,759,146</u>	<u>2,228,293</u>	<u>81,478,593</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,185,151</u>	<u>(2,619,094)</u>	<u>(2,227,932)</u>	<u>(2,661,875)</u>
Other Financing Sources (Uses):				
Bond Proceeds	0	9,835,000	0	9,835,000
Interfund Transfers In	0	0	1,435,167	1,435,167
Interfund Transfers Out	(1,440,090)	0	0	(1,440,090)
Transfer - Component Unit	(508,326)	0	0	(508,326)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,948,416)</u>	<u>9,835,000</u>	<u>1,435,167</u>	<u>9,321,751</u>
NET CHANGE IN FUND BALANCES	236,735	7,215,906	(792,765)	6,659,876
Fund Balances - July 1, 2013	11,919,905	23,844,875	4,199,575	39,964,355
FUND BALANCES - JUNE 30, 2014	<u>\$ 12,156,640</u>	<u>\$ 31,060,781</u>	<u>\$ 3,406,810</u>	<u>\$ 46,624,231</u>

The accompanying notes are an integral part of this statement.

PHOENIXVILLE AREA SCHOOL DISTRICT
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2014

Total Net Change in Fund Balances - Governmental Funds \$ 6,659,876

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 as depreciation expense.

Capital Outlay	\$ 4,124,750	
Depreciation Expense	<u>(4,232,524)</u>	(107,774)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Bond Proceeds	\$ (9,835,000)	
Principal Payments on Long-Term Term Liabilities	5,105,000	
Bond Issuance Premium	<u>56,459</u>	(4,673,541)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (6,167)

Some of the 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.

Accrued Post-Employment Benefits	\$ (72,646)	
Accrued Interest on the Bonds	(12,759)	
Compensated Absences	<u>(233,337)</u>	<u>(318,742)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,553,652

PHOENIXVILLE AREA SCHOOL DISTRICT
Statement of Net Position
Proprietary Funds
June 30, 2014

<u>ASSETS</u>	<u>Food Services</u>
Current:	
Cash and Cash Equivalents	\$ 31,645
Inventories	12,621
Due from Other Governments	21,609
Due from Other Funds	51,879
TOTAL CURRENT ASSETS	<u>117,754</u>
Non-Current:	
Furniture and Equipment	1,157,247
Less: Accumulated Depreciation	<u>(643,859)</u>
TOTAL NON-CURRENT ASSETS	<u>513,388</u>
 TOTAL ASSETS	 <u>\$ 631,142</u>
 <u>LIABILITIES</u>	
Current:	
Accounts Payable	\$ 166,091
Unearned Revenue	20,892
TOTAL LIABILITIES	<u>186,983</u>
 <u>NET POSITION</u>	
Invested in Capital Assets	513,388
Unrestricted (Deficit)	<u>(69,229)</u>
TOTAL NET POSITION	<u>444,159</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 631,142</u>

The accompanying notes are an integral part of this statement.

PHOENIXVILLE AREA SCHOOL DISTRICT
Statement of Revenues, Expenses and
Changes in Net Position -
Proprietary Funds
For the Year Ended June 30, 2014

	Food Services
Operating Revenues:	
Food Service Revenue	\$ 734,945
Operating Expenses:	
Professional and Contract Services	1,182,809
Donated Commodities Consumed	19,255
Depreciation	49,760
TOTAL OPERATING EXPENSES	<u>1,251,824</u>
OPERATING LOSS	<u>(516,879)</u>
Non-Operating Revenues:	
State Sources	31,396
Federal Sources	434,035
TOTAL NON-OPERATING REVENUES	<u>465,431</u>
LOSS BEFORE OTHER REVENUES	(51,448)
Other Revenues:	
Capital Contributions	<u>4,923</u>
CHANGE IN NET POSITION	(46,525)
Net Position - July 1, 2013	<u>490,684</u>
NET POSITION - JUNE 30, 2014	<u><u>\$ 444,159</u></u>

PHOENIXVILLE AREA SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	<u>Food Services</u>
Cash Flows From Operating Activities:	
Cash Received from Users	\$ 756,976
Cash Payments to Suppliers for Goods and Services	(1,224,236)
NET CASH USED BY OPERATING ACTIVITIES	<u>(467,260)</u>
Cash Flows From Non-Capital Financing Activities:	
State Sources	30,158
Federal Sources	417,365
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>447,523</u>
Cash Flows From Investing Activities:	
Earnings from Investments	<u>0</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19,737)
Cash and Cash Equivalents - July 1, 2013	<u>51,382</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2014	<u>\$ 31,645</u>
<u>Supplemental Schedule of Non-Cash Activities:</u>	
Contributed Capital - Equipment	<u>\$ 4,923</u>
<u>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</u>	
Operating Loss	\$ (516,879)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	49,760
Changes in Assets and Liabilities:	
Inventories	7,325
Other Receivables	17,165
Interfund Receivables	(2,170)
Accounts Payable	(27,327)
Unearned Revenue	4,866
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (467,260)</u>

The accompanying notes are an integral part of this statement.

PHOENIXVILLE AREA SCHOOL DISTRICT
Statement of Fiduciary Net Position
For the Year Ended June 30, 2014

<u>ASSETS</u>	<u>Private- Purpose Trusts</u>	<u>Agency Funds</u>
Cash and Cash Equivalents	<u>\$ 14,952</u>	<u>\$ 128,092</u>
<u>LIABILITIES</u>		
Due to Student Groups	<u>----- \$ 0</u>	<u>\$ 128,092</u>
<u>NET POSITION</u>		
Restricted for Scholarships	\$ 14,952	
Unrestricted	<u>0</u>	
 TOTAL NET POSITION	 <u>\$ 14,952</u>	

The accompanying notes are an integral part of this statement.

PHOENIXVILLE AREA SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2014

	<u>Private- Purpose Trusts</u>
Additions:	
Contributions	\$ 8,270
Interest Income	105
TOTAL ADDITIONS	<u>8,375</u>
Deductions:	
Grants	<u>15,520</u>
CHANGE IN NET POSITION	(7,145)
Net Position - July 1, 2013	<u>22,097</u>
NET POSITION - JUNE 30, 2014	<u><u>\$ 14,952</u></u>

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 - Summary of Significant Accounting Policies

Phoenixville Area School District's (the District's) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the District has chosen not to do so. The more significant accounting policies, established in GAAP and used by the District, are discussed below.

A. Reporting Entity

The School District is governed by an elected Board of Directors. Accounting principles generally accepted in the United States of America require that the financial statements present the School District and its component units, entities for which the School District is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the School District's operations and so data from these units are required to be combined with data of the primary School District. Each discretely presented component unit, on the other hand, is required to be reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the School District.

Joint Ventures

The School District participates in a joint venture with eleven other school districts of Chester County, Pennsylvania in the operation of a Center for Arts and Technology (the "Vo-Tech School"). The Vo-Tech School is governed by a joint board, which is composed of representative school board members of the participating schools. Each member pays a pro-rata share of the operating cost of the Vo-Tech School based on the number of students from the twelve member districts. The financial statements of the Vo-Tech School are available at the Chester County Intermediate Unit located at 455 Boot Road, Downingtown, PA 19335.

Discretely Presented Component Unit:

The Phoenixville Public Library serves the Phoenixville Area School District community. The Library's governing board approves its own budget. However, the Library is fiscally dependent upon the School District because it receives a substantial portion of its operating funds from them and its building is occupied rent-free from the School District. The Library is presented as a governmental fund type and has a June 30 year end. Copies of the Library's financial statements may be obtained at the Library administrative office.

B. Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non fiduciary activities of the School District and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only a portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

The School District reports the following major government funds:

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

Capital Projects & Capital Reserve Funds - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by enterprise operations. The Capital Reserve fund is used to account for proceeds of specific revenue sources that are assigned for expenditures of future capital projects.

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The School District reports the following major proprietary funds:

Food Service Fund - The Food Service Fund (an Enterprise Fund) is used to account for the operations of the School District's school cafeterias that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the cost of providing goods or services to the school population on a continuing basis will be recovered or financed primarily through user charges.

Additionally the School District reports the following fund types:

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governments. These include private-purpose trust funds and agency funds. Private-purpose trust funds account for resources, including both principal and earnings, which must be expended in accordance with a trust agreement, and are accounted for in essentially the same manner as proprietary funds. Agency funds are purely custodial and thus do not involve measurement of the result of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. School districts also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The School District has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

For purposes of the statements of cash flows of proprietary funds, cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Deposits and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest funds consistent with sound business practices in the following types of investments:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

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/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current 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."

All trade and property tax receivables are shown net of any allowance for uncollectibles. The allowance for uncollectibles was \$212,184 at June 30, 2014.

Inventories

Inventory in the Food Service Fund consists of government donated commodities which were valued at estimated fair market value at donation and valued at cost using the first-in first-out (FIFO) method.

Capital Assets

Capital assets, which include property, plant and equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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.

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land Improvements	20 Years
Buildings	20 Years
Furniture and Equipment	5-20 Years

Deferred Outflows of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in the government-wide financial statements. The only deferred outflow of resources reported in the District's financial statements is the deferred amount related to the accumulated decrease in the fair value of hedging derivatives.

Deferred Inflows of Resources

The District's governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). The District will not recognize the related revenues until a future event occurs. The District has only one type of item which occurs because governmental fund revenues are not recognized until available under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, deferred delinquent taxes are reported in the governmental funds balance sheet. The District did not have deferred inflows of resources to report in its government-wide or proprietary fund financial statements for the current year.

Compensated Absences

It is the School District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Compensated absences are generally liquidated by the General Fund.

Sick Leave Pay - Sick leave is granted as appropriate with budgetary provisions being made annually for the estimated cost of substitute personnel. Employees who retire under the Pennsylvania School Employees Retirement System are paid at per diem rates ranging from \$20 to \$140 for each unused sick leave day. The District estimates its liability for unused sick days, including a provision for employer social security tax, at June 30, 2014 to be \$540,399.

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Compensated Absences (Continued)

Accrued Severance Pay - Instructional, Secretarial, and Support personnel that have completed at least ten years of credited School District service and that meet retirement eligibility receive severance pay in the form of compensation. Instructional personnel receive \$110 for each year of service in the District. Secretarial and Support personnel receive \$125 for each year of service in the District. These payments are recorded as an expenditure in the period paid or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, including a provision for employer social security tax, amounts to \$615,442 at June 30, 2014.

Vacation and Personal Days - School District employees who are required to work on a twelve-month schedule are credited with vacation and personal days at rates which vary with length of service or job classification. If separation of service occurs in the year subsequent to earning, then the unused balance of what was earned in the prior year is paid at separation. The liability at June 30 represents vacation earned at that date that will be taken in the subsequent year. The liability payable, including a provision for employer social security tax, amounts to \$219,605 at June 30, 2014.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as support service expenditures.

Government-Wide and Proprietary Fund Net Position

Government-wide and proprietary fund net position is divided into three components:

Invested in Capital Assets, Net of Related Debt - Consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Government-Wide and Proprietary Fund Net Position (Continued)

Restricted for: Capital Projects - Consists of the capital projects fund fund-balance that is restricted by the District for capital outlays.

Unrestricted - Consists of all other net position reported in this category.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts that can be used only for specific purposes because of state or federal laws, or externally imposed by grantors or creditors.

Committed - Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors resolution.

Assigned - Amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

The Board of Directors establishes (and modifies and rescinds) fund balance commitments by passage of a resolution. The District's policy is to first apply expenditure toward restricted fund balances followed by committed fund balances and then to assigned fund balances before using unassigned fund balances.

The District will strive to maintain a total of assigned and unassigned fund balance for the general fund of not less than eight percent of the total budgeted general fund expenditures for each fiscal year, which is the maximum percentage that is currently allowed by Pennsylvania Law. The total fund balance for the general fund, consisting of nonspendable, restricted, committed, assigned and unassigned balances, may exceed eight percent.

NOTE 2 - Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 2 - Budgetary Information Continued)

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

1. Prior to May 31, the School Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. Legal budgetary control is maintained by the School Board at the department level. Transfers between departments, whether between funds or within a fund or revisions that alter the total revenues and expenditures of any fund must be approved by the School Board.
5. Budgetary data are included in the School District's management information system and are employed as a management control device during the year for the general fund.
6. Budgets for the general fund are adopted substantially on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

NOTE 3 - Deposits and Investments

Deposits - At year end, the total carrying amount of the School District's checking, savings and money market deposits was \$580,466, and the corresponding bank balance was \$668,187.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's policy for custodial credit risk requires that all deposits to be purchased in the name of the School District. The School District maintains cash balances at several financial institutions. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation. In the normal course of business, the School District may have deposits that exceed insured balances.

Investments - Statutes authorize the District to invest in U.S. Government Agency bonds, time or share accounts or institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan 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.

All funds in the Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and Pennsylvania Treasurer's Investment Program are invested in accordance with Section 440.1 of the School Code. These funds operate and are authorized under the Intergovernmental Cooperation Act of 1972. Each school district owns a prorata share of each investment or deposit which is held in the name of the Fund. Certificates of deposit or other fixed-term investments purchased by the School District through the Fund's administrator are purchased in the name of the School District.

PHOENIXVILLE AREA SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2014

NOTE 3 - Deposits and Investments (Continued)

Interest Rate Risk - The District's investment policy requires the mitigation of interest rate risk as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit Risk - The District's investment policy requires the mitigation of credit risk to ensure safety of principle.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer, as long as it is in accordance with the requirements of its investment policy. The District's investments are concentrated in Certificates of Deposit 2%, US Government Issues 1%, and investment savings accounts 97%.

The School District's investments at June 30, 2014 consisted of the following:

	<u>Credit Rating</u>	<u>Fair Value</u>
<u>Pooled Investments:</u>		
Pennsylvania School District Liquid Asset Fund:		
General Fund Accounts	AAA	\$ 17,179,459
Capital Projects Fund Accounts	AAA	30,728,581
Capital Reserve Fund Accounts	AAA	<u>2,972,442</u>
TOTAL		<u>50,880,482</u>
Pennsylvania Local Government Investment Trust:		
General Fund Accounts	AAA	<u>53,409</u>
TOTAL POOLED INVESTMENTS		<u>50,933,891</u>
<u>Other Investments:</u>		
U.S. Government Securities:		
Capital Projects Fund Accounts (Market Value \$357,855)	AAA	357,855
Pooled Investments - Phoenixville Public Library (Component Unit)	AAA	392,555
Certificates of Deposit:		
General Fund Accounts	Not Applicable	<u>1,255,067</u>
TOTAL OTHER INVESTMENTS		<u>2,005,477</u>
TOTAL INVESTMENTS		<u>\$ 52,939,368</u>

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 4 - Taxes Receivable

	<u>General</u>	<u>Other Funds</u>	<u>Total</u>
Real Estate Taxes	\$ 2,400,355	\$ 0	\$ 2,400,355
Transfer Taxes	106,744	0	106,744
Earned Income Taxes	125,939	0	125,939
Personal Taxes	2,136,131	0	2,136,131
	<u>4,769,169</u>	<u>0</u>	<u>4,769,169</u>
Less: Allowance for Uncollectibles	<u>(212,184)</u>	<u>0</u>	<u>(212,184)</u>
 NET TAXES RECEIVABLE	 <u>\$ 4,556,985</u>	 <u>\$ 0</u>	 <u>\$ 4,556,985</u>

At the end of the current fiscal year, the District reported deferred inflows of resources, related to unavailable real estate and earned income tax revenue, in the amount of \$4,065,178 in the governmental funds. In addition, the District reported unearned revenue in the amount of \$42,917 in the governmental funds.

NOTE 5 - Interfund Receivables, Payables and Transfers

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 1,401,004	\$ 1,237,046
Capital Projects Fund	0	702,837
Capital Reserve Fund	487,000	0
Proprietary Fund - Food Services	<u>51,879</u>	<u>0</u>
	<u>\$ 1,939,883</u>	<u>\$ 1,939,883</u>

Interfund transfers were as follows:

	<u>Transfer to Other Funds</u>	<u>Transfer from Other Funds</u>
General Fund	\$ 1,948,416	\$ 0
Capital Reserve Fund	0	1,435,167
Proprietary Fund - Food Services (Contributed Capital)	0	4,923
Component Unit - Library	<u>0</u>	<u>508,326</u>
	<u>\$ 1,948,416</u>	<u>\$ 1,948,416</u>

The general fund makes interfund transfers to the capital projects fund for future capital outlay, to the proprietary fund to subsidize food service operations and to the component unit to provide appropriations to fund operations.

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 6 - Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets:				
Land	\$ 504,962	\$ 0	\$ 0	\$ 504,962
Land Improvements	3,256,988	234,897	0	3,491,885
Buildings	124,291,783	2,403,451	0	126,695,234
Construction in Progress	67,264	2,083,703	1,391,621	759,346
Furniture and Equipment	15,625,342	794,320	0	16,419,662
TOTAL CAPITAL ASSETS	<u>143,746,339</u>	<u>5,516,371</u>	<u>1,391,621</u>	<u>147,871,089</u>
Accumulated Depreciation for:				
Land Improvements	2,186,715	112,066	0	2,298,781
Buildings	26,882,400	3,108,504	0	29,990,904
Furniture and Equipment	14,040,501	1,011,954	0	15,052,455
TOTAL ACCUMULATED DEPRECIATION	<u>43,109,616</u>	<u>4,232,524</u>	<u>0</u>	<u>47,342,140</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 100,636,723</u>	<u>\$ 1,283,847</u>	<u>\$ 1,391,621</u>	<u>\$ 100,528,849</u>
Business-Type Activities:				
Capital Assets:				
Machinery and Equipment	\$ 1,152,324	\$ 4,923	\$ 0	\$ 1,157,247
Accumulated Depreciation for:				
Machinery and Equipment	594,099	49,760	0	643,859
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 558,225</u>	<u>\$ (44,837)</u>	<u>\$ 0</u>	<u>\$ 513,388</u>

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

Governmental Activities – Unallocated	\$ 4,232,524
Business-Type Activities	<u>49,760</u>
TOTAL DEPRECIATION EXPENSE	<u>\$ 4,282,284</u>

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 7 - Long-Term Debt

	Principal Outstanding July 1, 2013	Maturities	Additions (Refinancing)	Principal Outstanding June 30, 2014
General Obligation Note Series of 2000	\$ 5,275,000	\$ 555,000	\$ 0	\$ 4,720,000
General Obligation Bonds Series of 2009	5,540,000	1,690,000	0	3,850,000
General Obligation Bonds Series A of 2009	10,685,000	740,000	0	9,945,000
General Obligation Bonds Series of 2010	26,630,000	5,000	0	26,625,000
General Obligation Bonds Series of 2011	8,800,000	395,000	0	8,405,000
General Obligation Bonds Series A of 2011	6,870,000	5,000	0	6,865,000
General Obligation Bonds Series of 2012	13,340,000	100,000	0	13,240,000
General Obligation Bonds Series A of 2012	24,265,000	940,000	0	23,325,000
General Obligation Bonds Series of 2013	8,730,000	475,000	0	8,255,000
General Obligation Bonds Series A of 2013	0	200,000	9,835,000	9,635,000
	<u>110,135,000</u>	<u>5,105,000</u>	<u>9,835,000</u>	<u>114,865,000</u>
Less: Deferred Amounts:				
Issuance (Discounts)				
Premium	2,285,447	136,093	44,886	2,194,240
Refunding Deferred Charge	(156,192)	0	34,748	(121,444)
LONG-TERM DEBT	<u>\$ 112,264,255</u>	<u>\$ 5,241,093</u>	<u>\$ 9,914,634</u>	<u>\$ 116,937,796</u>

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 7 - Long-Term Debt (Continued)

	<u>Outstanding Principal</u>
General Obligation Note, Series of 2000. Original principal amount of \$10,000,000, maturing through September 30, 2020. The note was advanced by Emmaus General Authority under the Bond Pool Program. Interest is charged at a variable rate equal to the Weekly Rate of the underlying bonds plus .53%. The rate at June 30, 2014 was .06%	\$ 4,720,000
General Obligation Bonds, Series of 2009. Original principal amount of \$11,720,000, maturing through August 1, 2016, bearing interest from 2.0% to 2.9%	3,850,000
General Obligation Bonds, Series A of 2009. Original principal amount of \$13,475,000, maturing through August 1, 2024, bearing interest from 2.0% to 4.4%	9,945,000
General Obligation Bonds, Series of 2010. Original principal amount of \$26,640,000, maturing through May 15, 2031, bearing interest from 2.0% to 4.0%	26,625,000
General Obligation Bonds, Series of 2011. Original principal amount of \$9,700,000, maturing through May 15, 2031, bearing interest from 2.0% to 3.6%	8,405,000
General Obligation Bonds, Series A of 2011. Original principal amount of \$6,875,000, maturing through February 15, 2025, bearing interest from 2.0% to 2.8%	6,865,000
General Obligation Bonds, Series of 2012. Original principal amount of \$15,275,000, maturing through May 15, 2024, bearing interest at 2.0% to 2.5%	13,240,000
General Obligation Bonds, Series A of 2012. Original principal amount of \$25,400,000, maturing through May 15, 2031, bearing interest at 2.0% to 5.0%	23,325,000
General Obligation Bonds, Series of 2013. Original principal amount of \$9,205,000, maturing through November 15, 2030, bearing interest at .25% to 4.0%	8,255,000
General Obligation Bonds, Series A of 2013. Original principal amount of \$9,835,000, maturing through May 15, 2031, bearing interest at .30% to 4.0%	<u>9,635,000</u>
TOTAL	<u><u>\$ 114,865,000</u></u>

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 7 - Long-Term Debt (Continued)

The annual requirements to amortize all debts outstanding as of June 30, 2014 are as follows:

<u>Year Ended:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 5,830,000	\$ 3,672,094	\$ 9,502,094
2016	5,990,000	3,530,612	9,520,612
2017	6,160,000	3,374,856	9,534,856
2018	5,645,000	3,217,359	8,862,359
2019	5,825,000	3,048,640	8,873,640
2020-2024	31,835,000	12,549,629	44,384,629
2025-2029	36,910,000	7,107,501	44,017,501
2030-2031	<u>16,670,000</u>	<u>923,186</u>	<u>17,593,186</u>
TOTAL MATURITIES	114,865,000	37,423,877	152,288,877
Deferred Amounts	<u>2,072,796</u>	<u>(2,072,796)</u>	<u>0</u>
TOTAL	<u>\$ 116,937,796</u>	<u>\$ 35,351,081</u>	<u>\$ 152,288,877</u>

NOTE 8 - Changes in Other Long-Term Liabilities

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>
Accrued Vacation	\$ 172,537	\$ 47,068	\$ 0	\$ 219,605
Accrued Severance and Sick Days	<u>969,572</u>	<u>186,269</u>	<u>0</u>	<u>1,155,841</u>
TOTAL	<u>\$ 1,142,109</u>	<u>\$ 233,334</u>	<u>\$ 0</u>	<u>\$ 1,375,446</u>

NOTE 9 - Fund Balances - General Fund

Nonspendable:		
Prepaid Expenses		\$ 103,707
Committed:		
Future PSERS Obligations		2,943,900
Assigned:		
Future Health Claims		2,942,022
Unassigned		<u>6,167,011</u>
TOTAL FUND BALANCES - GENERAL FUND		<u>\$ 12,156,640</u>

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 10 - Prior Period Adjustment

The June 30, 2013 financial statements have been restated as a result of the District's adoption of Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement required the unamortized balance of debt issuance costs from prior years to be expensed in the year incurred. The effect of the restatement was to reduce net position as of July 1, 2013 by \$1,567,044.

NOTE 11 - Property Tax

Property taxes attach as an enforceable lien on property as of February 1. Taxes are levied on July 1 and payable in the following periods:

Discount Period - July 1 to August 31 - 2% of Gross Levy
 Flat Period - September 1 to October 31
 Penalty Period - November 1 to Collection - 10% of Gross Levy
 Lien Date - January 15

The following is a detail analysis of current year tax revenues:

Assessed Valuation, Adjusted by	
Authorized Revisions	\$ 2,017,863,496
Approved Tax Rate in Mills	<u>28.640</u>
GROSS LEVY	57,791,611
Plus Penalties Applied	174,748
Deductions:	
Discounts	(937,661)
Assessment Changes and Exonerations	(79,276)
State Property Tax Reduction Allocation	(1,239,404)
Taxes Receivable	<u>(1,706,706)</u>
NET CURRENT YEAR PROPERTY TAX REVENUE	<u>\$ 54,003,312</u>

NOTE 12 - Employee Retirement Systems and Pension Plans

School districts in the Commonwealth of Pennsylvania participate in a state-administered pension program. Under the program, contributions are made by each of three parties - the School District, the state and the employee. All full-time employees of the School District, and part-time employees who meet certain minimum employment requirements, participate in the program. The School District's contributions for the year ended June 30, 2014 totaled \$5,223,300. Total covered payroll was \$30,852,334 and total payroll was \$32,749,799 for the current year. The following is a summary of plan benefit and asset information:

Plan Description:

Name of Plan - The Public School Employees' Retirement System of Pennsylvania (the System).

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 12 - Employee Retirement Systems and Pension Plans (Continued)

Type of Plan - Governmental cost sharing multiple-employer defined benefit plan.

Benefits - Retirement and disability, legislative mandated *ad hoc* cost-of-living adjustments, health care insurance premium assistance to qualified annuitants.

Authority - The Public School Employee's Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535).

Annual Financial Report - The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125.

Funding Policy:

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

Contribution Rates - Members contribute from 5.25 to 7.50 percent of their qualifying compensation, depending on when their employment began.

Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2014, the rate of employer contribution was 16.93 percent of covered payroll.

NOTE 13 - Other Post-employment Benefits

Plan Description

The School District provides health benefits, which includes medical, prescription, dental, and vision benefits, as a post-employment benefit to those retirees and their spouses, who meet the qualifying criteria. The health insurance plan is a single employer, defined benefit OPEB plan. Life insurance is also provided to specific groups.

The School District has the following groups of employees: teachers, administrators, confidentials, and support staff, both union and non-union. The eligibility and duration of post-retirement benefits for these groups are defined in either a Collective Bargaining Agreement or Compensation Agreement. Otherwise, they may still qualify for benefits subject to Acts 110 and 43.

The medical, prescription drug, dental and vision benefits are self insured. Medical and prescription benefits are administered by Independence Blue Cross. The dental and vision benefits are through School Claims Services.

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 13 - Other Post-employment Benefits (Continued)

Funding Policy

A retiree may elect to continue his/her current benefit coverage. The amount that the retiree must pay towards health benefits is defined in either a Collective Bargaining Agreement or Compensation Agreement. The School District is responsible for funding the balance of the benefits.

As of June 30, 2014, the School District has no segregated assets to fund this liability. It is the intention of the School District to pay claims as they are incurred.

Funding Progress

As of July 1, 2012, the date of the most recent actuarial report, the actuarial accrued liability for benefits was \$3,843,804, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$27,884,395 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 13.78%.

The projection of future benefit payments for an ongoing plan involves 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 the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan 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 the substantive plan and include the types of benefits provided at the time of each valuation and the historical sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actual value of assets, consistent with the long term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the most recent actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.5% initially, reduced by decrements of .5% to an ultimate rate of 4.5% after eight years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014 was 25 years. Contributions rates for employees and the District are at varying rates. Additional information of the plan may be obtained at the District's administrative office.

PHOENIXVILLE AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

NOTE 13 - Other Post-employment Benefits (Continued)

Annual OPEB Cost and NET OPEB Obligations

The District's annual other Post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the District's net OPEB obligation.

Annual OPEB Cost:	
Amortization of Unfunded Actuarial	
Accrued Liability	\$ 415,985
Interest on Net OPEB Obligation	10,224
Funding Adjustment	<u>(13,949)</u>
ANNUAL OPEB COST	<u>\$ 412,260</u>
Net OPEB Obligation:	
Normal OPEB Obligation July 1, 2013	\$ 189,885
OPEB Cost for the year ended June 30, 2014	412,260
Actual Contributions for the year ended June 30, 2014	<u>(339,614)</u>
NET OPEB OBLIGATION	<u>\$ 262,531</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the year ended June 30, 2014 and the three preceding years were as follows:

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2011	\$ 351,770	96.92%	\$ 150,955
June 30, 2012	351,593	101.22%	146,649
June 30, 2013	413,371	89.54%	189,885
June 30, 2014	412,260	82.38%	262,531

NOTE 14 - Subsequent Events

The District has evaluated subsequent events through December 22, 2014, which represents the date the financial statements were available to be issued.

In August 2014, the District authorized the incurrence of a General Obligation Bond in the principal amount of \$2,633,000 for the purpose of refunding a portion of the General Obligation Bonds of 2009.

In October 2014, the District authorized the incurrence of a General Obligation Bond in the principal amount of \$10,000,000 for the purpose of funding a portion of the new costs related to constructing the new Early Learning Center.

PHOENIXVILLE AREA SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Revenues	\$ 66,164,161	\$ 66,164,161	\$ 65,426,398	\$ (737,763)
State Program Revenues	11,862,678	11,862,678	12,389,735	527,057
Federal Program Revenues	695,000	695,000	860,172	165,172
TOTAL REVENUES	78,721,839	78,721,839	78,676,305	(45,534)
Expenditures:				
Regular Programs	32,242,824	32,642,312	32,291,622	350,690
Special Programs	10,155,335	9,844,835	9,827,111	17,724
Vocational Programs	2,558,999	2,578,999	2,578,691	308
Other Instructional Programs	195,000	120,000	60,166	59,834
Pupil Personnel Services	3,076,850	3,266,600	3,264,268	2,332
Instructional Staff Services	1,673,776	1,579,117	1,526,687	52,430
Administrative Services	4,199,144	4,198,644	4,193,216	5,428
Pupil Health	627,318	652,318	648,555	3,763
Business Services	828,224	828,224	767,844	60,380
Operation and Maintenance of Plant Services	5,346,231	5,366,231	5,313,837	52,394
Student Transportation Services	4,011,513	4,056,513	4,054,940	1,573
Central and Other Support Services	1,903,706	1,904,206	1,593,520	310,686
Student Activities	1,393,619	1,393,619	1,579,744	(186,125)
Community Services	68,000	68,000	52,565	15,435
Debt Service	8,854,008	8,739,008	8,738,388	620
TOTAL EXPENDITURES	77,134,547	77,238,626	76,491,154	747,472
EXCESS OF REVENUES OVER EXPENDITURES	1,587,292	1,483,213	2,185,151	701,938
Other Financing Sources (Uses):				
Interfund Transfers Out	(374,887)	(974,887)	(1,440,090)	(465,203)
Transfer - Component Unit	(508,326)	(508,326)	(508,326)	0
Budgetary Reserve	(704,079)	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	(1,587,292)	(1,483,213)	(1,948,416)	(465,203)
NET CHANGE IN FUND BALANCE	0	0	236,735	236,735
Fund Balance - July 1, 2013	11,882,821	11,882,821	11,919,905	37,084
FUND BALANCE - JUNE 30, 2014	\$ 11,882,821	\$ 11,882,821	\$ 12,156,640	\$ 273,819

PHOENIXVILLE AREA SCHOOL DISTRICT
Schedule of Post Employment Benefit Obligation Funding Progress
For the Year Ended June 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2008	\$ 0	\$ 4,718,763	\$ 4,718,763	0%	\$ 25,483,856	18.52%
July 1, 2010	\$ 0	3,345,566	3,345,566	0%	28,208,311	11.86%
July 1, 2012	\$ 0	3,843,804	3,843,804	0%	27,884,395	13.78%