



POTTSTOWN SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Pottstown School District
Pottstown, Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pottstown School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pottstown School District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 9 to the financial statements, effective July 1, 2014, the Pottstown School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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, budgetary comparison schedule for the general fund, pension, and other postemployment benefit information on pages 71 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining nonmajor governmental fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor governmental fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
December 1, 2015**

POTTSTOWN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2015

The following is a discussion and analysis of the Pottstown School District's annual financial performance during the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

DISTRICT HIGHLIGHTS

The Pottstown School District is a school district of the third class, coterminous with the Borough of Pottstown. The District covers an area of 5.1 square miles in a section of Montgomery County. The governing body of the School District is a Board of School Directors comprised of nine members. Members are elected for four-year terms, which expire on a staggered basis. The daily operations and management of the School District are carried out by the administrative staff of the School District headed by the Superintendent of Schools, who is appointed by the Board.

The Pottstown School District consisted of four (4) elementary schools, a middle school, a high school, a closed elementary building, an Administration Building, an Administration Annex Building and two (2) maintenance buildings. Renovations to Barth Elementary School were substantially completed during the 2012-13 school year. Edgewood Elementary School was closed at the end of the 2012-13 school year, but housed the Rupert Elementary School students and staff during 2013-14 and up to November 10 of 2014 of this school year while additions and renovations were completed at the Rupert Elementary School building. Work on additions and renovations to Franklin and Lincoln Elementary Schools also took place during the 2013-14 year and were completed in time for the opening of the 2014-15 school year. The District's enrollment, including out placed students was 3,205 students. The District employs approximately 224 professionals, 236 support staff, and 22 full time and 2 part time administrators. The District's commitment to provide an excellent education for each student can be seen in the quality of programs and opportunities the District maintains and supports.

FINANCIAL HIGHLIGHTS

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The School District uses site-based budgeting, and the budgeting system is designed to tightly control total site budgets but provide flexibility for site management.

- The District's governmental activities experienced a 10.7% growth in net position, exclusive of the impact of implementing GASBs 68 & 71, during the 2014-2015 fiscal year. The net position for governmental activities that include the General Fund, the Capital Projects Fund, and the Internal Service Fund increased by \$623,483. Implementation of GASB 68 and 71 reduced beginning net profit to \$(48,662,800). End of year net position increased by the \$623,483 to \$(48,039,320).

- The net position for business-type activities or Food Service decreased by \$15,452 or 2.5% (exclusive of the impact of implementing GASBs 68 & 71) for the year, which includes depreciation of \$34,891, during the 2014-2015 fiscal year. In 2014-15 the District's Food Service participated in the Community Eligibility Provision which provides free breakfast and lunch to all students and provides a higher subsidy. Participation increased significantly for all students. The cafeteria operates independently from the General Fund.
- Governmental Fund revenues exceeded expenditures by \$1,515,137 for the General Fund. Spending was significantly limited as a result of the uncertainty of state funding, grants and unknown contingencies for the elementary schools renovations project.
- Total General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$915,575 bringing the General Fund balance to \$7,385,705. Revenues were \$690,722 greater than budgeted. Expenditures were \$824,415 under budget with other financial sources (uses) being \$99,562 over the budget as a direct result of the Elementary Schools renovations project.
- Total General Fund revenues were \$690,722 greater than anticipated. Local revenue exceeded the budget by \$161,141. Real Estate Taxes were under collected by approximately \$115,000. This was more than offset by higher than anticipated collections for Occupational, Per Capita and Earned Income Taxes of \$174,000, IDEA passed through the Montgomery County Intermediate Unit (MCIU) of \$174,000 and additional awards from the Kellogg Foundation of \$198,000. State funding was \$345,510 more than budgeted due to increased PSERS contributions. At the time the budget was prepared the state was indicating a lower contribution rate than was realized. Federal revenue exceeded the budget by \$184,071 as a result of additional funding received for the Title I and 21st Century Programs.
- Total General Fund expenditures were less than budgeted by \$824,415. Total Instructional Expenditures were under budget by \$1,014,141 primarily comprised of under expenditures in Regular Educational Programs for both elementary and secondary levels. Total Support Services expenditures were under budget by \$414,601. Debt Service was higher than budgeted by \$30,886. This was offset by transfers to Capital Projects greater than anticipated to help cover costs to the Elementary Schools Renovations project.
- Reserves for future increases in employer contributions to the Public School Employees Retirement System (PSERS) remain at \$3,199,409. A reserve for future transportation needs is \$200,000 with non-spendable funds of \$91,946. Non-spendable funds consist of prepaid expenses and inventories. The remaining fund balance of \$3,394,350 is unassigned, exclusive of the \$500,000 Assigned Fund Balance included in the budget as contingency.
- The net position of the Internal Service Fund for medical costs associated with self-funding decreased \$194,218 to \$3,193,572. This was a direct result of interfund transfers of stop loss payments to the Internal Service Fund. These reserved funds should not be used by the general fund, but should remain available to pay future medical claims.

Fund Level

- The trends of prior years indicated that during the fiscal year 2014-2015 the Pottstown School District would experience another year of significant increases in the costs for special education instruction along with benefits for our employees. Further, with the down turn in the economy, anticipated increases in the employer contribution to PSERS will continue to cause an additional drain on the financial resources of all schools in Pennsylvania.
- At the close of the fiscal year, the General Fund ending fund balance increased by \$915,575 to \$7,385,705 of which \$3,394,350 is unassigned. The remaining General Fund balance is comprised of funds committed for PSERS of \$3,199,409, transportation of \$200,000 and Nonspendable fund balance of \$91,946 and an assigned fund balance of \$500,000 which is used as contingency in the annual budget. The Capital Projects ending fund balance decreased \$2,623,025 to a balance of \$1,272,733 as a result of the progress on the Elementary Schools Project. This is also observed in the Total Governmental fund balance decrease of \$1,696,965 to \$8,734,580 from \$10,431,545. This decrease in total Governmental Funds balance is to be expected as the Elementary Schools Renovations Projects finish.
- A Proprietary Internal Service Fund was established with the Southeastern Pennsylvania Schools Trust (SEPaST) for self-funded medical costs and has a net position of \$3,193,572. This represents a decrease of \$194,218. These funds were a combination of the funds reserved in prior years for medical costs and better experience over the last two years than anticipated in actual medical costs. The decrease is a direct result of reserves exceeding the recommended amount.

OVERVIEW OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

This annual report consists of three parts: (1) management's discussion and analysis, (2) the basic financial statements and (3) required supplementary information. The basic financial statements include two types of financial statements that present different views of the District.

- The first type includes two district-wide or government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The other type and remaining statements are the fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - *Governmental Funds* statements indicate how basic services, such as regular and special education, were financed in the short term as well as indicate future spending plans.
 - *Proprietary Funds* statements offer short-term and long-term financial information about the activities the District operates like a business, such as food services.
 - *Fiduciary Funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, such as Student Activity Funds and Scholarship Funds.

The financial statements also include notes that explain some of the information in the statements, as well as provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to the other.

Figure A-1

Organization of the Pottstown School District Annual Financial Report

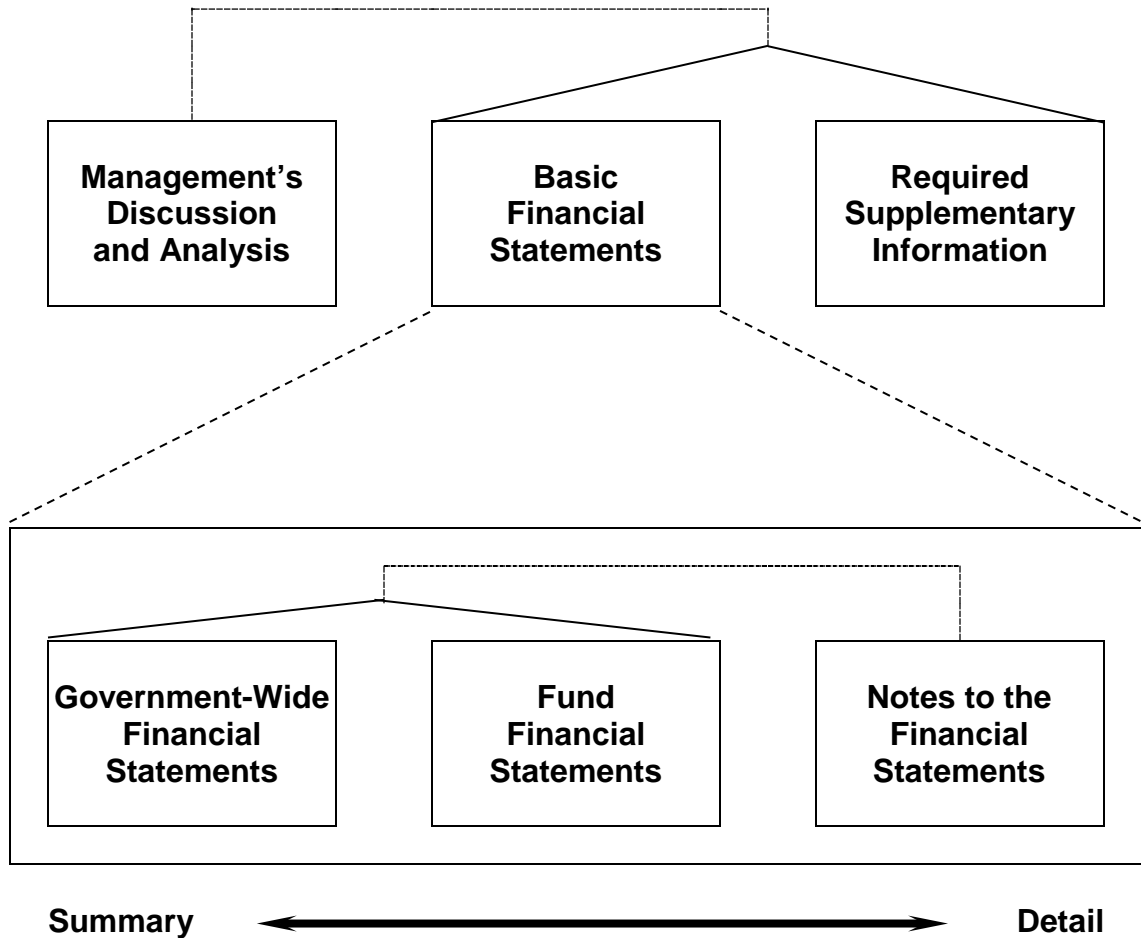


Figure A-2 summarizes the major features of the District's statements. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except Fiduciary Funds)	Activities of the District that are not proprietary or fiduciary, such as general operating and capital projects	Activities the District operates similar to private businesses, such as food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, current and noncurrent and deferred inflows and outflows of resources	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or noncurrent liabilities included	All assets and liabilities, both financial and capital, current and noncurrent and deferred inflows and outflows of resources	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position and the statement of activities are two financial statements that report information about the District as a whole and about its activities that indicate whether the District is better off or worse off as a result of this year's activities. These statements include all the District's assets, deferred outflows, deferred inflows, and liabilities using the accrual basis of accounting. Revenue and expenses are taken into account regardless of when cash is received or paid.

The statement of net position presents all the District's assets, deferred outflows, inflows, and liabilities with the difference reported as "net position." Over time, increases and decreases in net position measure whether the District's financial position is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some events that will result in cash flows in future periods: uncollected taxes, retirement incentives, and unused vacation leave.

Both statements report two activities:

- **Governmental Activities** - Most of the District's basic services, such as regular and special education, maintenance and operation of plant services, are reported under this category. Taxes, state formula aid finance and state and federal grants generally fund these programs.
- **Business-Type Activities** - The only business-type activity in the District is food service operations. The sources of funding for operations consist of charges for meal purchases and federal and state subsidies

Fund Financial Statements

The fund financial statements provide more detailed information about the major individual funds of the District--not the District as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to keep track of specific sources of funding and spending for particular programs. Some funds are required by state law and by bond requirements. The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District's funds are divided into three categories: (1) Governmental, (2) Proprietary, and (3) Fiduciary.

- **Governmental Funds** - Most of the District's basic services are included in Governmental Funds that focus on how money flows into and out of these funds and the balances left at year-end for future spending. The Governmental Funds financial statements provide a detailed short-term view of the general operations and the basic services provided and provide some direction as to whether there will be more or fewer resources that can be spent in the near future to finance the District's programs.

These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. Governmental Funds include the General Fund and the Capital Projects Fund. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information behind the Governmental Funds statements explains the relationship (or differences) between them.

- ***Proprietary Funds*** - Services for which the District charges a fee are generally reported in the Proprietary Funds. These funds utilize the accrual accounting method, which is the same method used by private sector businesses, or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the District charges customers for services it provides, whether to outside customers or to other units in the District, these services are generally reported in the Proprietary Funds. The Food Service Fund is the District's Enterprise Fund and is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows. In addition to the food service enterprise fund, the district has an internal service fund which is used to record the activities associated with self-funding for medical and prescription benefits.
- ***Fiduciary Funds*** - The District acts as a trustee, or fiduciary, for assets that belong to others, such as Scholarship and Agency Funds or Student Activity Funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purposes and by those to whom the assets belong. These activities are excluded from the District-wide financial statements since these assets cannot be used to finance the District's operations.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position increased 1.2% or \$608,031 over the course of the fiscal year's operations for total combined net deficit at June 30, 2015, of (\$49,168,116). The improvement in the District's financial position was derived from its governmental activities, the net position of which grew 1.3% or \$623,483 to (\$48,039,320). The net position of the District's business-type activities decreased 1.4% or \$15,452 to (\$1,128,796).

Figure A – Condensed Statement of Net Assets (in millions)

	Governmental		Business-Type		Total	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Assets						
Current	\$ 20	\$ 28	\$ -	\$ -	\$ 20	\$ 28
Capital assets and other	67	62	-	-	67	62
TOTAL	87	90	-	-	87	90
Deferred outflows of resources	7	6	-	-	7	6
Total Assets & Deferred outflows	\$ 94	\$ 96	\$ -	\$ -	\$ 94	\$ 96
Current and other	10	15	-	-	10	15
Long-term	127	130	1	1	128	131
TOTAL	137	145	1	1	138	146
Deferred inflow of resources	5	-	-	-	5	-
Invested in capital assets, net of related debt	11	9	-	-	11	9
Restricted net assets	1	1	-	-	1	1
Unrestricted net assets	(60)	(59)	(1)	(1)	(61)	(60)
	(48)	(49)	(1)	(1)	(49)	(50)
Total Liabilities & Deferred inflows	\$ 94	\$ 96	\$ -	\$ -	\$ 94	\$ 96

Most of the District's net position are invested in capital assets (buildings, land, and equipment).

The District's net position and deferred inflows decreased by \$2 million. The decrease is comprised of a decrease in Cash and Receivables of \$5.8 million which is to be expected as Accounts Payable decreased \$4.8 million along with Bonds and Notes Payable decreasing \$2.1 million. This is offset by an increase in Capital Assets and SePaST Funds of \$3.1 million primarily as a result of the Elementary Schools Project. In addition the deferred outflows of resources increased \$1.0 million due to the requirement to record Pension Contributions made subsequent to the Measurement Date for implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* and this is offset with an increase of \$5 million in Deferred inflows of resources as a result of the GASB implementation.

The District closely monitors and gives consideration to real estate and economic trends. These considerations are conservatively reflected in the annually approved General Fund budget.

Governmental activities had (125%) of total net position (deficit) as unrestricted. This is the largest component of the District's net position. The Board of Directors and Administration have judiciously followed their capital project's strategy to meet their timeline for investments in capital assets. Business-type activities had an unrestricted net deficit of (106%).

A major portion (84.5%) of the District's total costs for operating programs and services was related to student instruction and support for instruction, including the operation/maintenance of school facilities and transportation as detailed in Figure A-4, Changes in Net Position from Operating Results.

The results of this year's operations as a whole are reported in the statement of activities in the financial statements. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are presented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the Commonwealth of Pennsylvania and the local taxes assessed to community taxpayers.

Figure A-4 takes the information from the statement of activities and rearranges it slightly, so you can see our total revenues for the year. The following table reflects the revenues and expenses for 2014 and 2015.

Figure A-4

Changes in Net Position from Operating Results (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
REVENUES						
Program Revenues						
Charges for Services	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.4	\$ 0.3	\$ 0.5
Operating grants and contributions	11.5	9.7	1.7	1.3	13.2	11
Capital grants and contributions	0.5	0.3	-	-	0.5	0.3
General Revenues						
Property taxes	29.9	29.0	-	-	29.9	29
State aid	11.3	11.1	-	-	11.3	11.1
Other taxes and miscellaneous	2.8	2.8	-	-	2.8	2.8
TOTAL REVENUES	56.1	53.0	1.9	1.7	58.0	54.7
EXPENSES						
Instruction	34.4	32.8	-	-	34.4	32.8
Pupil and instructional services	4.4	4.3	-	-	4.4	4.3
Administration and business	4.3	4.3	-	-	4.3	4.3
Maintenance and operations	6.2	4.7	-	-	6.2	4.7
Transportation	1.9	1.9	-	-	1.9	1.9
Other	4.3	3.9	1.9	1.7	6.2	5.6
TOTAL EXPENSES	55.5	51.9	1.9	1.7	57.4	53.6
CHANGE IN NET ASSETS	\$ 0.6	\$ 1.1	\$ -	\$ -	\$ 0.6	\$ 1.1

The following Figure A-5 presents the expenses of both the governmental activities and the business-type activities of the District.

Figure A-5 - Net Cost of District Activities

Functions/Programs	2015		2014	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 34,397,820	\$ 24,652,761	\$ 32,757,121	\$ 24,674,486
Pupil and instructional services	4,408,034	4,045,938	4,344,235	4,030,990
Administration and business	4,283,492	3,963,198	4,336,414	4,068,076
Maintenance and operations	6,193,722	5,801,852	4,681,397	4,219,306
Transportation	1,943,447	1,425,752	1,927,973	1,498,015
Pupil Health Services/Other	1,632,156	1,431,521	1,638,543	1,453,283
Student activities & community srvcs.	979,168	906,024	944,321	825,359
Interest on long-term debt	1,688,200	1,157,155	1,282,800	991,827
TOTAL GOVERNMENTAL ACTIVITIES	\$ 55,526,039	43,384,201	\$ 51,912,804	41,761,342
Less unrestricted grants, subsidies		<u>11,280,673</u>		<u>11,100,137</u>
TOTAL NEEDS FROM LOCAL TAXES AND OTHER REVENUES		\$ 32,103,528		\$ 30,661,205
Business-Type Activities				
Food Service	\$ 1,912,988	\$ 15,489	\$ 1,710,978	\$ 44,014

Figure A-5 shows the District's six largest functions: instruction, pupil and instructional services, administrative and business services, operation and maintenance of plant, pupil transportation and student activities and community services, as well as each program's net cost (total cost less revenues generated by the activities). This figure also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the end of the 2014-2015 fiscal year, Governmental Funds had a total year-end fund balance of \$8,734,580, a \$1,696,965 decrease from the prior fiscal year's balance of \$10,431,545. The General Fund increased \$915,575 as result of the annual expenditures being under the revenues received at year end primarily as a result of transfers from the internal service fund due to its receipts from stop loss claims for self insured medical costs. Capital Projects decreased \$2,623,025 as a result of the work performed on the Elementary Schools Project.

General Fund Budgetary Highlights

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 after the end of the fiscal year, which is not prohibited by 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 for the financial statements.

The District applies for federal, state, and local grants and these grants cannot always be anticipated in the budgetary process. Budgeted expenditures and other financing uses also increased this same amount to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budget reserve category to specific expenditure areas.

The budgetary reserve is an amount that will be used for unexpected expenditures throughout the fiscal year. Experience indicates that there are certain variables in expenditures where control is difficult, regardless of the care with which the budget is prepared.

The District's budget for fiscal year 2014-2015 anticipated expenditures would match revenues; however, the actual results for the year produced an excess of revenues over expenditures and other financing uses of \$1,415,575. Total revenues received were \$690,722 over budget. Local revenue collected exceeded the budget by \$161,141. This was a direct result of additional grant funding received from the Kellogg Foundation, which was not included in the budget. Funds received from State revenue exceeded the budget by \$345,510 as a result of PreK and PSERS funding being greater than originally indicated by the state. Federal revenues were \$184,071 greater than anticipated as a result of additional funding for the 21st Century program.

Total expenditures were under budget by \$824,415 or 1.5%. Instructional expenditures were \$1,014,141 or 3.0% under spent. Support services were under spent by \$414,601. These under expenditures were offset by over expenditures for Capital Outlay of \$109,844 as a direct result of the Elementary Schools Project and roof replacement.

The District's conservative approach to budgeting is observed by the results indicating that actual revenues were greater than budgeted revenues and actual expenditures were less than budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

For the Pottstown School District, capital assets include land, buildings, furniture and equipment, vehicles and other items which meet the following criteria:

1. The individual asset must have a useful life of greater than one year.
2. The individual asset cost is equal to or greater than \$2,500 or was purchased with debt proceeds.

The District maintains fixed asset records for the above capital assets, as well as for items costing over \$500 with a life extending at least one year. Each department or school is responsible for the protection of these assets.

At June 30, 2015, the District had \$64,886,120 (net of depreciation) invested in a broad range of capital assets, including land, school buildings, administrative offices, athletic facilities, furniture and equipment. Total depreciation expense for the year was \$3,598,949 for governmental activities and \$34,891 for business type activities. Additions were made to governmental activities in the amount of \$5,983,996. This represents a net increase of \$2,348,756 or 3.8% from last year. Construction in Progress for the Elementary Schools project represents the majority of the total increase.

	Governmental Activities		Business Type Activities		Total District	
	<u>2014-15</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2013-14</u>
Land and Constr. In Proc.	\$ 0.3	\$ 20.3	\$ -	\$ -	\$ 0.3	\$ 20.3
Site improvements	1.3	1.5	-	-	1.3	1.5
Buildings and building improvements	61.3	38.5	-	-	61.3	38.5
Furniture and equipment	1.8	2.0	0.1	0.1	1.9	2.1
Vehicles	0.1	0.1	-	-	0.1	0.1
	<u>\$ 64.8</u>	<u>\$ 62.4</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ 64.9</u>	<u>\$ 62.5</u>

Long-Term Debt

At year-end, the District had \$54,282,035 of general obligation bonds and notes payable, net of discounts and premiums. This is a decrease of \$2,075,216 from the previous year as a result of debt payments. Other obligations include compensated absences (accrued vacation pay and sick leave for specific employees of the District). More detailed information about our long-term liabilities is included in the financial statements.

Figure A-7
Outstanding Long-Term Debt (In Millions of Dollars)

	<u>2014-15</u>	<u>2013-14</u>
General obligation bonds and notes	\$ 54.3	\$ 56.4
Other general obligation debt (compensated absences)	<u>0.5</u>	<u>0.7</u>
	<u>\$ 54.8</u>	<u>\$ 57.1</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that may affect its future financial growth.

- The District has completed the Elementary Schools Project. The decision has been made to maintain the Administration Building. Improvements will be necessary in the not too distant future to maintain the building for the long term. Necessary improvements may include items such as roof replacement, mechanical upgrades, window replacement, masonry repairs, asbestos abatement, and cosmetic upgrades such as paint, carpeting, and flooring.
- The Pennsylvania School Employees Retirement System continues to reset the percentage of payroll that school districts must pay as the actuarial projections based on required investment returns are not met. The actual and projected rates for employer contributions are as follows:
 - 2010-11 was 5.64%
 - 2011-12 was 8.65% - an increase of 53.4%
 - 2012-13 was 12.36% - an increase of 42.9%
 - 2013-14 was 16.93% - an increase of 37.0%
 - 2014-15 is 21.4% - an increase of 26.4%
 - 2015-16 projected to be 25.84% – an increase of 20.8%
 - 2016-17 projected to be 30.03% – an increase of 16.2%
 - 2017-18 projected to be 30.25% – an increase of .7%
 - 2018-19 projected to be 31.28% – an increase of 3.4%
 - 2019-20 projected to be 32.08% – an increase of 2.6 %
 - 2020-21 projected to be 32.02% – a decrease of .2%

Starting with 2010-2011 through 2015-2016 the rate increases from 5.64% to 25.84%, an increase of 358.2% over the last five years. Over the next five years, 2015-16 through 2020-21 the rate increases from 25.84% to 32.02%, an increase of 23.9%. From 2010-11 to 2020-21 the rate increases from 5.64% to 32.02% or 467.7% over this 10 year period. (Based on PSERS projections from 6/30/2013.)

- The federal mandates, “No Child Left Behind” and IDEA requirements exceed the federal funding available to pay for it. As a result, these mandates will require additional costs to the taxpayers to meet the requirements.
- The District anticipates rising health care costs in the ensuing fiscal years as indicators report increases significantly above the index. The District moved to the self-funded SEPAST comprised of various county districts to realize administrative savings on health benefits.
- The Affordable Health Care Act will also place a burden on the district through additional manpower to comply along with the potential to look at alternative health care plans.
- The Governor and state legislature passed Act 1 of the 2006 Special Session - Taxpayer Relief Act which has an effect on how school districts budget and raise revenue for education since the 2007-08 fiscal year. This legislation restricts the School District's ability to increase property taxes without voter approval of the District's budget if the budget exceeds an annual inflation index determined by the Commonwealth. The District has never exceeded the index and only raised taxes to half (50%) of the allowable rate as indicated by the index for the 2012-13 school year. There was no tax increase in the 2015-16 budget.

- Legislation was passed which eliminates all but three exceptions of the original exceptions passed under the Act 1 of the 2006 Special Session, allowing Districts to increase local tax effort above the Index without voter approval. The three remaining exceptions are retirement, debt, and special education expenses.
- The District currently has a labor agreement with the Federation of Pottstown Teachers with a contract period of September 1, 2015 through August 31, 2016.
- With the change in Governor, there is uncertainty in the financial support for public schools at the state level as there has not been a state budget approved as of the end of December 2015.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Pottstown School District, 230 Beech Street, Pottstown, PA 19464.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 14,271,980	\$ 145,369	\$ 14,417,349
Taxes Receivable, Net	3,035,092	-	3,035,092
Internal Balances	2,181	(2,181)	-
Intergovernmental Receivables	2,267,016	101,678	2,368,694
Other Receivables	118,754	11,151	129,905
Inventories	21,237	24,664	45,901
Prepaid Expenses	376,709	-	376,709
Funds Held by Southeastern Pennsylvania Schools Trust	2,216,619	-	2,216,619
Capital Assets Not Being Depreciated:			
Land	298,222	-	298,222
Construction-in-Progress	40,151	-	40,151
Capital Assets, Net of Accumulated Depreciation:			
Building and Building Improvements	61,312,370	-	61,312,370
Site Improvements	1,324,114	-	1,324,114
Furniture and Equipment	1,727,848	68,629	1,796,477
Vehicles	114,786	-	114,786
TOTAL ASSETS	87,127,079	349,310	87,476,389
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	232,310	-	232,310
Interest Rate Swap	1,714,501	-	1,714,501
Pension Contributions Subsequent to the Measurement Date	4,594,348	102,554	4,696,902
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,541,159	102,554	6,643,713
LIABILITIES			
Accounts Payable	1,476,116	-	1,476,116
Payroll Deductions and Withholdings	329,055	-	329,055
Accrued Salaries and Benefits	5,473,679	42,396	5,516,075
Accrued Interest	106,347	-	106,347
Unearned Revenues	532,038	3,859	535,897
Interest Rate Option Agreement Deferral	1,714,501	-	1,714,501
Noncurrent Liabilities:			
Due Within One Year	2,118,782	-	2,118,782
Bonds and Notes Payable, Net	52,188,035	-	52,188,035
Long-Term Portion of Compensated Absences	486,214	18,990	505,204
Net Pension Liability	71,729,078	1,415,922	73,145,000
Other Postemployment Benefit Obligation	530,953	-	530,953
TOTAL LIABILITIES	136,684,798	1,481,167	138,165,965
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Expense	5,022,760	99,493	5,122,253
NET POSITION			
Net Investment in Capital Assets	10,767,766	68,629	10,836,395
Restricted for Capital Project	1,378,875	-	1,378,875
Unrestricted (Deficit)	(60,185,961)	(1,197,425)	(61,383,386)
TOTAL NET POSITION (DEFICIT)	\$ (48,039,320)	\$ (1,128,796)	\$ (49,168,116)

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction:							
Regular	\$ 18,649,136	\$ -	\$ 3,606,268	\$ -	\$ (15,042,868)	\$ -	\$ (15,042,868)
Special	11,017,847	-	3,736,997	-	(7,280,850)	-	(7,280,850)
Vocational	1,205,639	-	350,971	-	(854,668)	-	(854,668)
Other Instructional Programs	1,883,602	-	708,261	-	(1,175,341)	-	(1,175,341)
Non Public School Programs	7,651	-	-	-	(7,651)	-	(7,651)
Pre-kindergarten Programs	1,633,945	-	1,342,562	-	(291,383)	-	(291,383)
Total Instructional Services	34,397,820	-	9,745,059	-	(24,652,761)	-	(24,652,761)
Support Services:							
Pupil Personnel	2,189,416	-	204,563	-	(1,984,853)	-	(1,984,853)
Instructional Staff	2,218,618	-	157,533	-	(2,061,085)	-	(2,061,085)
Administration	3,308,413	-	239,454	-	(3,068,959)	-	(3,068,959)
Pupil Health	1,172,876	-	173,078	-	(999,798)	-	(999,798)
Business Services	975,079	-	80,840	-	(894,239)	-	(894,239)
Operation of Plant and Maintenance Services	6,193,722	37,095	354,775	-	(5,801,852)	-	(5,801,852)
Student Transportation Services	1,943,447	620	517,075	-	(1,425,752)	-	(1,425,752)
Central	440,443	-	27,557	-	(412,886)	-	(412,886)
Other Support Services	18,837	-	-	-	(18,837)	-	(18,837)
Total Support Services	18,460,851	37,715	1,754,875	-	(16,668,261)	-	(16,668,261)
Noninstructional Services:							
Student Activities	890,214	54,511	17,225	-	(818,478)	-	(818,478)
Community Services	88,954	-	1,408	-	(87,546)	-	(87,546)
Interest on Long-Term Debt	1,688,200	-	-	531,045	(1,157,155)	-	(1,157,155)
Total Noninstructional Services	2,667,368	54,511	18,633	531,045	(2,063,179)	-	(2,063,179)
Total Governmental Activities	55,526,039	92,226	11,518,567	531,045	(43,384,201)	-	(43,384,201)
Business-Type Activities:							
Food Service	1,912,988	195,669	1,701,830	-	-	(15,489)	(15,489)
Total Primary Government	<u>\$ 57,439,027</u>	<u>\$ 287,895</u>	<u>\$ 13,220,397</u>	<u>\$ 531,045</u>	(43,384,201)	(15,489)	(43,399,690)
General Revenues:							
Taxes:							
Property Taxes					29,898,518	-	29,898,518
Public Utility Realty, Earned Income, LST Tax and Mercantile Taxes					2,754,493	-	2,754,493
Grants, Subsidies, and Contributions Not Restricted to Specific Programs					11,280,673	-	11,280,673
Investment Earnings					37,756	37	37,793
Miscellaneous Income					36,244	-	36,244
Total General Revenues					<u>44,007,684</u>	<u>37</u>	<u>44,007,721</u>
Change in Net Position					623,483	(15,452)	608,031
Net Position (Deficit) - Beginning - Restated					(48,662,803)	(1,113,344)	(49,776,147)
Net Position (Deficit) - Ending					<u>\$ (48,039,320)</u>	<u>\$ (1,128,796)</u>	<u>\$ (49,168,116)</u>

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2015

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 12,831,271	\$ 1,362,393	\$ 78,316	\$ 14,271,980
Taxes Receivable	3,087,046	-	-	3,087,046
Interfund Receivables	1,460,362	15,304	-	1,475,666
Intergovernmental Receivables	2,267,016	-	-	2,267,016
Other Receivables	118,754	-	-	118,754
Inventories	21,237	-	-	21,237
Prepaid Expenditures	70,709	-	-	70,709
TOTAL ASSETS	\$ 19,856,395	\$ 1,377,697	\$ 78,316	\$ 21,312,408
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Interfund Payable	\$ 2,144,438	\$ -	\$ -	\$ 2,144,438
Accounts Payable	1,368,978	104,964	2,174	1,476,116
Payroll Deductions and Withholdings	329,055	-	-	329,055
Accrued Salaries and Benefits	5,498,461	-	-	5,498,461
Unearned Revenues	532,038	-	-	532,038
TOTAL LIABILITIES	9,872,970	104,964	2,174	9,980,108
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	2,597,720	-	-	2,597,720
FUND BALANCES				
Nonspendable Fund Balance	91,946	-	-	91,946
Restricted Fund Balance	-	1,272,733	76,142	1,348,875
Committed for PSERS Increase	3,199,409	-	-	3,199,409
Committed for Transportation Costs	200,000	-	-	200,000
Assigned Fund Balance	500,000	-	-	500,000
Unassigned Fund Balance	3,394,350	-	-	3,394,350
TOTAL FUND BALANCES	7,385,705	1,272,733	76,142	8,734,580
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 19,856,395	\$ 1,377,697	\$ 78,316	\$ 21,312,408

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2015

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$	8,734,580
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$101,407,799 and the accumulated depreciation is \$36,590,308.			64,817,491
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds.			2,545,766
An internal service fund is used by the District to account for future self-insured healthcare costs. The assets and liabilities of the internal service fund are reported with governmental activities.			3,193,572
The net pension and other postemployment benefit obligations are not reflected on the fund financial statements.			(72,688,443)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
	Bonds and Notes Payable	\$	(54,346,000)
	Accrued Interest on Bonds		(106,347)
	Unamortized Bond Premium		(151,248)
	Unamortized Bond Discount		215,213
	Deferred Charge on Bond Refunding		232,310
	Compensated Absences		(486,214)
			<u>(54,642,286)</u>
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES		\$	<u><u>(48,039,320)</u></u>

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2015

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
REVENUES				
Local Sources	\$ 34,125,534	\$ 37,226	\$ 42,701	\$ 34,205,461
State Sources	19,850,510	-	-	19,850,510
Federal Sources	2,144,416	-	-	2,144,416
TOTAL REVENUES	56,120,460	37,226	42,701	56,200,387
EXPENDITURES				
Current				
Instructional Services	32,618,867	-	-	32,618,867
Support Services	15,876,837	-	-	15,876,837
Operation of Noninstructional Services	887,471	-	22,216	909,687
Capital Outlay	1,474,499	4,084,251	-	5,558,750
Debt Service				
Principal	2,061,000	-	-	2,061,000
Interest	1,686,649	-	-	1,686,649
TOTAL EXPENDITURES	54,605,323	4,084,251	22,216	58,711,790
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,515,137	(4,047,025)	20,485	(2,511,403)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	1,953	-	-	1,953
Transfers In	822,485	1,424,000	-	2,246,485
Transfers Out	(1,424,000)	-	(10,000)	(1,434,000)
TOTAL OTHER FINANCING SOURCES (USES)	(599,562)	1,424,000	(10,000)	814,438
NET CHANGE IN FUND BALANCES	915,575	(2,623,025)	10,485	(1,696,965)
FUND BALANCES - BEGINNING	6,470,130	3,895,758	65,657	10,431,545
FUND BALANCES - ENDING	\$ 7,385,705	\$ 1,272,733	\$ 76,142	\$ 8,734,580

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2015

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (1,696,965)**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ 5,983,996	
Less: Depreciation Expense	(3,598,949)	
Less: Gain on Disposals	<u>(1,400)</u>	2,383,647

Because some property taxes will not be collected for several months after the District's year-end, they are not considered as "available" revenues in the governmental funds.

(51,418)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Repayment of Bond and Note Principal	2,061,000	
Amortization of Bond Premium	27,022	
Amortization of Bond Discount	(12,806)	
Amortization of Deferred Charge on Bond Refunding	<u>(26,343)</u>	2,048,873

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources.

10,576

In the statement of activities, certain operating expenses - compensated absences (retirement bonus and sick days) are measured by the amounts earned during the year.

227,977

Increase in net pension liability and other postemployment benefit liability is reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.

(392,885)

An internal service fund is used to account for future self-insured healthcare costs charged to the individual funds. The net revenue of the internal service fund is reported with governmental activities.

(1,906,322)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 623,483

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2015

	Enterprise Fund Food Service	Internal Service Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 145,369	\$ -	\$ 145,369
Intergovernmental Receivables	101,678	-	101,678
Interfund Receivables	877	670,953	671,830
Other Receivables	11,151	-	11,151
Inventories	24,664	-	24,664
Funds held in SePaST Trust	-	2,216,619	2,216,619
TOTAL CURRENT ASSETS	283,739	2,887,572	3,171,311
NONCURRENT ASSETS			
Long-Term Deposit	-	306,000	306,000
Furniture and Equipment, Net	68,629	-	68,629
TOTAL ASSETS	352,368	3,193,572	3,545,940
DEFERRED OUTFLOWS OF RESOURCES			
Pension Contributions Subsequent to the Measurement Date	102,554	-	102,554
LIABILITIES			
CURRENT LIABILITIES			
Interfund Payable	3,058	-	3,058
Accrued Salaries and Benefits	42,396	-	42,396
Unearned Revenues	3,859	-	3,859
TOTAL CURRENT LIABILITIES	49,313	-	49,313
NONCURRENT LIABILITIES			
Compensated Absences	18,990	-	18,990
Net Pension Liability	1,415,922	-	1,415,922
TOTAL LIABILITIES	1,484,225	-	1,484,225
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Expense	99,493	-	99,493
NET POSITION			
Net Investment in Capital Assets	68,629	-	68,629
Restricted Terminal Liability Reserve	-	306,000	306,000
Unrestricted (Deficit)	(1,197,425)	2,887,572	1,690,147
TOTAL NET POSITION (DEFICIT)	\$ (1,128,796)	\$ 3,193,572	\$ 2,064,776

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2015

	<u>Enterprise Fund Food Service</u>	<u>Internal Service Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Food Service Revenue	\$ 195,669	\$ -	\$ 195,669
Charges for Services	<u>-</u>	<u>6,842,690</u>	<u>6,842,690</u>
TOTAL OPERATING REVENUES	195,669	6,842,690	7,038,359
OPERATING EXPENSES			
Salaries	512,047	-	512,047
Employee Benefits	348,861	5,977,522	6,326,383
Purchased Property Services	18,471	-	18,471
Other Purchased Services	215	-	215
Supplies	991,952	-	991,952
Depreciation	34,891	-	34,891
Other	<u>6,551</u>	<u>246,901</u>	<u>253,452</u>
TOTAL OPERATING EXPENSES	<u>1,912,988</u>	<u>6,224,423</u>	<u>8,137,411</u>
OPERATING INCOME (LOSS)	(1,717,319)	618,267	(1,099,052)
NONOPERATING REVENUES			
Earnings on Investments	37	-	37
State Sources	134,320	-	134,320
Federal Sources	<u>1,567,510</u>	<u>-</u>	<u>1,567,510</u>
TOTAL NONOPERATING REVENUES	<u>1,701,867</u>	<u>-</u>	<u>1,701,867</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(15,452)	618,267	602,815
TRANSFERS OUT	<u>-</u>	<u>(812,485)</u>	<u>(812,485)</u>
CHANGE IN NET POSITION	(15,452)	(194,218)	(209,670)
NET POSITION (DEFICIT) - BEGINNING - RESTATED	<u>(1,113,344)</u>	<u>3,387,790</u>	<u>2,274,446</u>
NET POSITION (DEFICIT) - ENDING	<u><u>\$ (1,128,796)</u></u>	<u><u>\$ 3,193,572</u></u>	<u><u>\$ 2,064,776</u></u>

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2015

	Enterprise Fund Food Service	Internal Service Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Users	\$ 181,852	\$ 7,794,175	\$ 7,976,027
Cash Payments to Employees for Services	(1,141,530)	-	(1,141,530)
Cash Payments for Supplies and Other			
Operating Expenses	(906,603)	(246,901)	(1,153,504)
Cash Payments for Health Insurance Costs	-	(6,734,789)	(6,734,789)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(1,866,281)	812,485	(1,053,796)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State Sources	138,077	-	138,077
Federal Sources	1,512,186	-	1,512,186
Transfers Out	-	(812,485)	(812,485)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	1,650,263	(812,485)	837,778
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on Investments	37	-	37
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(215,981)	-	(215,981)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	361,350	-	361,350
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 145,369	\$ -	\$ 145,369

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - CONTINUED

For the Year Ended June 30, 2015

	Enterprise Fund Food Service	Internal Service Fund	Totals
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	\$ (1,717,319)	\$ 618,267	\$ (1,099,052)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	34,891	-	34,891
Donated Commodities	122,233	-	122,233
Changes in Assets and Liabilities:			
Other Receivables	(11,151)	-	(11,151)
Inventories	4,658	-	4,658
Funds held in SePaST Trust	-	(708,267)	(708,267)
Long-Term Deposits	-	(49,000)	(49,000)
Interfund Balances	(343,676)	951,485	607,809
Pension Contributions Subsequent to the Measurement Date	(30,307)	-	(30,307)
Accounts Payable	(16,305)	-	(16,305)
Accrued Salaries and Benefits	32,505	-	32,505
Unearned Revenues	(1,789)	-	(1,789)
Compensated Absences	7,492	-	7,492
Net Pension Liability	(47,006)	-	(47,006)
Deferred Pension Expense	99,493	-	99,493
Total Adjustments	(148,962)	194,218	45,256
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (1,866,281)	\$ 812,485	\$ (1,053,796)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$122,233 of commodities from the U.S. Department of Agriculture.

POTTSTOWN SCHOOL DISTRICT

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS**

June 30, 2015

	<u>Trust Funds Scholarship</u>	<u>Agency Funds Student Activities</u>
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 55,860	\$ 89,526
Accounts Receivable	<u>5,550</u>	<u>-</u>
TOTAL ASSETS	<u>61,410</u>	<u>89,526</u>
LIABILITIES		
CURRENT LIABILITIES		
Other Current Liabilities	<u>3,273</u>	<u>\$ 89,526</u>
NET POSITION HELD IN TRUST FOR SCHOLARSHIPS	<u>\$ 58,137</u>	

POTTSTOWN SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS

For the Year Ended June 30, 2015

	<u>Trust Funds Scholarship</u>
ADDITIONS	
Contributions	\$ 73,110
Earnings on Investments	<u>92</u>
TOTAL ADDITIONS	73,202
DEDUCTIONS	
Scholarships	100
Contributions	407,938
Administration	<u>53,732</u>
TOTAL DEDUCTIONS	<u>461,770</u>
CHANGE IN NET POSITION	(388,568)
NET POSITION - BEGINNING OF YEAR	<u>446,705</u>
NET POSITION - END OF YEAR	<u><u>\$ 58,137</u></u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

Pottstown School District (the "District") is located in Montgomery County, Pennsylvania. The District is comprised of five elementary schools, one middle school, and one high school and serves approximately 3,000 students.

The Pottstown School District is governed by a board of nine school directors who are residents of the District and who are elected every two years, on a staggered basis, for a four-year term. The board of school directors has the power and duty to establish, equip, furnish and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such district, between the ages of six and twenty-one years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any school herein provided, or to pay any school indebtedness which the District is required to pay, or to pay an indebtedness that may at any time hereafter be created by the District, the board of school directors are vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual state appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the District (the primary government) and its component units.

The District used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, etc.) within its reporting entity. The criteria used by the District for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the District reviews the applicability of the following criteria. The District is financially accountable for:

- Organizations that make up the legal District entity.
- Legally separate organizations if District officials appoint a voting majority of the organizations' governing body and the District is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District as defined below.

Impose its will - If the District can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

Financial benefit or burden - exists if the District (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization; or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the District. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the District.

Based on the foregoing criteria, the District has determined it has no component units.

Governments commonly enter into special arrangements with each other to provide or obtain needed services. A common type of such an arrangement is a joint venture. In addition to joint ventures, governments also enter into contracts to plan for and address certain activities for their mutual benefits; i.e., a jointly governed organization. The District has one of the latter of these relationships:

Jointly Governed Organizations: The District is a participating member of the Montgomery County Intermediate Unit (MCIU). The MCIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve MCIU's annual operating budget.

The MCIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no ongoing financial interest or responsibility in the MCIU. The MCIU contracts with participating districts to supply special education services, computer services, and to act as a conduit for certain federal programs.

B. Basis of Presentation - Government-Wide Financial Statements

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide statements include separate columns for the governmental and business-type activities of the primary government, as well as any discretely presented component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions are reported separately from business-type activities which rely to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements - continued

The statement of activities demonstrates the degree to which the direct expenses of a given function to the District are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include 1) charges to customers or others who purchase, use, or directly benefit from services or goods provided by a given function or 2) grants and contributions that are restricted to meet the operational or capital requirements of a function. Taxes and other items properly not included in program revenues are reported as general revenues.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the contributions made to any component units from the District's governmental funds and transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions would distort the direct costs and program revenues reported for the various functions concerned.

C. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The District Reports the Following Major Governmental Funds:

General Fund: This fund is established to account for resources devoted to financing the general services that the District performs. Intergovernmental revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund. The fund is charged with all costs of operating the District for which a separate fund has not been established.

Capital Projects Fund: This fund is established to account for financial resources to be used for the acquisition or construction of major capital equipment and facilities (other than those financed by proprietary funds).

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District has the Following Major Enterprise Fund:

Food Service Fund: This fund accounts for all revenues, food purchases, and costs and expenses for the food service program. The food service fund is the District's only major enterprise fund where the intent of the governing body is that the costs of providing food services are covered by user charges and subsidies received.

Additionally, the District Reports the Following Fund Types:

Internal Service Fund: This fund accounts for the financing of services provided to other departments or agencies of the government on a cost reimbursement basis. The District's internal service fund is a major proprietary fund used to account for the activity related to the District's self-insured medical, vision, and prescription drug plan. Since this fund supports largely governmental activities, it is included in governmental activities in the government-wide statements.

Fiduciary Funds: The District's fiduciary funds are trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's only trust funds are the private-purpose trusts. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's student activity fund is an agency fund.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as interfund receivables and payables. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus*, and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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.

The 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 government considers revenues to be available if they are collected within 60 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The trust fund is reported using the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process

An operating budget is adopted prior to the beginning of each year for the General Fund on the modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

In accordance with Act 1 of 2006, the board shall annually, but not later than the first business meeting of January, decide the budget option to be used for the following fiscal year. The board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

Accelerated Budget Process Option

Under this option, a preliminary budget must be prepared 150 days prior to the primary election. Under this option, the preliminary budget must be available for public inspection at least 110 days prior to the primary election. The board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption. The adoption must occur at least 90 days prior to the primary election.

If the primary budget exceeds the increase authorized by the Index, an application for an exception may be filed with either a Court of Common Pleas with jurisdiction of PDE and made available for public inspection. The board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

The final budget shall include any necessary changes from the adopted preliminary budget. Any reduction required as the result of the failure of referendum shall be clearly stated. The final budget shall be made available for public inspection at least 20 days prior to final adoption. The board shall annually adopt the final budget by a majority vote of all members of the board prior to June 30.

Board Resolution Option

Under the Board Resolution Option, the board shall adopt a resolution that it will not raise the rate of any tax for the following fiscal year by more than the Index. Such resolution shall be adopted no later than 110 days prior to the primary election. At least 30 days prior to adoption of the final budget the board shall prepare a proposed budget. The proposed budget shall be available for public inspection at least 20 days prior to adoption of the budget. The board shall give public notice of its intent to adopt at least 10 days prior to adoption of the proposed budget. The board shall annually adopt the final budget by a majority vote of all members of the board by June 30.

Legal budgetary control is maintained at the sub-function/major object level. The PA School Code allows the school board to make budgetary transfers between major function and major object codes only within the last nine months of the fiscal year, unless there is a two-thirds majority of the board approving the transfer. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2014/15 budget transfers.

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

The District's reporting entity considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments are stated at fair value, except:

- a) Nonparticipating interest earning investment contracts are recorded at amortized cost;
- b) Money market investments and participating interest earning investment contracts that mature within one year of acquisition are recorded at amortized cost; and,
- c) Investments held in 2a7-like pools (Pennsylvania Local Government Investment Trust and Pennsylvania School District Liquid Asset Fund) are recorded at the pool's share price.

2. Receivables/Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Inventories and Prepaid Items

Inventories are presented at the lower of cost or market on a first-in, first-out basis and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. The inventories on hand at June 30, 2015 consist of the following:

Paper supplies	<u>\$ 21,237</u>
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POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

4. Inventories and Prepaid Items - continued

Inventories of the Enterprise Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2015, consist of the following:

Purchased food and supplies	<u>\$ 24,664</u>
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Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The costs of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

5. Capital Assets, Depreciation, and Amortization

The District's capital assets with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The District generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

5. Capital Assets, Depreciation, and Amortization - continued

Estimated useful lives, in years, for depreciable assets are as follows:

<u>Assets</u>	<u>Years</u>
Building and building improvements	5 - 40
Site improvements	15 - 40
Furniture and equipment	5 - 20
Vehicles	5 - 7

Interest costs incurred during the construction phase of capital assets are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District currently has three items that qualify for reporting in this category, which are a deferred charge on bond refunding, interest rate swap, and a deferred pension contribution reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The interest rate derivative is deemed a hedge instrument and is reported as a deferred outflow on the government-wide statement of net position. A deferred pension contribution results from contributions made to the pension plan subsequent to the measurement date and prior to the District's year end. The contributions will be recognized as a reduction in net pension liability in the following year.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

6. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items that qualify for reporting in this category. The first item, *deferred pension expense*, relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, or differences between employer contributions and the proportionate share of total contributions reported by the pension plan. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow. The second item, *unavailable revenue*, arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source - property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide and fund financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

8. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets component of net position is comprised of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall net investment in capital assets. The restricted component of net position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of net position is unrestricted.

The District applies restricted resources first when an expense is incurred for purposes for which both the restricted and unrestricted components of net position are available.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

9. Fund Balance Policies and Flow Assumptions

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of school directors is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board of school directors may assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The District's unassigned and assigned fund balance of the General Fund should not be less than five percent of the following year's budgeted expenditures.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. The District's policy states there are no restrictions on the order of the unrestricted fund balances used when an expenditure is incurred for a purpose in which unrestricted fund balance amounts are available under committed, assigned, or unassigned fund balance. The decision will be made at the discretion of the business manager.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense

1. Program Revenues

Amounts reported as 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 (including special assessments) that are restricted to meeting the operations or capital requirements of a particular function or segment. All taxes and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Compensated Absences

Vested or accumulated vacation and sick leave is expected to be liquidated with expendable available financial resources and is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. Vested or accumulated vacation or sick leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

District employees earn sick leave depending upon their classification. A total of 300 sick days may be accumulated. Upon retirement, eligible employees are paid an established rate per day ranging from \$20 to \$70, depending upon their classification. In addition, the District is required to pay eligible employees for unused vacation.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 fund and internal service fund are charges to customers for sales and services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

H. Other Use of Estimates

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

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with finance related legal and contractual provisions

The District has no material violations of finance related legal and contractual provisions.

B. Deficit fund balance or net position of individual funds

Deficit Fund Balance - Proprietary Fund (Food Service Fund)

For the year ended June 30, 2015, the implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* created a deficiency in net position at year-end of \$1,128,796. The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at a rate required by PSERS.

C. Excess of expenditures over appropriations in individual funds

For the year ended June 30, 2015, the General Fund had an excess of expenditures over appropriations of \$599,585. The District used revenues in excess of budgeted amounts to fund the excess expenditures.

D. Budgetary compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year-end; therefore, it does not have any outstanding encumbrances at June 30, 2015. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

NOTE 3 - CASH AND INVESTMENTS

The deposit and investment policy of the District adheres to state statutes. There were no deposits or investment transactions during the year that were in violation of either the state statutes or the policy of the District.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

The breakdown of total cash and investments at June 30, 2015 is as follows:

Petty cash	\$ 837
Certificates of deposit	23,054
Cash	8,339,156
Pooled cash and investments	<u>6,199,688</u>
	<u>\$ 14,562,735</u>

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does have a policy for custodial credit risk on deposits. At June 30, 2015 the carrying amount of the District's deposits was \$8,339,156 and the bank balance was \$8,339,964. Of the bank balance, \$541,392 was covered by federal depository insurance, and \$7,798,572 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72.

A portion of the District's deposits are in the Pennsylvania School District Liquid Asset Fund (PSDLAF), the PA Treasury Invest Program, and the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the funds act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit.

Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds 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, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law, therefore, shall be pledged by the depository.

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

As of June 30, 2015, the District had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
Certificates of Deposit	1 - 10 months	\$ 23,054
PA School District Liquid Asset Fund		6,662,953
PA Invest		603
PA Local Government Investment Trust (PLGIT)		<u>53,612</u>
Total Investments and Pooled Cash		6,740,222
Less Reconciling Item		<u>(517,480)</u>
Total Investments		<u><u>\$ 6,222,742</u></u>

Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF, PA Invest, and PLGIT act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit. The above certificates of deposit are individually covered by federal depository insurance.

Interest Rate Risk

The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District has an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2015, the District's investments were rated as:

<u>Investment</u>	<u>Standard & Poor's</u>
PA School District Liquid Asset Fund	AAA
PA Invest	AAA
PA Local Government Investment Trust	AAA

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one issuer.

Custodial Credit Risk

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

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has one independently elected tax collector who is responsible for the collection of taxes. Assessed values are established by the County's Board of Assessment. All taxable real property was assessed at \$813,390,719. In accordance with Act 1 of 2006, the District received \$1,618,228 in property tax reduction funds for the 2014/2015 fiscal year. The District tax rate for the year ended June 30, 2015 was 39.252 mills (\$39.252 per \$1,000 of assessed valuation) as levied by the board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - January 14	10% penalty period
January 15	Lien date

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

The District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by administration. A portion of the net amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance reported as unavailable revenue under deferred inflows of resources in the fund financial statements.

The balances at June 30, 2015 are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate	\$ 3,042,590	\$ 51,954	\$ 2,990,636	\$ 392,916	\$ 2,597,720
Earned Income Tax	18,677	-	18,677	18,677	-
Other	25,779	-	25,779	25,779	-
	<u>\$ 3,087,046</u>	<u>\$ 51,954</u>	<u>\$ 3,035,092</u>	<u>\$ 437,372</u>	<u>\$ 2,597,720</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2015:

Receivable	General Fund	Proprietary Fund - Food Service
Commonwealth of PA - Retirement	\$ 602,860	\$ -
Commonwealth of PA - Rent	506,367	-
Commonwealth of PA - Access	66,314	-
Commonwealth of PA - Transportation	10,764	-
Commonwealth of PA - DCNR	150,000	-
Federal Subsidies - IDEA	466,165	-
Federal Subsidies - Title I	23,510	-
Federal Subsidies - Title III	3,636	-
Federal Subsidies - Secondary Allocations	26,064	-
Federal Subsidies - Access	2,277	-
Federal Subsidies - 21st Century	323,783	-
Other Local Agencies	85,276	-
Federal Subsidies - Food	-	97,274
State Subsidies - Food	-	4,404
	<u>\$ 2,267,016</u>	<u>\$ 101,678</u>

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND INTERFUND TRANSFERS

Interfund Receivables/Payables

The District had the following interfund receivables/payables at June 30, 2015:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 1,460,362	\$ 2,144,438
Capital Projects Fund	15,304	-
Food Service Fund	877	3,058
Internal Service Fund	<u>670,953</u>	<u>-</u>
	<u><u>\$ 2,147,496</u></u>	<u><u>\$ 2,147,496</u></u>

Interfund receivables and payables exist as a result of a time lag between dates when payments between funds are made. All will be paid within one year.

Interfund Transfers

The District made the following interfund operating transfers during the fiscal year ended June 30, 2015:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 822,485	\$ 1,424,000
Capital Projects Fund	1,424,000	-
Nonmajor Fund - Debt Service	-	10,000
Internal Service Fund	<u>-</u>	<u>812,485</u>
	<u><u>\$ 2,246,485</u></u>	<u><u>\$ 2,246,485</u></u>

Interfund transfers were made to cover debt service requirements, fund future capital needs and repay original funds advanced at startup.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

Governmental Activities

	Beginning Balance	Increase	Reclass/ Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 298,222	\$ -	\$ -	\$ 298,222
Construction-in-progress	20,047,361	5,542,147	(25,549,357)	40,151
Total not being depreciated	20,345,583	5,542,147	(25,549,357)	338,373
Capital assets being depreciated:				
Buildings and building improvements	62,372,795	-	25,516,249	87,889,044
Site improvements	3,216,367	-	(49,484)	3,166,883
Furniture and equipment	8,932,217	404,059	33,108	9,369,384
Vehicles	680,652	37,790	(74,327)	644,115
Total being depreciated	75,202,031	441,849	25,425,546	101,069,426
Less accumulated depreciation for:				
Buildings and building improvements	23,844,275	2,732,399	-	26,576,674
Site improvements	1,725,675	166,578	(49,484)	1,842,769
Furniture and equipment	7,007,227	634,309	-	7,641,536
Vehicles	536,593	65,663	(72,927)	529,329
Total accumulated depreciation	33,113,770	3,598,949	(122,411)	36,590,308
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	42,088,261	(3,157,100)	25,547,957	64,479,118
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	\$ 62,433,844	\$ 2,385,047	\$ (1,400)	\$ 64,817,491
Business-Type Activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 860,842	\$ -	\$ -	\$ 860,842
Accumulated depreciation for:				
Furniture and equipment	757,322	34,891	-	792,213
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 103,520	\$ (34,891)	\$ -	\$ 68,629

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions/programs of the governmental activities of the primary government as follows:

Instructional:	
Regular	\$ 633,440
Special	259,168
Vocational	48,520
Other Instructional Programs	18,179
Pre-kindergarten Programs	11,141
	<u>970,448</u>
Support Services:	
Pupil Personnel	113,072
Instructional Staff	424,619
Administration	138,308
Pupil Health	46,089
Business Services	46,910
Operation and Maintenance of Plant Services	1,711,159
Student Transportation Services	76,506
Central Support	16,970
	<u>2,573,633</u>
Noninstructional Services:	
Student Activities	41,892
Community Services	12,976
	<u>54,868</u>
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u><u>\$ 3,598,949</u></u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 - GENERAL LONG-TERM DEBT

General Obligations Bonds and Notes Payable are as follows:

<u>General Obligation Bonds, Series of 2014:</u> The General Obligation Bonds, Series of 2014, aggregate principal of \$6,730,000, were issued on April 25, 2014, for the purpose of providing funds for various capital projects of the District. The bonds mature from June 1, 2019 to June 1, 2035. Bonds maturing on June 1, 2019, 2024, 2029, and 2033 are subject to mandatory redemption. Maturity schedule reflects mandatory redemption amounts. Interest rates range from 1.5% to 4.25%.	\$ 6,725,000
<u>General Obligation Bonds, Series of 2013:</u> The General Obligation Bonds, Series of 2013, aggregate principal of \$10,000,000, were issued on November 26, 2013, for the purpose of providing funds for various capital projects of the District. The bonds mature from June 1, 2020 to June 1, 2033. Bonds stated to mature June 1, 2020 are subject to mandatory redemption beginning 2015. Maturity schedule reflects mandatory redemption amounts. Interest rates range from 2.25% to 4.1%.	9,990,000
<u>General Obligation Bonds, Series of 2012:</u> The General Obligation Bonds, Series of 2012, aggregate principal of \$5,315,000, were issued on April 3, 2012, for the purpose of currently refunding the outstanding General Obligation Bonds, series A of 2006. The bonds mature from April 1, 2013 to April 1, 2019. Interest rates range from 1.5% to 2.0%. Total cash flow savings was \$435,442 related to current refinancing.	3,360,000
<u>General Obligation Bonds, Series of 2011:</u> The General Obligation Bonds, Series of 2011, aggregate principal of \$10,000,000, were issued on November 3, 2011, for the purpose of providing funds for various capital projects of the District. The bonds mature from January 1, 2017 to June 1, 2031. Interest rates range from 2.0% to 3.9%.	9,985,000
<u>General Obligation Bonds, Series A of 2010:</u> The General Obligation Bonds, Series A of 2010, aggregate principal of \$16,715,000, were issued on October 15, 2010, for the purpose of currently refunding the outstanding General Obligation Bonds, series of 2005 and 2006. The bonds mature from June 1, 2011 to June 1, 2027. Interest rates range from 0.5% to 3.5%. Total cash flow savings was \$978,865 related to current refinancing.	13,200,000
<u>General Obligation Bonds, Series B of 2010:</u> The General Obligation Bonds, Series A of 2010, aggregate principal of \$1,865,000, were issued on October 15, 2010, for the purpose of providing funds for various capital projects of the District. The bonds mature from June 1, 2011 to June 1, 2020. Interest rates range from 2.0% to 3.0%.	1,030,000

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 - GENERAL LONG-TERM DEBT - CONTINUED

General Obligation Notes, Series of 2002: The General Obligation Notes, Series of 2002, aggregate principal of \$2,000,000, were issued on November 12, 2002, for the purpose of financing certain renovations and improvements of buildings within the District. The bonds mature from June 25, 2004 to June, 25, 2022. Interest rates are variable. 870,000

General Obligation Notes, Series of 2000: The General Obligation Notes, Series of 2000, aggregate principal of \$9,200,000, were issued on September 8, 2000, for the purpose of financing certain renovations and improvements of buildings within the District. The bonds mature from April 25, 2002 to April 25, 2028. Interest rates are variable. 9,186,000

TOTAL BONDS AND NOTES PAYABLE \$ 54,346,000

The future annual payments required to amortize all outstanding bonds and notes are as follows:

	<u>Principal</u>	<u>Interest *</u>
2016	\$ 2,094,000	\$ 1,622,559
2017	2,133,000	1,581,864
2018	2,177,000	1,540,442
2019	2,231,000	1,490,482
2020	2,288,000	1,433,377
2021 - 2025	12,433,000	6,408,486
2026 - 2030	14,400,000	4,831,889
2031 - 2035	<u>16,590,000</u>	<u>2,059,788</u>
	<u><u>\$ 54,346,000</u></u>	<u><u>\$ 20,968,887</u></u>

* Includes interest for variable rate debt at 0.945%.

Subsequent to June 30, 2015, the District issued General Obligation Note, Series of 2015 in the original amount of \$10,000,000. The funds will be used to currently refund a portion of the outstanding General Obligation Bonds, Series of 2010A and to pay expenses of issuing the notes. Principal maturities occur on June 1, 2016 through maturity in 2027. Interest is payable in semi-annually on June 1 and December 1 at a rate of 2.44 percent. The District realized a savings of \$235,000 as a result of the refunding.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 8 - GENERAL LONG-TERM DEBT - CONTINUED

Long-term liabilities and activity, except for the net pension liability and other postemployment benefit obligation, for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
General Obligation Debt:					
Bonds and notes payable	\$ 56,407,000	\$ -	\$ 2,061,000	\$ 54,346,000	\$ 2,094,000
Less deferred amounts:					
For issuance discounts	(228,019)	-	(12,806)	(215,213)	-
For issuance premiums	<u>178,270</u>	<u>-</u>	<u>27,022</u>	<u>151,248</u>	<u>-</u>
Subtotal	56,357,251	-	2,075,216	54,282,035	2,094,000
Other Liabilities:					
Compensated absences	<u>727,621</u>	<u>70,466</u>	<u>287,091</u>	<u>510,996</u>	<u>24,782</u>
 TOTAL GOVERNMENTAL LONG-TERM LIABILITIES	 <u><u>\$ 57,084,872</u></u>	 <u><u>\$ 70,466</u></u>	 <u><u>\$ 2,362,307</u></u>	 <u><u>\$ 54,793,031</u></u>	 <u><u>\$ 2,118,782</u></u>
 Business-Type Activities					
Other Liabilities:					
Compensated absences	<u><u>\$ 11,498</u></u>	<u><u>\$ 7,506</u></u>	<u><u>\$ 14</u></u>	<u><u>\$ 18,990</u></u>	<u><u>\$ -</u></u>

Funds to repay outstanding bonds and notes will be provided from future taxes or other general revenues of the general fund. The compensated absence liabilities will be liquidated by the general fund and the food service fund. Total interest expense paid during the year was \$1,686,649.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Restatement of Beginning Net Position

Effective July 1, 2014, the District adopted Governmental Accounting Standards Board Statements No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, to be in conformity with generally accepted accounting principles.

Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures in order to improve accounting and financial reporting by governments for pensions. The statement also enhances note disclosure and required supplementary information for government pension plans.

Statement No. 71 establishes standards for recording and reporting contributions made to a defined benefit plan after the measurement date of the government's beginning net pension liability.

The adoption of these standards resulted in the District restating beginning net position as of July 1, 2014 in governmental activities for \$70,445,386 and the food service fund for \$1,390,681 to account for the net pension liability as of June 30, 2014 (measurement date of June 30, 2013) and deferred outflows for pension contributions made subsequent to the measurement date. Governmental activities net position decreased from \$21,782,583 to (\$48,662,803) and business-type activities net position decreased from \$277,337 to (\$1,113,344).

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

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

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

General Information about the Pension Plan

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania under Title 24 Part IV of the Pennsylvania General Assembly. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

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

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

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

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Contributions

The contribution policy is set by state statute and requires contributions by active members, employers, and the Commonwealth of Pennsylvania.

Member Contributions:

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

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

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

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

Employer Contributions:

The District's contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The rate was certified by the PSERS Board of Trustees. Contributions to the pension plan from the District were \$4,696,902 for the year ended June 30, 2015.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2015, the contribution rate was 0.90 percent of covered payroll and the District contributed \$206,205.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. The total reimbursement recognized by the District for the year ended June 30, 2015 was \$2,897,878.

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

At June 30, 2015, the District reported a liability of \$73,145,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was 0.1848 percent, which was an increase of 0.0002 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$6,306,452. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 5,229,000
Changes in proportions	66,000	-
Difference between employer contributions and proportionate share of total contributions	40,747	-
Contributions made subsequent to the measurement date	4,696,902	-
	<u>\$ 4,803,649</u>	<u>\$ 5,229,000</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

The \$4,696,902 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2016	\$ 1,280,813
2017	1,280,813
2018	1,280,813
2019	1,280,814
2020	<u>(1,000)</u>
	<u>\$ 5,122,253</u>

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level percent of pay
- Investment return - 7.50 percent, includes inflation at 3.00 percent
- Salary increases - Effective average of 5.50 percent, which reflects an allowance for inflation of 3.00 percent, real wage growth of 1 percent, and merit or seniority increases of 1.50 percent
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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

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

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

Discount Rate

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 91,238,000	\$ 73,145,000	\$ 57,698,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2015, the District had an accrued balance due to PSERS of \$1,248,229. This amount represents the District's contractually obligated contributions for wages earned in April 2015 through June 2015. The balance will be paid in September 2015.

403(b) Tax Shelter Plan

The District has established a 403(b) tax shelter plan permitting the establishment of accounts for school employees to voluntarily set aside monies to supplement their retirement income. All school employees are eligible to participate. The District does not contribute to the Plan.

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Pottstown School District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The Plan provides medical and prescription drug insurance for eligible retirees, their spouses and dependents through the District's health insurance plan, which covers both active and retired members until the member reaches Medicare age. Benefit provisions are established through negotiation with the District and the unions representing the District's employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements also are negotiated between the District and union representatives. The required contribution is based on pay-as-you-go financing. The District currently provides the following plans:

Administrators:

Administrators retired between July 1, 2007 and June 30, 2008 or between July 1, 2009 and June 30, 2010 who have 20 years of service with the District, 20 years of PSERS service and are eligible for PSERS retirement, the retiree must pay full premium for vision and dental. The District will pay 100% of single coverage for the core plan up to \$5,000 per year for up to ten years.

Administrators retired before June 30, 2007, between July 1, 2008 and June 30, 2009, or after July 1, 2010 with at least 25 years of service with the district and eligible for PSERS retirement, the retiree pays full premium for vision and dental. The District will pay 100 percent of the single coverage premium for the core plan for medical and prescription drug.

Teachers, Support Staff, and Cafeteria Staff:

Teachers, support staff, and cafeteria staff retired between September 1, 1996 and June 30, 2007 must pay full premium for vision and dental. For medical and prescription drug, the District will pay \$175 per month towards retiree's premium only for up to ten years.

Teachers, support staff, and cafeteria staff retired between July 1, 2007 and June 30, 2008 or between July 1, 2009 and June 30, 2012 with at least 20 years of service with the District, 20 years of PSERS service and are eligible for PSERS retirement must pay full premium for vision and dental. For medical and prescription drug, the District will pay 100 percent of the single coverage premium for the core plan up to \$5,000 per year for up to ten years.

Under Act 110/43, any employee who is eligible - age 60 with 30 years of service; age 62 with one year of service; or 35 years of service, regardless of age, is allowed to continue coverage for themselves and their dependents until the member reaches Medicare age. The retiree is responsible for payment equal to the premium determined for the purposes of COBRA.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 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 changes in the District's net OPEB obligation:

Annual required contribution	\$ 688,422
Interest on net OPEB obligation	6,213
Adjustment to annual required contribution	<u>(8,476)</u>
Annual OPEB Cost	686,159
Contributions made (estimated)	<u>(293,274)</u>
Estimated increase in net OPEB obligation	392,885
Net OPEB obligation - beginning of year	<u>138,068</u>
Net OPEB obligation - end of year	<u><u>\$ 530,953</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 686,159	42.74%	\$ 530,953
6/30/2014	386,785	84.78%	138,068
6/30/2013	387,431	89.83%	79,186

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Funded Status and Funding Progress

As of May 1, 2014, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$5,725,496, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,725,496. The covered payroll (annual payroll of active employees covered by the Plan) was \$21,089,150, and the ratio of the UAAL to the covered payroll was 27.15 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, 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 supplementary information following the notes to the financial statements, presents information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of 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 actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially, decreasing by 0.5 percent per year to an ultimate rate of 5.5 percent in 2016. Rates gradually decrease from 5.3 percent in 2017 to 4.2 percent in 2089 and later. The unfunded actuarial accrued liability is being amortized using single period amortization as of the end of the year based on level dollar, 20-year open period.

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 11 - DERIVATIVE INSTRUMENT

Introduction

The District follows accounting guidance for derivative instruments. All derivatives are to be reported on the statement of net position at fair value, and depending on whether a derivative is deemed a hedge or an investment instrument, the changes in fair value are either reported on the statement of net position as a deferral, or in the statement of activities as investment revenue or loss.

The District engaged an independent party to perform the valuation on the two derivative instruments that it holds. Both the District's basis swaps qualify and are considered hedging derivative instruments with the fair value of the derivative reported as deferred outflow of \$1,714,501. The swap transactions were considered effective under both the consistent critical terms and the quantitative method standards.

Terms and Fair Value

The terms as of June 30, 2015, are as follows:

Government Activity	Objective	Principal Amount at Issuance	Closing Date	Maturity Date	Interest		Market Value
					Paid	Rate (1)	
Effective Hedges							
2000 Note SWAP	Provide fixed interest rate to borrowers	\$ 9,200,000	09/08/2000	04/25/2028	\$ 86,583	0.945%	\$ 1,566,170
2002 Note SWAP	To hedge exposure to changes in long-term interest rates	2,000,000	11/12/2002	06/25/2022	9,292	0.945%	148,331

- (1) The loan interest rate is determined by the program administrator to fund the payments for debt service on Delaware Valley Regional Finance Authority (DeVal) bond issues, the net payments on interest rate swap agreements related to the loans, and the administrative expenses to operate the DeVal Loan Program.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 11 - DERIVATIVE INSTRUMENT - CONTINUED

DelVal has entered into interest rate swap agreements with Bank of America, N.A. and Citibank, N.A. (the "Counterparties") related to DelVal's bonds and fixed rate loans. The "market value" is the estimated price that DelVal would receive (pay) if the agreements were terminated as of June 30, 2015. If DelVal were obligated to make a payment and sufficient funds were not available, DelVal could assess each borrower its allocable share of the termination payment. A related interest rate swap agreement may be terminated under the following circumstances:

- (a) DelVal and the Counterparty mutually consent to the termination,
- (b) The borrower defaults on its loan, or
- (c) DelVal or the Counterparty default or their financial conditions deteriorate to make a default imminent.

DelVal would seek to replace the terminated underlying swap agreement with a new agreement with similar terms and conditions. At market value, the loss or gain of the replacement swap should offset the gain or loss from the termination payment. DelVal may not be able to secure a replacement interest rate swap if the swap market is not functioning normally or if DelVal does not have access to the swap market. The long-term, unsecured, senior debt ratings of DelVal are currently "A2" and "A+" by Moody's Investors Service and Standard & Poor's, respectively.

Risks

Credit Risk. As of June 30, 2015, the District was not exposed to credit risk on its outstanding swaps. The District is exposed to credit risk in the amount of the derivative's fair value. This amount may increase if interest rates increase in the future. However, when interest rates decline and the fair value of the swaps are negative, the District is not exposed to credit risk. The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The current credit rating of Delaware Valley Regional Finance Authority, the counterparty, is A2 and A+ by Moody's and Standard and Poor's, respectively.

Basis Risk. Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears basis risk on its swaps. The swaps have basis risk since the District receives a percentage of LIBOR to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 11 - DERIVATIVE INSTRUMENT - CONTINUED

Tax Risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the District's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g., a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The District is receiving 67 percent of LIBOR (a taxable index) on the swaps and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination Risk. The District or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. The District monitors their insured programs and increases insurance coverage as needed. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The District has no unfunded liability.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 12 - RISK MANAGEMENT - CONTINUED

Effective July 1, 2012, the District became self-insured for medical and prescription insurance for employees and their dependents. During the year, the District handled all activity through its general fund. Effective June 30, 2012, the District established an internal service fund to administer future self-insurance benefits to all District employees. The District uses a third party administrator to provide consulting and administrative services to process claims within the self insurance fund. For the year ended June 30, 2015, the District has coverage for claims in excess of \$200,000 per person.

Changes in claims are as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Claims payable, beginning of year	\$ -	\$ -
Incurred claims	6,026,522	6,157,415
Claims paid	<u>6,026,522</u>	<u>6,157,415</u>
Claims payable, end of year	<u>\$ -</u>	<u>\$ -</u>

NOTE 13 - CONTINGENCIES AND COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the District expects such amounts, if any, to be immaterial.

The District is the defendant in several lawsuits arising in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and, accordingly, no provision for losses has been recorded.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 13 - CONTINGENCIES AND COMMITMENTS - CONTINUED

The District has the following commitments under long-term construction contracts as of June 30, 2015:

<u>Contract Type</u>	<u>Contractor</u>	<u>Contract Amount</u>	<u>Balance Remaining on Contract</u>
Franklin, Lincoln, Rupert Elementary Renovations:			
Architect	Crabtree Rohrbaugh	\$ 1,515,068	\$ 12,324
Additions and Renovations	E. R. Stuebner, Inc.	8,703,003	27,726
Additions and Renovations	Worth and Company, Inc.	3,932,636	3,135
Additions and Renovations	Quality Assurance Plus	344,375	40,438
Construction Management Services	Reynolds Construction Management	685,820	20,000
Exterior Wall & Site Stair Repair Repairs	Armor Masonry Restoration	<u>583,743</u>	<u>583,743</u>
Total Commitments		<u>\$ 15,764,645</u>	<u>\$ 687,366</u>

The District will pay for these expenditures by using cash and investments in the capital projects fund.

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 14 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2015 are as follows:

General Fund

The general fund has nonspendable funds of \$91,946 related to inventories and prepaid expenses. Committed funds are \$3,199,409 for retirement rate increases and \$200,000 for future transportation costs. Assigned funds are \$500,000 for balancing of the 2015/16 budget. The remaining fund balance of \$3,394,350 is unassigned. The commitments were authorized by the board of school directors' motion to set aside resources to fund anticipated increases in PSERS contributions and for future anticipated increases in transportation.

Capital Projects Fund

The capital projects fund has restricted funds of \$1,272,733 consisting of surplus monies transferred from the general fund for the acquisition or construction of capital facilities and capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

Nonmajor Funds

The nonmajor funds have restricted funds of \$76,142 consisting of spendable receipts that are received from donors for specific purposes.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No. 72, *Fair Value Measurement and Application* - The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.
- Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans* - The objective of this statement is to improve the usefulness of information about other postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.
- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.
- Statement No. 77, *Tax Abatement Disclosures* - The requirements enhance the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

The District has not yet completed the analyses necessary to determine the actual financial statement impact of these new pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION

POTTSTOWN SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2015

	Budgeted Amount		Actual	Variances
	Original	Final	(GAAP) Basis	Final to Actual
REVENUES				
Local Sources	\$ 33,964,393	\$ 33,964,393	\$ 34,125,534	\$ 161,141
State Sources	19,505,000	19,505,000	19,850,510	345,510
Federal Sources	1,960,345	1,960,345	2,144,416	184,071
TOTAL REVENUES	55,429,738	55,429,738	56,120,460	690,722
EXPENDITURES				
EXPENDITURES - INSTRUCTION				
Regular Programs - Elementary/Secondary	19,224,588	17,935,088	17,508,473	426,615
Special Programs - Elementary/Secondary	10,412,511	10,935,991	10,515,929	420,062
Vocational Education Programs	1,087,517	1,183,117	1,122,638	60,479
Other Instructional Programs - Elementary/Secondary	2,101,003	1,893,553	1,836,683	56,870
Nonpublic School Programs	-	16,000	7,651	8,349
Pre-Kindergarten	1,203,059	1,669,259	1,627,493	41,766
TOTAL INSTRUCTION	34,028,678	33,633,008	32,618,867	1,014,141
SUPPORT SERVICES				
Pupil Personnel	1,931,525	2,051,825	1,993,857	57,968
Instructional Staff	2,177,661	2,084,031	2,026,631	57,400
Administration	2,891,389	3,208,389	3,107,473	100,916
Pupil Health	1,156,588	1,129,833	1,076,546	53,287
Business	917,357	930,507	900,402	30,105
Operation and Maintenance of Plant Services	4,662,639	4,549,544	4,456,002	93,542
Student Transportation Services	1,723,739	1,896,539	1,888,640	7,899
Central	425,597	421,697	408,449	13,248
Other Support Services	27,573	19,073	18,837	236
TOTAL SUPPORT SERVICES	15,914,068	16,291,438	15,876,837	414,601
OPERATION OF NONINSTRUCTIONAL SERVICES				
Student Activities	826,647	345,992	812,211	(466,219)
Community Services	63,132	77,882	75,260	2,622
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	889,779	423,874	887,471	(463,597)
Capital Outlay	679,200	1,364,655	1,474,499	(109,844)
Debt Service	3,918,013	3,716,763	3,747,649	(30,886)
TOTAL EXPENDITURES	55,429,738	55,429,738	54,605,323	824,415
EXCESS OF REVENUES OVER EXPENDITURES	-	-	1,515,137	1,515,137
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	-	-	1,953	1,953
Transfers In	-	-	822,485	822,485
Transfers Out	-	-	(1,424,000)	(1,424,000)
Budgetary Reserve	(500,000)	(500,000)	-	500,000
TOTAL OTHER FINANCING SOURCES (USES)	(500,000)	(500,000)	(599,562)	(99,562)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (500,000)	\$ (500,000)	915,575	\$ 1,415,575
FUND BALANCE - JULY 1, 2014			6,470,130	
FUND BALANCE - JUNE 30, 2015			\$ 7,385,705	

See note to required supplementary information.

POTTSTOWN SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
PENSION PLAN**

June 30, 2015

	<u>2015</u>	<u>2014</u>
District's proportion of the collective net pension liability	0.1848%	0.1846%
District's proportionate share of the collective net pension liability	\$ 73,145,000	\$ 75,568,000
District's covered employee payroll	\$ 23,582,695	\$ 23,691,286
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	310.16%	318.97%
Plan fiduciary net position as a percentage of the total pension liability	57.24%	54.50%

The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2014 and 2013).

Note: This schedule is to present the requirement to show information for ten years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

POTTSTOWN SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST 10 FISCAL YEARS

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 4,696,902	\$ 3,732,485	\$ 2,686,177	\$ 1,899,240	\$ 1,261,707	\$ 1,034,458	\$ 977,792	\$ 1,525,536	\$ 1,218,324	\$ 832,050
Contributions in relation to the contractually required contribution	<u>4,696,902</u>	<u>3,732,485</u>	<u>2,686,177</u>	<u>1,899,240</u>	<u>1,261,707</u>	<u>1,034,458</u>	<u>977,792</u>	<u>1,525,536</u>	<u>1,218,324</u>	<u>832,050</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 23,588,034	\$ 23,582,695	\$ 23,691,286							
Contributions as a percentage of covered employee payroll	19.91%	15.83%	11.34%							

NOTE: This schedule is presented to present the requirement to show information for ten years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Eligible Employees	5/1/2014	\$ -	\$ 5,725,496	\$ 5,725,496	0.00%	\$ 21,089,150	27.15%
Eligible Employees	5/1/2012	-	3,351,076	3,351,076	0.00%	20,810,112	16.10%
Eligible Employees	5/1/2010	-	3,234,715	3,234,715	0.00%	23,259,390	13.91%

SUPPLEMENTARY INFORMATION

POTTSTOWN SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015

BUDGETARY DATA

The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

POTTSTOWN SCHOOL DISTRICT

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Debt Service	Special Revenue	Total Governmental Funds
ASSETS			
Cash and Investments	\$ -	\$ 78,316	\$ 78,316
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 78,316</u>	<u>\$ 78,316</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ -	\$ 2,174	\$ 2,174
TOTAL LIABILITIES	-	2,174	2,174
FUND BALANCES			
Restricted Fund Balance	-	76,142	76,142
TOTAL FUND BALANCES	-	76,142	76,142
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ -</u>	<u>\$ 78,316</u>	<u>\$ 78,316</u>

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2015

	Debt Service	Special Revenue	Total Governmental Funds
REVENUES			
Local Sources	\$ -	\$ 42,701	\$ 42,701
TOTAL REVENUES	-	42,701	42,701
EXPENDITURES			
Operation of Noninstructional Services	-	22,216	22,216
TOTAL EXPENDITURES	-	22,216	22,216
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	20,485	20,485
OTHER FINANCING SOURCES (USES)			
Transfers Out	(10,000)	-	(10,000)
TOTAL OTHER FINANCING SOURCES (USES)	(10,000)	-	(10,000)
NET CHANGE IN FUND BALANCES	(10,000)	20,485	10,485
FUND BALANCES - BEGINNING	10,000	55,657	65,657
FUND BALANCES - ENDING	\$ -	\$ 76,142	\$ 76,142

POTTSTOWN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates	Program or Award Amount	Total Received for the Year	Accrued or (Unearned) Revenue at July 1, 2014	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2015
U.S. DEPARTMENT OF DEFENSE										
JROTC	D	12.630-297929	N/A	07/01/14-06/30/15	\$ 60,818	\$ 60,818	\$ -	\$ 60,818	\$ 60,818	\$ -
U.S. Department of Health & Human Services										
Passed through PA Department of Welfare:										
Access - Time Study/Fees	I	93.778	N/A	07/01/14-06/30/15	N/A	13,433	6,951	8,759	8,759	2,277
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education:										
Title I										
Title I Improving Basic Programs	I	84.010	013-140348	09/12/13-09/30/14	700,663	(2,603)	(2,603)	-	-	-
Title I Improving Basic Programs	I	84.010	013-150348	09/12/14-09/30/15	972,836	1,010,756	-	972,836	972,836	(37,920)
Title I School Improvement	I	84.010	042-130348	07/01/13-09/30/14	50,403	26,773	2,813	24,069	24,069	109
Academic Achievement - Rewards School Now	I	84.010	077-150348	03/20/15-09/30/15	41,255	17,681	-	41,082	41,082	23,401
Title I Subtotal						1,052,607	210	1,037,987	1,037,987	(14,410)
Secondary Allocations	I	84.048	380-144025	07/01/13-06/30/14	49,499	16,500	16,500	-	-	-
Secondary Allocations	I	84.048	380-150092	07/01/14-06/30/15	57,340	31,276	-	57,340	57,340	26,064
Secondary Allocations Subtotal						47,776	16,500	57,340	57,340	26,064
Title II Improving Teacher Quality	I	84.367	020-140348	09/12/13-09/30/14	156,912	14,887	14,887	-	-	-
Title II Improving Teacher Quality	I	84.367	020-150348	09/09/14-09/30/15	142,887	143,187	-	142,887	142,887	(300)
Title II Subtotal						158,074	14,887	142,887	142,887	(300)
21st Century Community Learning Center	I	84.287	4100052763	07/01/13-09/30/14	500,000	287,762	67,732	175,964	175,964	(44,066)
21st Century Community Learning Center	I	84.287	4100052763	07/01/14-09/30/15	500,000	-	-	310,924	310,924	310,924
21st Century Community Learning Center	I	84.287	4100052763	07/01/14-09/30/15	400,000	106,373	-	119,232	119,232	12,859
21st Century Community Learning Center Subtotal						394,135	67,732	606,120	606,120	279,717
Title III Language Inst LEP	I	84.365	010-140348	09/12/13-09/30/14	15,227	8,199	8,199	-	-	-
Passed through Montgomery Intermediate Unit										
Title III Language Inst LEP	I	84.365	N/A	07/01/13-09/30/14	3,807	3,807	-	3,807	3,807	-
Title III Language Inst LEP	I	84.365	N/A	07/06/14-09/30/15	3,636	-	-	3,636	3,636	3,636
Title III Subtotal					22,670	12,006	8,199	7,443	7,443	3,636
Individual Disability Education Act Cluster:										
Individual Disability Education Act	I	84.027	N/A	07/01/13-06/30/14	654,481	137,057	137,057	-	-	-
Individual Disability Education Act Section 619	I	84.173	N/A	07/01/13-06/30/14	5,543	5,543	5,543	-	-	-
Individual Disability Education Act	I	84.027	N/A	07/01/14-06/30/15	725,610	264,198	-	725,610	725,610	461,412
Individual Disability Education Act Section 619	I	84.173	N/A	07/01/14-06/30/15	4,753	-	-	4,753	4,753	4,753
Total Individual Disability Education Act Cluster						406,798	142,600	730,363	730,363	466,165
TOTAL US DEPARTMENT OF EDUCATION						2,071,396	250,128	2,582,140	2,582,140	760,872
US DEPARTMENT OF AGRICULTURE										
Child Nutrition Cluster										
Passed through Pennsylvania Department of Education:										
National School Lunch Program	I	10.555	N/A	07/01/13-06/30/14	N/A	137,162	137,162	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15	N/A	1,113,878	-	1,193,377	1,193,377	79,499
School Breakfast Program	I	10.553	N/A	07/01/13-06/30/14	N/A	27,020	27,020	-	-	-
School Breakfast Program	I	10.553	N/A	07/01/14-06/30/15	N/A	234,125	-	251,900	251,900	17,775
Passed through the Pennsylvania Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15	N/A	117,574	(4,659)	122,233	122,233	-
TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE						1,629,759	159,523	1,567,510	1,567,510	97,274
TOTAL FEDERAL AWARDS						<u>\$ 3,775,406</u>	<u>\$ 416,602</u>	<u>\$ 4,219,227</u>	<u>\$ 4,219,227</u>	<u>\$ 860,423</u>

Source Code: D - Direct Funding and I - Indirect Funding

POTTSTOWN SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting, which is the same basis used for the basic financial statements.

NOTE 2 - FOOD COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2015, the District had \$0 of food commodity inventory.

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

**To the Board of School Directors
Pottstown School District
Pottstown, Pennsylvania**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Pottstown School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Pottstown School District's basic financial statements and have issued our report thereon dated December 1, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as item 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pottstown School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2015-001.

Pottstown School District's Response to Findings

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

Purpose of this Report

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

Herbein + Company, Inc.

**Reading, Pennsylvania
December 1, 2015**



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**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

**To the Board of School Directors
Pottstown School District
Pottstown, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Pottstown School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Pottstown School District's major federal programs for the year ended June 30, 2015. The Pottstown School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Pottstown School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Pottstown School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Pottstown School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Pottstown School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pottstown School District's internal control over compliance.

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

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

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

Herbein + Company, Inc.

**Reading, Pennsylvania
December 1, 2015**

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? yes X no

Identification of major program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Improving Basic Programs
84.287	21 st Century Community Learning Centers
10.555/10.553	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? yes X no

POTTSTOWN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

Section II - Financial Statement Findings

2015-001 Personnel File Records

Criteria

The District is required to obtain several documents upon hiring personnel. I-9 forms, W-4 forms, and several clearances must be obtained by the District prior to employment.

Condition/Cause

During our audit procedures, required documents could not be located during the testing of personnel files in eight files out of a sample of 60. Controls as described to be in place by the business office were not being followed.

Effect

The District was out of compliance with state and federal regulations. In addition, the absence of clearances poses a certain risk to the District.

Recommendation

We recommend that the controls that are in place be followed and the employee in charge of human resources review files to ascertain that appropriate documentation is on file.

Benefit

The District will be in compliance with state and federal regulations.

Management Response

See corrective action plan included in this report package.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

POTTSTOWN SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

2014-002 Coding of Expenditures

Federal Program

Title I - 84.010; 21st Century Community Learning Centers - 84.287

Criteria

The District uses separate funding source codes within the general ledger to identify expenses related to local, state, and federal programs. Reports from these funding source codes are used to generate required reports and other information related to awards, grants, and subsidies received.

Condition/Cause

During our audit procedures we noted unallowable expenses charged to two of the major programs we audited. Additionally, expenditures charged to the funding source code for a state subsidy program were not sufficient to support expenditures reported to the state for the grant.

Effect

Because expenditures for federal grants are overcharged by large amounts, the District was not out of compliance with grant agreements. Additionally, the district was able to identify expenses that were eligible for reimbursement under the state subsidy program tested but had not been charged to the grant. Although not out of compliance, the District's records did not support expenditures reported during the year.

Recommendation

We recommend that the District review and strengthen internal controls specific to coding of expenditures. Expenditures being charged to a federal or state program should be reviewed by the program director, grant coordinator, or another member of management before being charged to the funding source code. We suggest a sign-off to document that the review has taken place.

Benefit

The District will be in compliance with local, state, and federal award and grant requirements and have more accurate records to support grant activity.

Management Response

Program Directors will verify and sign off on a detailed account of all expenditures prior to the completion of periodic financial reports which will then be reviewed and signed off by the Assistant Business Manager before submission.

Current Status of Corrective Action Plan

This finding was rectified in the current year.

POTTSTOWN SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

2014-003 Reporting

Federal Program

Title I - 84.010; 21st Century Community Learning Centers - 84.287

Criteria

As part of the grant agreement for Title I, the District is required to submit quarterly cash on hand reports as well as a final expenditure report at the end of the grant period. As part of the grant agreement for 21st Century Community Learning Centers, the District is required to submit monthly expenditure reports as well as several performance-based reports.

Condition/Cause

During our testing of the final expenditure report filed for Title I we noted errors in the addition of expenses reported, leading to an inaccurate report being filed. During our testing of a sample of monthly expenditure reports for 21st Century Community Learning Centers we noted one math error on a monthly report which led to the District under-reporting total cumulative expenditures.

Effect

The District submitted inaccurate reports to the state for both Title I and 21st Century Community Learning Centers during the year.

Recommendation

We recommend that a person independent of the employee preparing the grant reports review all reports before submission for accuracy. The reviewer should initial or sign the report as documentation of review.

Benefit

The District will have strong controls in place to ensure accurate reporting under federal programs.

Management Response

Prior to submission of any financial reports, all mathematical calculations will be reviewed and signed off for accuracy.

Current Status of Corrective Action Plan

This finding was rectified in the current year.

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES**

**To the Members of the Board
Pottstown School District
Reading, Pennsylvania**

We have performed the procedures enumerated below, which were agreed to by the Commonwealth of Pennsylvania and Pottstown School District solely to assist you with respect to the financial schedules and exhibits required by the Commonwealth of Pennsylvania. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Commonwealth of Pennsylvania. Consequently, we made no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

- a. We have verified by comparison that the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to Commonwealth of Pennsylvania for fiscal year ended June 30, 2015, have been accurately compiled and reflect the audited books and records of Pottstown School District. We have also verified by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail and in the format required by the Commonwealth of Pennsylvania pertaining to this period.

<u>Program Name</u>	<u>Number</u>	<u>Referenced Schedule/Exhibit</u>
PA Pre-K Counts		Supplemental Audit Schedule for Fiscal Year Ended June 30, 2015

- b. We have inquired of management regarding adjustments to reported revenues or expenditures, which were not reflected on the reports submitted to the Commonwealth of Pennsylvania for the period in question.
- c. The processes detailed in paragraphs (a) and (b) above disclosed no adjustments and/or findings.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Commonwealth of Pennsylvania and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Herbein + Company, Inc.

**Reading, Pennsylvania
December 1, 2015**

Pottstown School District
PA Pre-K Counts Supplemental Audit Schedule for the Fiscal Year Ended June 30, 2015

	Original Budgeted Expenditures	Final Approved Revised Budget	Actual Expenditures	Differences
PERSONNEL:				
Salaries/Wages				
Child Health & Development	130,976	140,756	140,756	-
TOTAL Salaries	130,976	140,756	140,756	-
Benefits (shown net of retirement & SS reimb)	73,408	76,457	74,930	1,527
Total Personnel	204,384	217,213	215,686	1,527
OPERATIONS:				
Supplies for Program Purposes	4,361	11,263	11,263	-
Nutritional Services	8,062	10,457	9,145	1,312
Building Maintenance/Repairs	6,388	7,734	7,734	-
Utilities & Telephone	531	1,062	1,008	54
Publications/Advertising/Printing	200	1,222	1,176	46
Substitutes	1,230	1,230	1,260	(30)
Non-Student Travel	3,075	2,824	2,144	680
Contracted Services	17,499	41,700	45,310	(3,610)
Training & Staff Development	1,800	3,895	3,874	21
Summer Program	6,800	6,800	6,800	-
Total Operations	49,946	88,187	89,714	(1,527)
PROGRAMS				
Funds Passed Through to Partners	760,050	999,800	999,800	-
Total Programs	760,050	999,800	999,800	-
Total Budget	1,014,380	1,305,200	1,305,200	-

	Original Budgeted Revenues	Revised Budgeted Revenues	Actual Revenues	Differences
Revenues				
Pennsylvania Pre-K Counts	1,014,380	1,305,200	1,305,200	-
	1,014,380	1,305,200	1,305,200	-



The business office in conjunction with human resources

POTTSTOWN SCHOOL DISTRICT

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Building a Better Tomorrow

CORRECTIVE ACTION PLAN

Department of Education:

The Pottstown School District respectfully submits the following corrective action plan for the year ended June 30, 2015.

Name and address of independent public accounting firm: Herbein+Company, Inc. Certified Public Accountants, 2763 Century Boulevard, Reading, PA 19610.

Audit period: Year ending June 30, 2015

The findings for the year ended June 30, 2015 schedule of findings are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Section II - Financial Statement Findings

Significant Deficiency

2015-001 Personnel File Records

Condition/Cause

During audit procedures, required documents could not be located during the testing of personnel files in eight files out of a sample of 60. Controls as described to be in place by the business office were not being followed.

Recommendation

We recommend that the controls that are in place be followed and the employee in charge of human resources review files to ascertain that appropriate documentation is on file.

Management Response

Management is in agreement with the recommendation. With the implementation of Act 15 the district has controls in place to ensure compliance with all employees and to ensure all necessary documentation is obtained for each new hired employee. The human resources department has reviewed all active employee files to ensure the required documentation is being obtained and appropriately filed. A new software system has been implemented which provides the capability of electronically tracking all clearances and dates for renewal which should facilitate compliance.

If the Department of Education has questions regarding this plan, please call Linda Adams at 610-970-6611.

Sincerely,

Linda Adams