

METHACTON SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

For the Year Ended June 30, 2016

METHACTON SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of School Directors
METHACTON SCHOOL DISTRICT
Norristown, 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 METHACTON SCHOOL DISTRICT, Pennsylvania, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise METHACTON SCHOOL DISTRICT, Pennsylvania'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 METHACTON SCHOOL DISTRICT, Pennsylvania as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for postemployment benefits plan, schedule of the district's proportionate share of the net pension liability, schedule of district contributions, and budgetary comparison information on pages 4 through 11 and pages 53 through 57, respectively, be presented to supplement the basic financial statements. Such information, although not a required 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 METHACTON SCHOOL DISTRICT, Pennsylvania's basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

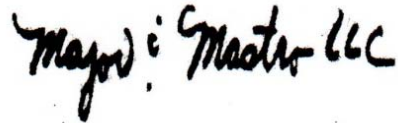
The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016, on our consideration of the METHACTON SCHOOL DISTRICT, Pennsylvania'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 METHACTON SCHOOL DISTRICT, Pennsylvania's internal control over financial reporting and compliance.

November 9, 2016

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania
Certified Public Accountants

A handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, slightly slanted style.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016

INTRODUCTION

Our discussion and analysis of Methacton School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

- The liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources of the Methacton School District for the Governmental Activities at the close of the 2016 fiscal year by \$108,935,193 (negative net position). Total current assets exceed current liabilities by \$3,100,292. This compares with negative net position of \$113,636,740 and current assets exceeding current liabilities by \$7,246,864 at the close of the 2015 fiscal year. The negative net position is the result of recording the district's proportionate share of net pension liability and deferred pension amounts in accordance with GASB Statement No. 68, which was implemented during 2015.
- As of the close of the current fiscal year, unassigned fund balance for the General Fund was \$6,890,721 or 7.05 percent of the total general fund expenditures. Unassigned fund balance at the end of the 2015 fiscal year was \$7,381,644.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Methacton School District's basic financial statements. The Methacton School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of net position presents information on all of the Methacton School District's assets and liabilities, with the difference between the two reported as net position.

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

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Both of the government-wide financial statements distinguish functions of the Methacton School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Methacton School District include general operations of public education.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Methacton School District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Reserve Fund, both of which are considered to be major funds.

The Methacton School District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Methacton School District maintains one proprietary fund which is Food Service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Food Service function.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Methacton School District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Methacton School District's liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources for the Governmental Activities at the close of the 2016 fiscal year by \$108,935,193 (negative net position). Liabilities and deferred inflows exceeded assets and deferred outflows of resources by \$113,636,740 at the close of the fiscal year ended June 30, 2015.

The following table reflects the current and prior year's information:

METHACTON SCHOOL DISTRICT's Net Position

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 22,713,235	\$ 26,108,542	\$ 437,750	\$ 515,411	\$ 23,150,985	\$ 26,623,953
Capital assets	110,033,975	106,421,213	32,923	36,796	110,066,898	106,458,009
Total assets	<u>\$ 132,747,210</u>	<u>\$ 132,529,755</u>	<u>\$ 470,673</u>	<u>\$ 552,207</u>	<u>\$ 133,217,883</u>	<u>\$ 133,081,962</u>
Deferred outflows of resources	<u>\$ 15,417,959</u>	<u>\$ 11,275,729</u>	<u>\$</u>	<u>\$</u>	<u>\$ 15,417,959</u>	<u>\$ 11,275,729</u>
Long-term liabilities						
outstanding	\$ 229,338,669	\$ 230,989,796	\$	\$	\$ 229,338,669	\$ 230,989,796
Other liabilities	19,612,943	18,861,678	354,052	484,172	19,966,995	19,345,850
Total liabilities	<u>\$ 248,951,612</u>	<u>\$ 249,851,474</u>	<u>\$ 354,052</u>	<u>\$ 484,172</u>	<u>\$ 249,305,664</u>	<u>\$ 250,335,646</u>
Deferred inflows of resources	<u>\$ 8,148,750</u>	<u>\$ 7,590,750</u>	<u>\$</u>	<u>\$</u>	<u>\$ 8,148,750</u>	<u>\$ 7,590,750</u>
Net Position:						
Invested in capital assets, net of related debt	\$ 25,499,472	\$ 22,272,547	\$ 32,923	\$ 36,796	\$ 25,532,395	\$ 22,309,343
Restricted	1,381,420	682,369			1,381,420	682,369
Unrestricted	(135,816,085)	(136,591,656)	83,698	31,239	(135,732,387)	(136,560,417)
Total Net Position (deficit)	<u>\$ (108,935,193)</u>	<u>\$ (113,636,740)</u>	<u>\$ 116,621</u>	<u>\$ 68,035</u>	<u>\$ (108,818,572)</u>	<u>\$ (113,568,705)</u>

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Governmental activities. Governmental activities increased the Methacton School District's net position by \$4,701,547 and \$2,927,538 for the years ending June 30, 2016 and 2015, respectively. Key elements of this increase are displayed below.

Business-type Activities. Business Type activities, comprised of the District's Food Service Fund, increased the District's net position by \$48,586 for the year ended June 30, 2016 compared to a \$58,163 increase in the District's net position for the year ended June 30, 2015. Key elements are displayed below.

METHACTON SCHOOL DISTRICT'S Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program Revenues						
Charges for Services	\$ 445,108	\$ 395,707	\$ 998,394	\$ 1,033,776	\$ 1,443,502	\$ 1,429,483
Operating Grants	13,219,432	11,748,044	416,972	399,030	13,636,404	12,147,074
Capital Grants	388,285	370,917			388,285	370,917
General Revenues:						
Taxes	75,765,464	76,901,950			75,765,464	76,901,950
Grants, not restricted to specific programs	8,635,118	8,749,621			8,635,118	8,749,621
Investment Income	88,694	85,159	840	177	89,534	85,336
Gain (loss) on sale of assets	1,491	440,816			1,491	440,816
Miscellaneous Income	474,662	1,107,939			474,662	1,107,939
Total Revenues	<u>99,018,254</u>	<u>99,800,153</u>	<u>1,416,206</u>	<u>1,432,983</u>	<u>100,434,460</u>	<u>101,233,136</u>
Expenses:						
Instruction	57,417,327	59,667,755			57,417,327	59,667,755
Support Services	33,071,593	32,883,849			33,071,593	32,883,849
Operation of Non- Instructional Services	1,399,947	1,448,714			1,399,947	1,448,714
Interest on Long-term Debt	2,427,840	2,872,297			2,427,840	2,872,297
Food Service			1,367,620	1,374,820	1,367,620	1,374,820
Total Expenses	<u>94,316,707</u>	<u>96,872,615</u>	<u>1,367,620</u>	<u>1,374,820</u>	<u>95,684,327</u>	<u>98,247,435</u>
Change in Net Position	4,701,547	2,927,538	48,586	58,163	4,750,133	2,985,701
Beginning Net Position	(113,636,740)	(116,564,278)	68,035	9,872	(113,568,705)	(116,554,406)
Ending Net Position	<u>\$ (108,935,193)</u>	<u>\$ (113,636,740)</u>	<u>\$ 116,621</u>	<u>\$ 68,035</u>	<u>\$ (108,818,572)</u>	<u>\$ (113,568,705)</u>

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Methacton School District utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Methacton School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Methacton School District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Methacton School District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,890,721. This unassigned fund balance represents 7.05% of total general fund expenditures.

General Fund revenues of the Methacton School District came from three basic sources. The largest source was provided by local funding totaling \$78,452,871 (79.2%), and \$79,268,842 (80.4%), for the years ended June 30, 2016 and 2015 respectively, of which \$76,247,474 and \$76,532,414 were tax revenues. State funding amounted to \$20,256,584 (20.4%) and \$18,910,889 (19.2%), federal funding amounted to \$373,809 (.4%) and \$360,462 (.4%), for the years ending June 30, 2016 and 2015, respectively.

State and Federal funding continue to provide a relatively small percentage (20.8%) of total District revenue. This compels the Methacton School District to rely primarily on the local tax levying powers provided by the Pennsylvania Public School Code and the Local Tax Enabling Act (Act 511 of 1965) to fund the revenue shortfall in order to operate the School District.

General Fund expenditures of the District fall into four major categories and are summarized below for the years ended June 30, 2016 and 2015:

	Expenditures		Expenditures	
	<u>2016</u>	<u>%</u>	<u>2015</u>	<u>%</u>
Instruction	\$ 54,916,881	56.2%	\$ 55,395,670	56.6%
Support Service	31,422,863	32.2%	30,456,404	31.1%
Non-Instructional	1,381,800	1.4%	1,382,350	1.4%
Debt Service	9,979,254	10.2%	10,623,900	10.9%
TOTAL	<u>\$ 97,700,798</u>	<u>100.0%</u>	<u>\$ 97,858,324</u>	<u>100.0%</u>

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Capital Funds. The Capital Projects Funds have a total fund balance of \$1,381,420 and \$5,016,288 for the years ended June 30, 2016 and 2015, respectively.

Proprietary funds. The Methacton School District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Proprietary Funds had net position of \$116,621 and of \$68,035 for the years ended June 30, 2016 and 2015 respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Methacton School District's expenditures and other financing uses for the fiscal year ending June 30, 2016 were \$2,223,393 lower than the budgeted amount of \$101,124,091. The reduced expenditures are primarily the result of savings realized in the following areas: medical benefit stop-loss reimbursements, employee healthcare via a one month premium holiday realized through surplus funds with the Bucks/Montco Healthcare Consortium, lower than budgeted need within the annual technology lease, and a lower cost in the areas of electricity, natural gas, water/sewer and general supplies.

The District's revenues and other financing sources for the fiscal year ending June 30, 2016 were lower than the adopted budget by \$1,147,081. This is primarily due to no state reimbursement for PlanCon projects, extended term financing revenues being less than budget due to reduced financing use, and lower collections for regular and delinquent real estate taxes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Methacton School District's investment in capital assets for its governmental activities, net of accumulated depreciation, amounts to \$110,033,975 and \$106,421,213 as of June 30, 2016 and 2015 respectively. The investment in capital assets includes land, construction in progress, site improvements, buildings, building improvements, and machinery and equipment.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

METHACTON SCHOOL DISTRICT'S Capital Assets

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Land	\$ 1,564,425	\$ 1,564,425	\$ -	\$ -
Construction in progress	-	1,436,867		
Site improvements	9,025,165	2,619,040	-	-
Buildings and improvements	145,380,386	145,380,386	-	-
Machinery and equipment	17,087,779	14,586,011	38,733	38,733
Accumulated depreciation	(63,023,780)	(59,165,516)	(5,810)	(1,937)
	\$ 110,033,975	\$ 106,421,213	\$ 32,923	\$ 36,796

More detailed information about the Methacton School District's capital assets can be found in footnotes to the financial statements section of this report.

Long-term debt. At the end of the current fiscal year, the Methacton School District had total bonded debt outstanding of \$65,420,000 as well as notes payable of \$14,985,000 and capital lease obligations of \$2,290,598.

The Methacton School District maintains a rating of Aa2 from Moody's for general obligation debt.

Additional information on the Methacton School District's long-term debt can be found in the footnotes to the financial statements section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Employee salary costs continue to increase. Salaries for 2016-17 will increase for administrative staff (2.10%), support staff (2.00%), Teamsters Union Local 384 (2.50%), and professional staff (3.04%).

Employee health benefit costs for 2016-17 will increase 2.8%.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Methacton School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Methacton School District, Director of Business Services, 1001 Kriebel Mill Road, Eagleville, PA 19403-1047.

METHACTON SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 16,258,929	\$ 350,402	\$ 16,609,331
Taxes receivable, net	2,367,041		2,367,041
Due from other governments	2,455,989	56,595	2,512,584
Other receivables	801,996	1,402	803,398
Prepaid assets	829,280		829,280
Inventories		29,351	29,351
Total Current Assets	<u>22,713,235</u>	<u>437,750</u>	<u>23,150,985</u>
Noncurrent Assets:			
Capital assets:			
Land	1,564,425		1,564,425
Site improvements	9,025,165		9,025,165
Buildings and building improvements	145,380,386		145,380,386
Machinery and equipment	17,087,779	38,733	17,126,512
Accumulated depreciation	<u>(63,023,780)</u>	<u>(5,810)</u>	<u>(63,029,590)</u>
Total Noncurrent Assets	<u>110,033,975</u>	<u>32,923</u>	<u>110,066,898</u>
TOTAL ASSETS	<u>132,747,210</u>	<u>470,673</u>	<u>133,217,883</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	3,134,118		3,134,118
Deferred amounts related to pensions	<u>12,283,841</u>		<u>12,283,841</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>15,417,959</u>	<u>-</u>	<u>15,417,959</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	1,570,526	67,653	1,638,179
Accrued salaries and benefits	3,530,033		3,530,033
Internal balances	(240,797)	240,797	-
Payroll deductions and withholding	3,783,246		3,783,246
Accrued interest	570,859		570,859
Unearned revenue	69,248	8,039	77,287
Escrow for taxes	2,946,070		2,946,070
Other current liabilities		37,563	37,563
Portion due or payable within one year			
Bonds payable	7,105,000		7,105,000
Notes payable	15,000		15,000
Capital lease obligation	137,752		137,752
Accumulated compensated absences	<u>126,006</u>		<u>126,006</u>
Total Current Liabilities	<u>19,612,943</u>	<u>354,052</u>	<u>19,966,995</u>
Long-term Liabilities:			
Portion due or payable after one year			
Bonds payable in future years	58,315,000		58,315,000
Notes payable in future years	14,970,000		14,970,000
Bond discount and premiums	4,973,023		4,973,023
Capital lease obligation payable in future years	2,152,846		2,152,846
Other post-employment benefits	4,719,684		4,719,684
Net pension liability	141,814,000		141,814,000
Accumulated compensated absences	<u>2,394,116</u>		<u>2,394,116</u>
Total Long-term Liabilities	<u>229,338,669</u>	<u>-</u>	<u>229,338,669</u>
TOTAL LIABILITIES	<u>248,951,612</u>	<u>354,052</u>	<u>249,305,664</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	<u>8,148,750</u>		<u>8,148,750</u>
NET POSITION			
Net investment in capital assets	25,499,472	32,923	25,532,395
Restricted for			
Capital projects	1,381,420		1,381,420
Unrestricted	<u>(135,816,085)</u>	<u>83,698</u>	<u>(135,732,387)</u>
TOTAL NET POSITION	<u>\$ (108,935,193)</u>	<u>\$ 116,621</u>	<u>\$ (108,818,572)</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position		
					Governmental Activities	Business-Type Activities	Totals
GOVERNMENTAL ACTIVITIES							
Instruction							
Regular programs	\$ 39,471,568	\$ 68,335	\$ 4,008,155	\$	\$ (35,395,078)	\$	\$ (35,395,078)
Special programs	14,765,202		4,633,118		(10,132,084)		(10,132,084)
Vocational programs	2,654,180		128,560		(2,525,620)		(2,525,620)
Other instructional programs	370,104		467,800		97,696		97,696
Adult education programs	156,273	208,364	3,965		56,056		56,056
Support services							
Pupil personnel services	4,206,036		387,143		(3,818,893)		(3,818,893)
Instructional staff services	2,130,048		197,666		(1,932,382)		(1,932,382)
Administration services	6,763,636		126,060		(6,637,576)		(6,637,576)
Pupil health	1,776,612		650,491		(1,126,121)		(1,126,121)
Business services	1,174,544		84,581		(1,089,963)		(1,089,963)
Operation and maintenance of plant services	8,438,287		513,559		(7,924,728)		(7,924,728)
Student transportation services	6,679,194		1,774,724		(4,904,470)		(4,904,470)
Central services	1,823,013		113,860		(1,709,153)		(1,709,153)
Other support services	80,223				(80,223)		(80,223)
Operation of non-instructional services							
Student activities	1,394,430	168,409	129,750	388,285	(707,986)		(707,986)
Community services	5,517				(5,517)		(5,517)
Interest on long-term debt	2,427,840				(2,427,840)		(2,427,840)
TOTAL GOVERNMENTAL ACTIVITIES	94,316,707	445,108	13,219,432	388,285	(80,263,882)		(80,263,882)
BUSINESS-TYPE ACTIVITIES							
Food service	1,367,620	998,394	416,972	-		47,746	47,746
	<u>\$ 95,684,327</u>	<u>\$ 1,443,502</u>	<u>\$ 13,636,404</u>	<u>\$ 388,285</u>			
GENERAL REVENUES							
Property taxes, levied for general purposes					67,992,556		67,992,556
Earned income, per capita, occupation and amusement taxes					6,824,408		6,824,408
Transfer taxes					948,500		948,500
Grants and entitlements not restricted to specific programs					8,635,118		8,635,118
School facility rental					113,762		113,762
Investment earnings					88,694	840	89,534
Miscellaneous					360,900		360,900
Gain (loss) on sale of assets					1,491		1,491
TOTAL GENERAL REVENUES					84,965,429	840	84,966,269
CHANGE IN NET POSITION							
					4,701,547	48,586	4,750,133
NET POSITION AT BEGINNING OF YEAR							
					(113,636,740)	68,035	(113,568,705)
NET POSITION AT END OF YEAR							
					<u>\$ (108,935,193)</u>	<u>\$ 116,621</u>	<u>\$ (108,818,572)</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2016

	General Fund	Capital Projects Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 13,380,595	\$ 2,878,334	\$ 16,258,929
Taxes receivable, net of allowance of \$773,828	2,367,041		2,367,041
Due from other governments	2,455,989		2,455,989
Interfund receivables	1,664,933		1,664,933
Prepaid assets	829,280		829,280
Other receivables	801,607	389	801,996
TOTAL ASSETS	\$ 21,499,445	\$ 2,878,723	\$ 24,378,168
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,497,359	\$ 73,167	\$ 1,570,526
Interfund payables	-	1,424,136	1,424,136
Payroll deductions and withholdings	3,783,246		3,783,246
Accrued salaries and benefits	3,530,033		3,530,033
Compensated absences	126,006		126,006
Unearned revenue	69,248		69,248
Escrow for taxes	2,946,070		2,946,070
TOTAL LIABILITIES	11,951,962	1,497,303	13,449,265
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - real estate taxes	808,965		808,965
Unavailable revenue - earned income taxes	565,681		565,681
Unavailable revenue - other taxes	332,438		332,438
TOTAL DEFERRED INFLOWS OF RESOURCES	1,707,084	-	1,707,084
FUND BALANCES			
Nonspendable:			
Prepaid expenditures	829,280		829,280
Interfund advances	120,398		120,398
Assigned			
Capital projects		1,381,420	1,381,420
Unassigned	6,890,721		6,890,721
TOTAL FUND BALANCES	7,840,399	1,381,420	9,221,819
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 21,499,445	\$ 2,878,723	\$ 24,378,168

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2016

TOTAL GOVERNMENTAL FUND BALANCES	\$ 9,221,819
Amounts reported for governmental activities on the statement of net position are different because of the following:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	110,033,975
Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds	1,707,084
Deferred charges on refunding are recorded as other financing uses in the Governmental funds, the statement of net position includes these amounts as deferred outflows of resources.	3,134,118
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	12,283,841
Deferred inflows of resources related to pensions	(8,148,750)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Accrued interest	(570,859)
Bonds and notes payable	(80,405,000)
Bond premiums and discounts	(4,973,023)
Capital lease obligation	(2,290,598)
Other post-employment benefits	(4,719,684)
Net pension liability	(141,814,000)
Accumulated compensated absences	(2,394,116)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (108,935,193)</u>

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Capital Projects Fund	Totals
REVENUES AND OTHER FINANCING SOURCES			
Local sources	\$ 78,452,871	\$ 415,509	\$ 78,868,380
State sources	20,256,584		20,256,584
Federal sources	373,809		373,809
Other Financing Sources:			
Proceeds from capital lease	33,442	2,428,935	2,462,377
Proceeds from bond refunding		28,080,000	28,080,000
Bond premium		4,155,820	4,155,820
Interfund transfers		1,200,000	1,200,000
Proceeds from sale of capital assets	1,491		1,491
TOTAL REVENUES AND OTHER FINANCING SOURCES	99,118,197	36,280,264	135,398,461
EXPENDITURES AND OTHER FINANCING USES			
Expenditures:			
Instruction	54,916,881		54,916,881
Support services	31,422,863	352,157	31,775,020
Operation of non-instructional services	1,381,800		1,381,800
Facilities acquisition, construction, and improvement services		7,666,458	7,666,458
Debt service			
Principal	7,080,059		7,080,059
Interest	2,899,195	1,197	2,900,392
Other Financing Uses:			
Payment to refund bonds		31,895,320	31,895,320
Interfund transfers	1,200,000		1,200,000
TOTAL EXPENDITURES AND OTHER FINANCING USES	98,900,798	39,915,132	138,815,930
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	217,399	(3,634,868)	(3,417,469)
FUND BALANCE AT BEGINNING OF YEAR	7,623,000	5,016,288	12,639,288
FUND BALANCE AT END OF YEAR	\$ 7,840,399	\$ 1,381,420	\$ 9,221,819

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2016

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (3,417,469)

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense and capital outlays:

Capital outlay	5,041,621
Depreciation expense	(3,891,236)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in Governmental Funds. (482,010)

Repayment of bond and note principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position. 6,595,000

Repayment of capital lease obligations is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position. 485,059

Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds. (68,185)

Other post-employment benefits do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds. (397,018)

Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension related benefits earned net of employee contributions is reported as pension expense.

District pension contributions	10,567,279
Cost of pension benefits earned, net of employee contributions	(9,863,545)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds. This transaction has no impact on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.

Amortization of bond premium/discount	364,320
Proceeds from refunding bonds	(28,080,000)
Payment to refund bonds	31,757,184
Net bond premium and discount	(4,155,820)

Interest is reported as an expenditure when due in the Governmental Funds, but is accrued on outstanding debt on the statement of activities. 246,367

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 4,701,547

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

STATEMENT OF NET POSITION
 PROPRIETARY FUND

JUNE 30, 2016

	Enterprise Fund
	Food
	Service Fund
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 350,402
Due from other governments	56,595
Other receivables	1,402
Inventories	29,351
TOTAL CURRENT ASSETS	437,750
NONCURRENT ASSETS:	
Capital assets:	
Machinery and equipment	38,733
Accumulated depreciation	(5,810)
TOTAL NONCURRENT ASSETS	32,923
TOTAL ASSETS	470,673
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Interfund payables	120,399
Accounts payable	67,653
Unearned revenue	8,039
Deposits	37,563
TOTAL CURRENT LIABILITIES	233,654
LONG-TERM LIABILITIES:	
Interfund payables	120,398
TOTAL LONG-TERM LIABILITIES:	120,398
TOTAL LIABILITIES	354,052
NET POSITION	
Net investment in capital assets	32,923
Unrestricted	83,698
TOTAL NET POSITION	\$ 116,621

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Enterprise Fund</u> Food Service Fund
OPERATING REVENUES	\$ 998,394
OPERATING EXPENSES	
Purchased professional and technical services	1,306,455
Supplies	57,292
Depreciation	3,873
TOTAL OPERATING EXPENSES	<u>1,367,620</u>
OPERATING LOSS	<u>(369,226)</u>
NONOPERATING REVENUES	
Earnings on investments	840
State sources	30,512
Federal sources	386,460
TOTAL NONOPERATING REVENUES	<u>417,812</u>
CHANGE IN NET POSITION	48,586
NET POSITION AT BEGINNING OF YEAR	<u>68,035</u>
NET POSITION AT END OF YEAR	<u>\$ 116,621</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Fund
	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,093,617
Payments to suppliers	(1,385,311)
NET CASH USED BY OPERATING ACTIVITIES	(291,694)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	27,143
Federal sources	346,921
Net transfer to other funds	(120,399)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	253,665
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	840
NET CASH PROVIDED BY INVESTING ACTIVITIES	840
NET DECREASE IN CASH	(37,189)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	387,591
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 350,402
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (369,226)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	3,873
(Increase) Decrease in assets:	
Accounts receivable	89,042
Inventory	(5,659)
Increase (decrease) in liabilities:	
Accounts payable	(15,905)
Deposits	6,181
NET CASH USED BY OPERATING ACTIVITIES	\$ (291,694)
 Schedule of noncash noncapital financing activities	
Donated commodities received	\$ 60,165
Donated commodities used	\$ 60,163

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

JUNE 30, 2016

	<u>Scholarship Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 96,966	\$ 396,803
Other receivables		3,034
	<u>96,966</u>	<u>399,837</u>
TOTAL ASSETS	<u>\$ 96,966</u>	<u>\$ 399,837</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable	\$	\$ 5,424
Due to student organizations		394,413
	<u>-</u>	<u>399,837</u>
TOTAL LIABILITIES	-	399,837
NET POSITION		
Reserved for scholarships	<u>96,966</u>	<u></u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 96,966</u>	<u>\$ 399,837</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Scholarship Funds</u>
ADDITIONS	
Contributions	\$ 8,900
Investment income	<u>370</u>
TOTAL ADDITIONS	9,270
DEDUCTIONS	
Fees paid and scholarships awarded	<u>8,200</u>
CHANGE IN NET POSITION	1,070
NET POSITION AT BEGINNING OF YEAR	<u>95,896</u>
NET POSITION AT END OF YEAR	<u><u>\$ 96,966</u></u>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Methacton School District is located in Fairview Village, Pennsylvania. This District's tax base consists of the Townships of Lower Providence and Worcester.

The Methacton School District is a unit established, organized, and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on a local level, the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the School Law Code of the same (Article II; Act 150, July 8, 1968).

The Methacton School District is governed by a board of nine school directors who are residents of the school 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 schools herein provided, or to pay any school indebtedness which the school district is required to pay, or to pay any indebtedness that may at any time hereafter, be created by the school 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, as amended.

The financial statements of METHACTON SCHOOL DISTRICT (the District) are prepared in accordance with the accounting system and procedures prescribed for school districts by the Commonwealth of Pennsylvania, Department of Education, which conforms to generally accepted accounting principles of the United States of America as applicable to governmental units.

The most significant of the District's accounting policies are described below:

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Financial Reporting Entity

In evaluating the District as a reporting entity, management has addressed all potential component units for which the District may or may not be financially accountable, and, as such, be includable within the District's financial statements. In accordance with Statement of Governmental Accounting Standards Board (GASB) No. 14, as amended by GASB No. 61, the District is financially accountable if it appoints a voting majority of the organization governing board (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the District. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on this criteria, there have been no component units defined within our reporting entity.

Joint Ventures

The District is a participating member of the North Montco Area Vocational-Technical School (NMAVTS). The NMAVTS 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 the NMAVTS's annual operating budget. Each participating district pays a pro-rata share of the NMAVTS's operating costs based on the number of students attending the NMAVTS for each District. The District's share of the NMAVTS's operating costs for 2015-2016 was \$1,217,327.

On dissolution of the North Montco Area Vocational Technical School, the net position of NMAVTS will be shared on a pro-rata basis of each participating district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the district does not have an equity interest in NMAVTS as defined by GASB Statement No. 14, as amended by GASB No. 61, except a residual interest in net position upon dissolution that should not be reflected in the financial statements. Complete financial statements for the NMAVTS can be obtained from the NMAVTS's administrative office.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 from fees to participating districts. As such, the District has no on-going financial interest or responsibility in the MCIU. The MCIU contracts with participating districts to supply special education services, computer services, and as a conduit for certain federal programs.

Basis of Presentation and Accounting

Government-Wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Funds financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of Governmental and Proprietary Fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues to be available if they are collected within 30 days of the end of the 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 judgements, are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

All Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 government's proprietary fund are charges to customers for sales and services. 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.

Fiduciary Funds are reported using the economic resources measurement focus.

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

Governmental Funds

Governmental Funds are those through which most governmental functions of the District are financed. The District has presented the following major governmental funds:

General Fund

The General Fund is for the general operations of the District and all financial transactions not required to be accounted for in another fund.

Capital Projects Fund

The Capital Projects Fund accounts for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Proprietary Funds

Enterprise Fund

The Enterprise Fund accounts for the District's Food Service operations. It is financed and operated in a manner similar to a private business enterprise. The fund accounts for all revenues, food purchases, costs, and expenses for the food service program on the accrual method of accounting. This method recognizes expenses when incurred and revenues when earned. All proprietary activities are accounted for using GASB pronouncements as established by GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*.

Fiduciary Fund Type

Trust and Agency Funds

These funds are used to account for assets held by the district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and highly-liquid investments with original maturities of less than 90 days.

Investments are stated at fair value, the amount at which a financial instrument could be exchanged in a current transaction between parties, other than in a forced or liquidation sale. This method of valuation is in compliance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Intergovernmental Receivables/Payables

During the course of operations, numerous transactions occur between government units for payment of services and subsidy payments. These receivables and payables are classified as intergovernmental receivables/payables on the balance sheet.

Inventories

Inventories of the Food Service Fund are valued at the lower of cost or market.

Capital Assets

Capital assets, which includes land, site improvements, buildings, building improvements, machinery and equipment, and vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

The District defines capital assets as assets with an estimated useful life in excess of one year and an initial, individual cost equal to or greater than \$5,000. Management has elected to include certain homogeneous asset categories with individual assets that cost more than \$2,500, \$10,000 in the aggregate, as composite groups for financial reporting purposes. Depreciation has been calculated on each class of depreciable property using the straight-line method.

Estimated useful lives are as follows:

	<u>Years</u>
Site improvements	5-45
Buildings and building improvements	10-45
Machinery and equipment	5-45
Vehicles	6-10

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences

Sick Leave

Under the District's various bargaining agreements and plans, professional and eligible support personnel accumulate unused sick days from year to year based on their classification. These accumulated sick days are non-vesting during the employee's tenure. Upon retirement, these employees are eligible for remuneration of unused sick days for the following bargaining units:

- Methacton Education Association - \$60 per day up to a maximum 160 days.
- Methacton Educational Support Personnel Association - \$45 per day up to a maximum 115 days.
- Teamsters Local 384 - \$45 per day up to a maximum of 120 days.
- Methacton Administrators agreement \$95 per day up to a maximum of 185 days.

To be eligible for this benefit, the employee must be eligible to receive superannuation, early retirement or disability pension from the Public School Employees Retirement System (PSERS), and the employee must have at least ten (10) years of service in the Methacton School District, including previous subdivisions. The employee must be retiring from a full-time position and complete full-time service.

The District maintains records of each employee's accumulated sick days that are vested with employees who are eligible to retire and those under the administrators plan.

Vacation Leave

The District maintains records of each employee's accumulated vacation days, and has valued the accumulated vacation days earned at June 30, 2016.

Unavailable and unearned Revenues

General Fund unavailable revenues represent primarily delinquent taxes not collected within 30 days subsequent to the District's year end and grants received but not expended by year end. It is expected that these receivables will be collected and included in revenues of future fiscal years.

Food Service Fund unearned revenues represent food received in its food service operation that is on hand at June 30, 2016. Such revenues will be recognized when the food commodities are used.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities columns of the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, Governmental Funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources and payment of principal and interest reported as expenditures. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund receivables/payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance

GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain items within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types have also been modified for clarity and consistency.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action (board resolution) of the school board – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance. This classification reflects amounts constrained by the school’s “intent” to be used for specific purposes, but are neither restricted nor committed. The business manager has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Use of fund balance. The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated. Then committed, assigned and unassigned in that order as needed.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Under Act No. 72 enacted by the general assembly of the Commonwealth of Pennsylvania, the funds deposited with the depository are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit in excess of the Federal Depository Insurance limit. These may be bonds of the United States, any State of the United States, or bonds of any political subdivision of Pennsylvania, or the general state authority or other authorities created by the General Assembly of the Commonwealth of Pennsylvania or insured with the Federal Deposit Insurance Corporation.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, \$10,351,249 of the District's bank balance of \$10,863,158 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the District's name	\$10,351,249
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Investments

The District is permitted to invest funds consistent with sound business practices in the following types of investments:

1. 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) of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentality's backed by the full faith and credit of the political subdivision.
2. Deposits in savings accounts or 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 the law therefore shall be pledged by the depository.
3. Local Government Investment Pools
4. Repurchase agreements with respect to US Treasury bills or obligations, participations or other instruments of or guaranteed by the U.S. or any federal agency, instrumentality or U.S. government-sponsored.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS, continued

Investments, continued

5. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933. So long as the following conditions are met: (a) Investments of that company are in the authorized investments for school district funds in the preceding paragraphs, (b) The investment company is managed so as to maintain its shares at a constant net asset value in accordance with 17 CFR 270 2a-7, (c) The investment company is rated in the highest category by a nationally recognized rating agency.

As of June 30, 2016, the District had the following investments:

<u>Investment</u>	<u>Fair Value</u>
PA Local Government Investment Trust	\$ 3,146,074
PA School District Liquid Asset Fund	<u>\$ 3,258,932</u>
BNY Mellon	<u>139</u>

Custodial Credit Risk – Investments. 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.

Credit Risk. On July 26, 2016, the District adopted an investment policy that would limit its investment choices in accordance with School Code permissible investments and properly collateralized Act 10 permissible investments. As of June 30, 2016, the District's investments were rated as:

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

Interest Rate Risk. Interest Rate risk is the risk that changes in interest rates will adversely affect an investment's value. The District has a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of June 30, 2016, the weighted average maturity of the investments in PLGIT and PSDLAF are both less than 90 days.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. SCHOOL TAXES

The tax on real estate, as levied by the School Board, was 27.90 mills (\$.0279 per \$1 of assessed valuation) for fiscal year 2016. Assessed valuation of property is established by the Board of Assessments, and the elected or appointed tax collectors are responsible for collection. Real property in the District for the July 1, 2015 levy was assessed at \$2,544,495,778. 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 value period
November 1 – December 31	10% penalty period
January 1	Lien date

For government-wide financial statements, the school district, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes in the amount of \$773,828 as determined by the administration. A portion of the amount estimated to be collectible, which was measurable and available within 30 days, was recognized as revenue and the balance deferred in the fund financial statements.

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2016:

	Interfund Receivables	Interfund Payables
General Fund	\$ 1,664,933	\$
Capital Projects Fund		1,424,136
Proprietary, Food Service		240,797
	\$ 1,664,933	\$ 1,664,933

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. The amount due from the Food Service fund to the General Fund of \$120,398 is not expected to be repaid within one year.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, continued

Interfund transfers are summarized as follows:

	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$ 1,200,000	\$
Capital Projects Fund		1,200,000
	\$ 1,200,000	\$ 1,200,000

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

5. CAPITAL ASSETS

Capital asset activity for Governmental Activities for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated				
Land	\$ 1,564,425	\$	\$	\$ 1,564,425
Construction in progress	1,436,867	4,969,258	6,406,125	-
Total capital assets not being depreciated	3,001,292	4,969,258	6,406,125	1,564,425
Capital assets being depreciated				
Site improvements	2,619,040	6,406,125		9,025,165
Buildings and improvements	145,380,386			145,380,386
Machinery and equipment	14,586,011	2,534,740	32,972	17,087,779
Total capital assets being depreciated at historical cost	162,585,437	8,940,865	32,972	171,493,330
Less accumulated depreciation for				
Site improvements	(1,183,430)	(274,165)		(1,457,595)
Buildings and improvements	(44,964,382)	(2,988,395)		(47,952,777)
Machinery & equipment	(13,017,704)	(628,676)	(32,972)	(13,613,408)
Total accumulated depreciation	(59,165,516)	(3,891,236)	(32,972)	(63,023,780)
Total capital assets being depreciated, net	103,419,921	5,049,629	-	108,469,550
Governmental Activities capital assets, net	\$ 106,421,213	\$ 10,018,887	\$ 6,406,125	\$ 110,033,975

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS, continued

Capital asset activity for the Business-type activities for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets being depreciated				
Machinery and equipment	\$ 38,733	\$	\$	\$ 38,733
Less accumulated depreciation for				
Machinery and equipment	\$ (1,937)	\$ (3,873)	\$	\$ (5,810)
Business-type activities capital assets, net	<u>\$ 36,796</u>	<u>\$ (3,873)</u>	<u>\$ -</u>	<u>\$ 32,923</u>

Depreciation expense for Governmental Activities was charged as direct expense to programs as follows:

Instruction	
Regular programs	\$ 1,831,595
Special programs	684,104
Vocational programs	123,484
Other programs	17,060
Adult education programs	7,227
Support Services	
Pupil personnel services	176,728
Instructional staff services	89,768
Pupil health	74,739
Administrative services	295,184
Business services	55,167
Central services	77,828
Operation and maintenance of plant services	387,015
Pupil transportation	5,535
Other support services	3,368
Operation of non-instructional services	62,434
Total Governmental Activities depreciation expense	<u>\$ 3,891,236</u>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES

The following is a summary of governmental long-term liability activity of the District for the year ending June 30, 2016:

Type	Principal Outstanding July 1, 2015	Additions	Repayments	Principal Outstanding June 30, 2016	Due within One Year
General Obligation Note - 2003	\$ 2,500,000	\$	\$ 2,500,000	\$ -	\$ -
General Obligation Bond - 2009	28,990,000		28,990,000	-	-
General Obligation Bond - 2011	9,075,000		905,000	8,170,000	935,000
General Obligation Note - 2011A	1,500,000		-	1,500,000	-
General Obligation Bond - 2012	8,950,000		1,015,000	7,935,000	2,615,000
General Obligation Bond - 2012A	7,125,000		825,000	6,300,000	835,000
General Obligation Bond - 2012AA	6,515,000		655,000	5,860,000	1,930,000
General Obligation Bond - 2013	4,220,000		5,000	4,215,000	5,000
General Obligation Note - 2013	5,475,000		5,000	5,470,000	5,000
General Obligation Note - 2013A	2,530,000		5,000	2,525,000	5,000
General Obligation Note - 2015	5,495,000		5,000	5,490,000	5,000
General Obligation Bond - 2015A	3,285,000		350,000	2,935,000	475,000
General Obligation Bond - 2015B	2,245,000		320,000	1,925,000	175,000
General Obligation Bond - 2016	-	28,080,000	-	28,080,000	135,000
	<u>87,905,000</u>	<u>28,080,000</u>	<u>35,580,000</u>	<u>80,405,000</u>	<u>7,120,000</u>
Capital Lease Obligations	<u>313,280</u>	<u>2,462,377</u>	<u>485,059</u>	<u>2,290,598</u>	<u>137,752</u>
	88,218,280	30,542,377	36,065,059	82,695,598	7,257,752
Compensated Absences	<u>2,448,348</u>	<u>71,774</u>		<u>2,520,122</u>	<u>126,006</u>
Total	<u>\$ 90,666,628</u>	<u>\$ 30,614,151</u>	<u>\$ 36,065,059</u>	<u>\$ 85,215,720</u>	<u>\$ 7,383,758</u>

Interest expense for Bonds and Notes for the year ended June 30, 2016 was \$2,868,781.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

Bonds and Notes payable at June 30, 2016 consisted of:

<p>On September 27, 2011, the District issued General Obligation Bond Series of 2011. The purpose of this issue is to currently refund the outstanding principal of the General Obligation Bonds Series 2006. The Bond has an original principal amount of \$9,875,000, matures on November 15, 2023, and bears interest from 1% to 4%. Interest is paid semi-annually on May 15 and November 15.</p>	<p>8,170,000</p>
<p>On October 3, 2012, the District issued General Obligation Note Series of 2011A. The purpose of this issue is to finance construction projects. The note has an original principal amount of \$1,500,000, matures in August 2023 and bears interest at a variable rate. Interest is paid monthly.</p>	<p>1,500,000</p>
<p>On June 4, 2012, the District issued General Obligation Bond Series of 2012. The purpose of this issue is to currently refund the part of the outstanding principal of the General Obligation Bonds Series 2007A and 2008AA. The Bond has an original principal amount of \$9,995,000, matures on September 15, 2018, and bears interest from .5% to 4%. Interest is paid semi-annually on March 15 and September 15.</p>	<p>7,935,000</p>
<p>On December 3, 2012, the District issued General Obligation Bond Series of 2012A. The purpose of this issue is to currently refund the remaining outstanding principal of the General Obligation Bonds Series 2007A and 2008A and part of the General Obligation Bonds Series 2008AA. The Bond has an original principal amount of \$8,770,000, matures on September 15, 2023, and bears interest from .35% to 2.06%. Interest is paid semi-annually on March 15 and September 15.</p>	<p>6,300,000</p>
<p>On December 19, 2012, the District issued General Obligation Bond Series of 2012AA. The purpose of this issue is to currently refund the remaining outstanding principal of the General Obligation Bonds Series 2008AA and part of the General Obligation Bonds Series 2008. The Bond has an original principal amount of \$7,245,000, matures on December 15, 2018, and bears interest from .5% to 2.0%. Interest is paid semi-annually on June 15 and December 15.</p>	<p>5,860,000</p>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

<p>On June 27, 2013, the District issued General Obligation Bond Series of 2013. The purpose of this issue is to currently refund part of the outstanding principal of the General Obligation Notes Series 1997, 1997C and 2003. The Bond has an original principal amount of \$4,225,000, matures on September 15, 2025, and bears interest from .45% to 2.45%. Interest is paid semi-annually on March 15 and September 15.</p>	<p>4,215,000</p>
<p>On June 27, 2013, the District issued General Obligation Note Series of 2013. The purpose of this issue is to advance refund part of the outstanding principal of the General Obligation Bonds Series 2009, 2010 and 2012. The note has an original principal amount of \$5,480,000, matures on September 15, 2025, and bears interest from .45% to 3.5%. Interest is paid semi-annually on March 15 and September 15.</p>	<p>5,470,000</p>
<p>On June 27, 2013, the District issued General Obligation Note Series of 2013A. The purpose of this issue is to advance refund part of the outstanding principal of the General Obligation Bonds Series 2010. The note has an original principal amount of \$2,535,000, matures on September 15, 2025, and bears interest from .45% to 3.125%. Interest is paid semi-annually on March 15 and September 15.</p>	<p>2,525,000</p>
<p>On January 28, 2015, the District issued General Obligation Note Series of 2015. The purpose of this issue is to finance construction projects. The note has an original principal amount of \$5,495,000, matures in December 2027 and bears interest at a variable rate. Interest is paid monthly.</p>	<p>5,490,000</p>
<p>On May 1, 2015, the District issued General Obligation Bond Series of 2015A. The purpose of this issue is to currently refund the outstanding principal of the General Obligation Bonds Series 2009A. The Bond has an original principal amount of \$3,285,000, matures on September 1, 2020, and bears interest from .35% to 4.00%. Interest is paid semi-annually on March 1 and September 1.</p>	<p>2,935,000</p>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

On May 1, 2015, the District issued General Obligation Bond Series of 2015B. The purpose of this issue is to currently refund the outstanding principal of the General Obligation Bonds Series 2010. The Bond has an original principal amount of \$2,245,000, matures on September 1, 2021, and bears interest from .35% to 4.00%. Interest is paid semi-annually on March 1 and September 1.	1,925,000
On March 30, 2016, the District issued General Obligation Bond Series of 2016. The purpose of this issue is to advance refund the outstanding principal of the General Obligation Bonds Series 2009. The Bond has an original principal amount of \$28,080,000, matures on March 1, 2025, and bears interest from .70 to 5.00%. Interest is paid semi-annually on March 1 and September 1.	28,080,000
TOTAL	\$ 80,405,000

Principal and interest payments for Bonds and Notes for the succeeding fiscal years are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 7,120,000	\$ 2,210,983	\$ 9,330,983
2018	7,170,000	2,170,858	9,340,858
2019	7,330,000	2,002,825	9,332,825
2020	7,645,000	1,880,582	9,525,582
2021	7,935,000	1,599,875	9,534,875
2022-2026	39,530,000	3,649,979	43,179,979
2027-2028	3,675,000	46,219	3,721,219
	\$ 80,405,000	\$ 13,561,321	\$ 93,966,321

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. CAPITAL LEASES

Methacton School District has the following capital lease obligations.

On May 29, 2013, the District entered into a lease-purchase agreement with TD Equipment Finance for the purchase of computer equipment. The present value of the lease payments is \$671,793. The lease provides for four annual payments of \$172,272. The implicit interest rate is 1.76%.

On July 2, 2013, the District entered into a lease-purchase agreement with TD Equipment Finance for the purchase of transportation and other equipment. The present value of the lease payments was originally \$723,555. The lease provides for seven annual payments of \$107,991. The implicit interest rate is 1.46%. The District sold the transportation equipment and paid the transportation portion of the lease during the year ending June 30, 2015. The revised payments are \$37,321 per year.

On January 5, 2016 the District entered into a lease-purchase agreement with TD Equipment Finance for the purchase of a vehicle. The present value of the lease payments is \$33,442. The lease provides for forty eight monthly payments of \$738. The implicit interest rate is 3.00%

On August 12, 2015 the District entered into a lease-purchase agreement with Bank of America for the energy performance contract. The present value of the lease payments is \$2,428,935. The lease provides for seventeen annual payments ranging from \$136,026 to \$341,446. The implicit interest rate is 2.49%

Principal and interest payments for the succeeding fiscal years are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 137,752	\$ 53,258	\$ 191,010
2018	142,865	52,488	195,353
2019	150,576	49,253	199,829
2020	155,644	45,841	201,485
2021	120,582	42,424	163,006
2022-2026	660,782	165,220	826,002
2027-2031	789,677	77,236	866,913
2032	132,720	3,304	136,024
	<u>\$ 2,290,598</u>	<u>\$ 489,024</u>	<u>\$ 2,779,622</u>

Interest expense for the capital leases for the year ended June 30, 2016, was \$31,612.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

8. PENSION PLAN

Public School Employees' Retirement System 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/deduction 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.

General Information about the Pension Plan

Plan description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public 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 1 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 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

8. PENSION PLAN, continued

Benefits provided, continued

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

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

Contributions

Member Contributions:

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

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

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect 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% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

8. PENSION PLAN, continued

Employer Contributions:

The school districts' contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$10,567,279 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$141,814,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was .3274 percent, which was a decrease of .0303 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$10,230,087. At June 30, 2016, 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
	<u> </u>	<u> </u>
Changes in proportions	\$ 1,111,500	\$ 7,710,000
Net difference between projected and actual investment earnings	363,100	
Difference between expected and actual experience		438,750
Difference between employer contributions and proportionate share of total contributions	241,962	
Contributions subsequent to the measurement date	10,567,279	
	<u>\$ 12,283,841</u>	<u>\$ 8,148,750</u>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

8. PENSION PLAN, continued

\$10,567,279 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as 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:

Year ended June 30:

2017	(2,773,927)
2018	(2,773,927)
2019	(897,927)
2020	13,593

Actuarial assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014 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.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

8. PENSION PLAN, continued

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

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

Asset Class	Target allocation	Long-Term Expected Real Rate of Return
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	100%	

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, 2015.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

8. PENSION PLAN, continued

Discount rate

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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 174,800,000	\$ 141,814,000	\$ 114,090,000

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.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

9. POSTEMPLOYMENT HEALTHCARE BENEFITS

In the fiscal year ended June 30, 2009, the District implemented Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for postemployment health care benefits provided by the District. The requirements of this Statement were implemented prospectively, with the actuarially accrued liability for benefits at June 30, 2009, date of transition amortized using a weighted average blended amortization period of 19 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

Plan Description: The District provides post employment healthcare benefits as set forth in the collective bargaining agreement with the Methacton Education Association (MEA) and the Methacton Administrative Organization (MAO). For retired teachers: retirees prior to July 1, 2005 with at least 10 years of district service, the District will continue to contribute 88% (reduced to 89% in 2011-2012 and 88% thereafter) of the premium for healthcare programs for up to 12 years, after 12 years the retiree can continue coverage by paying the full premium; retirees between July 1, 2005 and October 31, 2010 with at least 10 years of service will receive cash payments of \$10,000 for 5 years into a 403(b) or health premium account, and the retiree must pay full premium for healthcare programs; retirees between April 1, 2011 and June 30, 2012, or after July 1, 2013 with at least 10 years of service will receive cash payments of \$20,000 for 2 years into a 403(b) or health premium account, and the retiree must pay full premium for healthcare programs. For retired Administrators: retirees prior to July 1, 2005 with at least 10 years of district service, the District will continue to contribute 88% of the premium for healthcare programs for up to 12 years, after 12 years the retiree can continue coverage by paying the full premium; retirees between July 1, 2005 and June 30, 2013 with at least 10 years of service will receive cash payments of \$10,000 for 5 years into a 403(b) or health premium account, and the retiree must pay full premium for healthcare programs; retirees between July 1, 2012 and June 30, 2013 will receive cash payments of \$15,000 for 2 years into a 403(b) or health premium account, and the retiree must pay full premium for healthcare programs; retirees after July 1, 2013 must pay the full premium for healthcare programs. Support staff retirees must pay full premium for healthcare programs. After June 30, 2017 all retirees must pay full premiums for healthcare programs.

Funding Policy: The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. As of July 1, 2014, there were 194 retired participants. Retiree contributions are based on weighted averages for the medical premiums, increasing at the same rate as the health care cost trend rate. The District's pay-as-you-go cost, including implicit rate subsidy of \$890,283 has been applied toward the annual OPEB cost.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

9. POSTEMPLOYMENT HEALTHCARE BENEFITS, continued

Annual OPEB Cost and Net OPEB Obligation: The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 1,671,595	66%	\$ 3,979,717
6/30/2014	1,303,803	74%	4,322,665
6/30/2015	1,287,302	69%	4,719,684

Funded Status and Funding Progress: As of July 1, 2014, the latest actuarial valuation, the actuarial accrued liability for benefits was \$10,847,401, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$14,735,226. The covered payroll (annual payroll of active participating employees) was \$39,992,901, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 27.12 percent.

The following table shows 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:

<u>Description</u>	
Normal cost (service cost for one year)	\$ 464,342
Interest on Normal Cost	20,895
Amortization of Unfunded Actuarial Accrued Liability	<u>1,010,047</u>
Annual Required Contribution (ARC)	1,495,284
Interest on net OPEB Obligation	194,520
Adjustment to Annual Required Contribution	<u>(402,502)</u>
Annual OPEB Cost (expense)	1,287,302
Contributions toward the OPEB Cost	<u>(890,283)</u>
Increase in Net OPEB Obligation	397,019
Net OPEB Obligation, Beginning of Year	<u>4,322,665</u>
Net OPEB Obligation, End of Year	<u><u>\$ 4,719,684</u></u>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

9. POSTEMPLOYMENT HEALTHCARE BENEFITS, continued

Actuarial Methods and Assumptions: 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 and termination, mortality, and the healthcare cost trends. 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. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. 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.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The District's OPEB actuarial valuation as of July 1, 2014, used the entry age normal actuarial cost method to estimate both the unfunded liability as of June 30, 2016 and to estimate the District's 2015-16 fiscal year annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 4.5 percent rate of return on invested assets. The actuarial assumptions include a payroll growth of a 3% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to .25%. The actuarial assumptions also include an annual health care cost trend rate of 6.5% in the 2014 fiscal year, reduced by .5% per year to an ultimate rate of 5.5% in 2016. The unfunded actuarial liability is being amortized on a level dollar, 15 year open period, based on a weighted average of service until retirement (active liability) and payment period (retired liability).

10. OPERATING LEASES

The District entered into operating leases for computer equipment and vehicles. The total expense under these operating leases for the June 30, 2016 year is \$395,726. The lease payments for future years are as follows:

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

10. OPERATING LEASES, continued

Year Ended June 30,	Lease Payment
2017	\$ 556,902
2018	365,673
2019	334,868
2020	156,336
Total	\$ 1,413,779

11. COMMITMENTS AND CONTINGENCIES

Claims or Litigation

The District is currently a party, as both plaintiff and defendant, to various claims and litigation arising in the normal course of operations. Certain tax assessment appeals are ongoing. The amount of loss contingency, due to the nature of tax assessment appeals, is not determinable.

The District has various commitments under long-term construction contracts totaling approximately \$320,461 as of June 30, 2016.

12. RISK MANAGEMENT

The School district is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages for the fiscal year ending June 30, 2016.

The School District is a participant in the Bucks and Montgomery County Schools Healthcare Consortium, which is a pooled trust fund for the purpose of providing health and related benefits up to \$200,000 per participant. The school pays the Consortium a monthly contribution as determined by the trustees. This pool is self-sustaining through member premiums. The District reinsured through a commercial company for claims in excess of the amount covered by the pool.

REQUIRED

SUPPLEMENTARY INFORMATION

METHACTON SCHOOL DISTRICT

**SCHEDULE OF FUNDING PROGRESS FOR THE
POSTEMPLOYMENT BENEFITS PLAN**

JUNE 30, 2016

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)
7/1/2014	\$ 0	\$ 10,847,401	\$ 10,847,401	0%	\$ 39,992,901	27.12%
7/1/2012	\$ 0	\$ 13,428,211	\$ 13,428,211	0%	\$ 42,566,725	31.55%
7/1/2010	\$ 0	\$ 14,735,226	\$ 14,735,226	0%	\$ 39,794,279	37.03%

METHACTON SCHOOL DISTRICT

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

Last 10 Fiscal Years*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's proportion of the net pension liability	0.3274%	0.3577%	0.3512%
District's proportionate share of the net pension liability	\$ 141,814,000	\$ 141,580,000	\$ 143,768,000
District's covered-employee payroll	\$ 41,299,971	\$ 45,644,540	\$ 45,071,142
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	343.38%	310.18%	318.98%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%	54.49%

Amounts were determined as of the cost-sharing plan's June 30, 2015 fiscal year.

* This schedule is presented to illustrate the requirement to show information for 10 years.
However, until a full 10-year trend is complete, available information is presented.

METHACTON SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
PENSION PLAN

Last 10 Fiscal Years*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contribution	10,567,279	8,466,494	7,084,130
Contributions in relation to the contractually required contribution	<u>(10,567,279)</u>	<u>(8,466,494)</u>	<u>(7,084,130)</u>
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	42,269,116	41,299,971	45,644,540
Contributions as a percentage of covered-employee payroll	25.00%	20.50%	15.52%

Amounts are based on actual contributions during the fiscal year.

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

METHACTON SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with final budget Positive (Negative)
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 78,702,911	\$ 78,702,911	\$ 78,452,871	\$ (250,040)
State sources	20,060,088	20,060,088	20,256,584	196,496
Federal sources	492,074	492,074	373,809	(118,265)
	<u>99,255,073</u>	<u>99,255,073</u>	<u>99,083,264</u>	<u>(171,809)</u>
Other Financing Sources:				
Capital lease obligations	1,000,000	1,000,000	33,442	(966,558)
Proceeds from sale of capital assets	10,205	10,205	1,491	(8,714)
	<u>100,265,278</u>	<u>100,265,278</u>	<u>99,118,197</u>	<u>(1,147,081)</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction				
Regular programs	39,040,951	39,040,951	37,763,669	1,277,282
Special programs	14,303,874	14,303,874	14,104,457	199,417
Vocational programs	2,383,676	2,383,676	2,545,911	(162,235)
Other instructional programs	197,850	197,850	353,835	(155,985)
Adult education programs	200,510	200,510	149,009	51,501
Total Instruction	<u>56,126,861</u>	<u>56,126,861</u>	<u>54,916,881</u>	<u>1,209,980</u>
Support services				
Pupil personnel services	3,993,585	3,993,585	4,033,114	(39,529)
Instructional staff services	2,341,401	2,341,401	2,048,596	292,805
Administration services	6,398,502	6,398,502	6,120,325	278,177
Pupil health	1,254,585	1,254,585	1,705,614	(451,029)
Business services	1,194,059	1,194,059	1,143,829	50,230
Operation and maintenance of plant services	8,509,254	8,509,254	7,842,512	666,742
Student transportation	6,689,908	6,689,908	6,675,910	13,998
Central services	1,885,538	1,885,538	1,776,108	109,430
Other support services	72,922	72,922	76,855	(3,933)
Total Support Services	<u>32,339,754</u>	<u>32,339,754</u>	<u>31,422,863</u>	<u>916,891</u>
Operation of non-instructional services				
Student activities	1,417,177	1,417,177	1,376,283	40,894
Community services	4,550	4,550	5,517	(967)
Total Operation of Non-instructional Services	<u>1,421,727</u>	<u>1,421,727</u>	<u>1,381,800</u>	<u>39,927</u>
Debt service	9,835,749	9,835,749	9,979,254	(143,505)
Other financing uses				
Interfund transfers	1,200,000	1,200,000	1,200,000	-
Budgetary Reserve	200,000	200,000		200,000
Total Other Financing Uses	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,200,000</u>	<u>200,000</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>101,124,091</u>	<u>101,124,091</u>	<u>98,900,798</u>	<u>2,223,293</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(858,813)	(858,813)	217,399	1,076,212
FUND BALANCE AT BEGINNING OF YEAR	<u>7,623,000</u>	<u>7,623,000</u>	<u>7,623,000</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 6,764,187</u>	<u>\$ 6,764,187</u>	<u>\$ 7,840,399</u>	<u>\$ 1,076,212</u>

See accompanying notes to the required supplementary information

METHACTON SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

1. Budgetary Data

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

- a. Prior to May 31, the School Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
- b. The budget is presented at a METHACTON SCHOOL DISTRICT public board meeting to obtain taxpayer comments.
- c. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- d. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund must be approved by the School Board.
- e. Budgetary data are included in the District's management information system and are employed as a management control device during the year.
- f. Budgets for the General Fund are adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

2. Pension Data

The amounts reported in the schedule of the district's proportionate share of the net pension liability are determined as of June 30, 2015 by The Commonwealth of Pennsylvania Public School Employees' Retirement System (the cost-sharing plan). There were no changes in benefit terms and no changes in assumptions.

SUPPLEMENTARY INFORMATION

METHACTON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2016

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROJECT	Federal CFDA Number	Pass Through Grantor's Number	Grant Period	Award Amount	Accrued or (Deferred) Revenue at July 1, 2015	Total Received For the Year	Expenditures	Accrued or (Deferred) Revenue at June 30, 2016	Revenue Recognized
FEDERAL AWARDS									
US DEPT. OF EDUCATION									
PASSED THROUGH THE PA DEPT. OF EDUCATION									
ESEA TITLE I Improving Basic Programs	84.010	013-150245	7/1/14-9/30/15	\$ 160,312	\$ 41,588	\$ 41,588	\$	\$	\$
ESEA TITLE I Improving Basic Programs	84.010	013-160245	7/9/15-9/30/16	162,558	132,843	162,558	162,558	29,715	162,558
Total CFDA 84.010				<u>322,870</u>	<u>41,588</u>	<u>174,431</u>	<u>162,558</u>	<u>29,715</u>	<u>162,558</u>
TITLE I Achievement Grant	84.010A	077-150245	3/20/15-9/30/15	24,098	6,727	13,539	6,812		6,812
Total CFDA 84.010A				<u>24,098</u>	<u>6,727</u>	<u>13,539</u>	<u>6,812</u>		<u>6,812</u>
ESEA TITLE II Improving Teacher Quality	84.367	020-150245	7/1/14-9/30/15	106,916	53,363	53,363			
ESEA TITLE II Improving Teacher Quality	84.367	020-160245	7/9/15-9/30/16	106,678	71,296	106,678	106,678	35,382	106,678
Total CFDA 84.367				<u>213,594</u>	<u>53,363</u>	<u>124,659</u>	<u>106,678</u>	<u>35,382</u>	<u>106,678</u>
MEDICAL ACCESS ADMIN	93.778		7/1/14-6/30/15	6,558	2,904	2,904			
MEDICAL ACCESS ADMIN	93.778		7/1/15-6/30/16	15,761	7,811	15,761	15,761	7,950	15,761
Total CFDA 93.778				<u>22,319</u>	<u>2,904</u>	<u>10,715</u>	<u>15,761</u>	<u>7,950</u>	<u>15,761</u>
PASSED THROUGH MONTGOMERY COUNTY IU									
IDEA Part B	84.027	N/A	7/1/15-6/30/16	888,082		734,585	888,082	153,497	888,082
IDEA Preschool	84.173	N/A	7/1/15-6/30/16	4,584		4,584	4,584		4,584
Total IDEA Cluster				<u>892,666</u>		<u>739,169</u>	<u>892,666</u>	<u>153,497</u>	<u>892,666</u>
TITLE III Language Instruction for Limited English Proficient	84.365	N/A	7/16/13-9/30/14	8,734	2,215	2,215			
TITLE III Language Instruction for Limited English Proficient	84.365	N/A	7/16/14-9/30/15	16,352	12	1,917	16,340	14,435	16,340
TITLE III Language Instruction for Limited English Proficient	84.365	N/A	7/17/15-9/30/16	19,934		13,402	13,402	13,402	13,402
Total CFDA 84.365				<u>45,020</u>	<u>2,227</u>	<u>4,132</u>	<u>29,742</u>	<u>27,837</u>	<u>29,742</u>
TOTAL US DEPT. OF EDUCATION				<u>1,520,567</u>	<u>106,809</u>	<u>1,066,645</u>	<u>1,214,217</u>	<u>254,381</u>	<u>1,214,217</u>
US DEPT. OF AGRICULTURE									
PASSED THROUGH THE PA DEPT. OF EDUCATION									
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	7/1/14-6/30/15	N/A	10,984	10,984			
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	7/1/15-6/30/16	N/A		240,985	285,686	44,701	285,686
REGULAR/NEEDY BREAKFAST PROGRAM	10.553	N/A	7/1/14-6/30/15	N/A	1,456	1,456			
REGULAR/NEEDY BREAKFAST PROGRAM	10.553	N/A	7/1/15-6/30/16	N/A		33,331	40,612	7,281	40,612
PASSED THROUGH THE PA DEPT. OF AGRICULTURE									
USDA COMMODITIES	10.555	N/A	7/1/15-6/30/16	N/A	(8,037)	60,165	60,163	(8,039)	60,163
Total Child Nutrition Cluster					<u>4,403</u>	<u>346,921</u>	<u>386,461</u>	<u>43,943</u>	<u>386,461</u>
TOTAL US DEPT. OF AGRICULTURE					<u>4,403</u>	<u>346,921</u>	<u>386,461</u>	<u>43,943</u>	<u>386,461</u>
TOTAL FEDERAL AWARDS					<u>111,212</u>	<u>1,413,566</u>	<u>1,600,678</u>	<u>298,324</u>	<u>1,600,678</u>

METHACTON SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
 FOR THE YEAR ENDED JUNE 30, 2016

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROJECT	Federal CFDA Number	Pass Through Grantor's Number	Grant Period	Award Amount	Accrued or (Deferred) Revenue at July 1, 2015	Total Received For the Year	Expenditures	Accrued or (Deferred) Revenue at June 30, 2016	Revenue Recognized
CERTAIN STATE GRANTS									
PASSED THROUGH THE PA DEPT. OF AGRICULTURE									
NATIONAL SCHOOL LUNCH PROGRAM	N/A	N/A	7/1/14-6/30/15	N/A	1,114	1,131	17		17
NATIONAL SCHOOL LUNCH PROGRAM	N/A	N/A	7/1/15-6/30/16	N/A		23,454	27,533	4,079	27,533
REGULAR/NEEDY BREAKFAST PROGRAM	N/A	N/A	7/1/14-6/30/15	N/A	130	114	(16)		(16)
REGULAR/NEEDY BREAKFAST PROGRAM	N/A	N/A	7/1/15-6/30/16	N/A		2,444	2,979	535	2,979
TOTAL CERTAIN STATE GRANTS					1,244	27,143	30,513	4,614	30,513
GRAND TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS					\$ 112,456	\$ 1,440,709	\$ 1,631,191	\$ 302,938	\$ 1,631,191

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and certain state grants (the Schedule) includes the federal award activity of Methacton School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Methacton School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Methacton School District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*) wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

Methacton School District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.



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
METHACTON SCHOOL DISTRICT
Norristown, 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 METHACTON SCHOOL DISTRICT as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise METHACTON SCHOOL DISTRICT's basic financial statements and have issued our report thereon dated November 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered METHACTON 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 METHACTON SCHOOL DISTRICT's internal control. Accordingly, we do not express an opinion on the effectiveness of the METHACTON 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

November 9, 2016

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania
Certified Public Accountants

A handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, slightly slanted style.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To the Board of School Directors
METHACTON SCHOOL DISTRICT
Norristown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited METHACTON SCHOOL DISTRICT's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of METHACTON SCHOOL DISTRICT's major federal programs for the year ended June 30, 2016. METHACTON 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of METHACTON 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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 METHACTON 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 METHACTON SCHOOL DISTRICT's compliance.

Opinion on Each Major Federal Program

In our opinion, METHACTON 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, 2016.

Report on Internal Control Over Compliance

Management of METHACTON 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 METHACTON 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 the Uniform Guidance, 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 METHACTON 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

November 9, 2016

MAJOR & MASTRO, LLC
Montgomeryville, Pennsylvania
Certified Public Accountants



METHACTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of METHACTON SCHOOL DISTRICT.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of METHACTON SCHOOL DISTRICT which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance.
5. Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance expresses an unmodified opinion on all major federal programs.
6. No audit findings were disclosed relating to major programs that are required to be reported under 2 CFR section 200.516(a).
7. The programs tested as major programs include:

Child Nutrition Cluster:

National School Breakfast	10.553
National School Lunch	10.555

METHACTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued

FOR THE YEAR ENDED JUNE 30, 2016

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. METHACTON SCHOOL DISTRICT was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT.

None