

UPPER MERION AREA SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2014



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

UPPER MERION AREA SCHOOL DISTRICT
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2014

	Page
Introductory Section	
Table of Contents	1
Financial Section	
Independent Auditors' Report	3
Management's Discussion and Analysis (Unaudited)	6
Basic Financial Statements	
<i>Government-Wide Financial Statements</i>	
Statement of Net Position	16
Statement of Activities	17
<i>Fund Financial Statements</i>	
<i>Governmental Funds</i>	
Balance Sheet	18
Reconciliation of Total Governmental Funds Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	22
<i>Proprietary Funds</i>	
Statement of Net Position	23
Statement of Revenues, Expenses and Changes in Net Position	24
Statement of Cash Flows	25
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Position	27
Statement of Changes in Fiduciary Net Position	28

UPPER MERION AREA SCHOOL DISTRICT
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2014

	Page
<i>Notes to the Basic Financial Statements</i>	29
Required Supplementary Information	
Budgetary Comparison Schedule	51
Note to the Budgetary Comparison Schedule	52
Postemployment Benefits Other Than Pension Funding Progress	53
Supplementary Information Section	
<i>General Fund</i>	
Schedule of Current Real Estate Settlements	54
Schedule of Revenues, Budget and Actual	55
Independent Auditors' 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	56
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with OMB Circular A-133	58
Supplementary Information - Major Federal Award Programs Audit	
Schedule of Expenditures of Federal and Certain State Awards	61
Notes to the Schedule of Expenditures of Federal and Certain State Awards	63
Schedule of Findings and Questioned Costs	64

FINANCIAL SECTION

Independent Auditors' Report

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

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 Upper Merion Area School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note R to the financial statements, the June 30, 2013 financial statements have been restated to record a change in the way the School District accounts for state pension reimbursements. Our opinion is not modified with respect to this matter.

As discussed in Note S to the financial statements, for the year ended June 30, 2014, the Upper Merion Area School District adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 15, budgetary comparison information on pages 51 through 52 and postemployment benefits other than pension funding progress on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Merion Area School District's basic financial statements. The supplementary information listed in the table of contents and the schedule of expenditures of federal and certain state awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of the Upper Merion Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Upper Merion Area School District's internal control over financial reporting and compliance.

Maillie LLP

Oaks, Pennsylvania
November 24, 2014

UPPER MERION AREA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED JUNE 30, 2014

The discussion and analysis of the Upper Merion Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

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

SCHOOL DISTRICT HIGHLIGHTS

Upper Merion Area School District is comprised of the municipal subdivisions of the Borough of Bridgeport, the Borough of West Conshohocken and Upper Merion Township in Montgomery County, Pennsylvania, and covers an area of approximately 19 square miles. The School District had an enrollment of 3,969 students in 2013-14. The School District employs approximately 317 teachers, 307 support staff and 23 administrators.

Upper Merion Area School District consists of four elementary schools, one middle school and one high school.

The School District's commitment to providing an excellent education for each student can be seen in the quality of programs and opportunities the School District maintains and supports.

FINANCIAL HIGHLIGHTS

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

Overall operating expenditures of the General Fund were \$77,956,667. Actual operating revenues exceeded actual operating expenses by \$5,350,077.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements and the required supplementary information. The basic financial statements include two kinds of statements that present different views of the School District.

- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the School District's overall financial status.

UPPER MERION AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

- The remaining statements are *fund financial statements* that focus on individual parts of the School District, reporting the School District's operations in more detail than the government-wide statements.

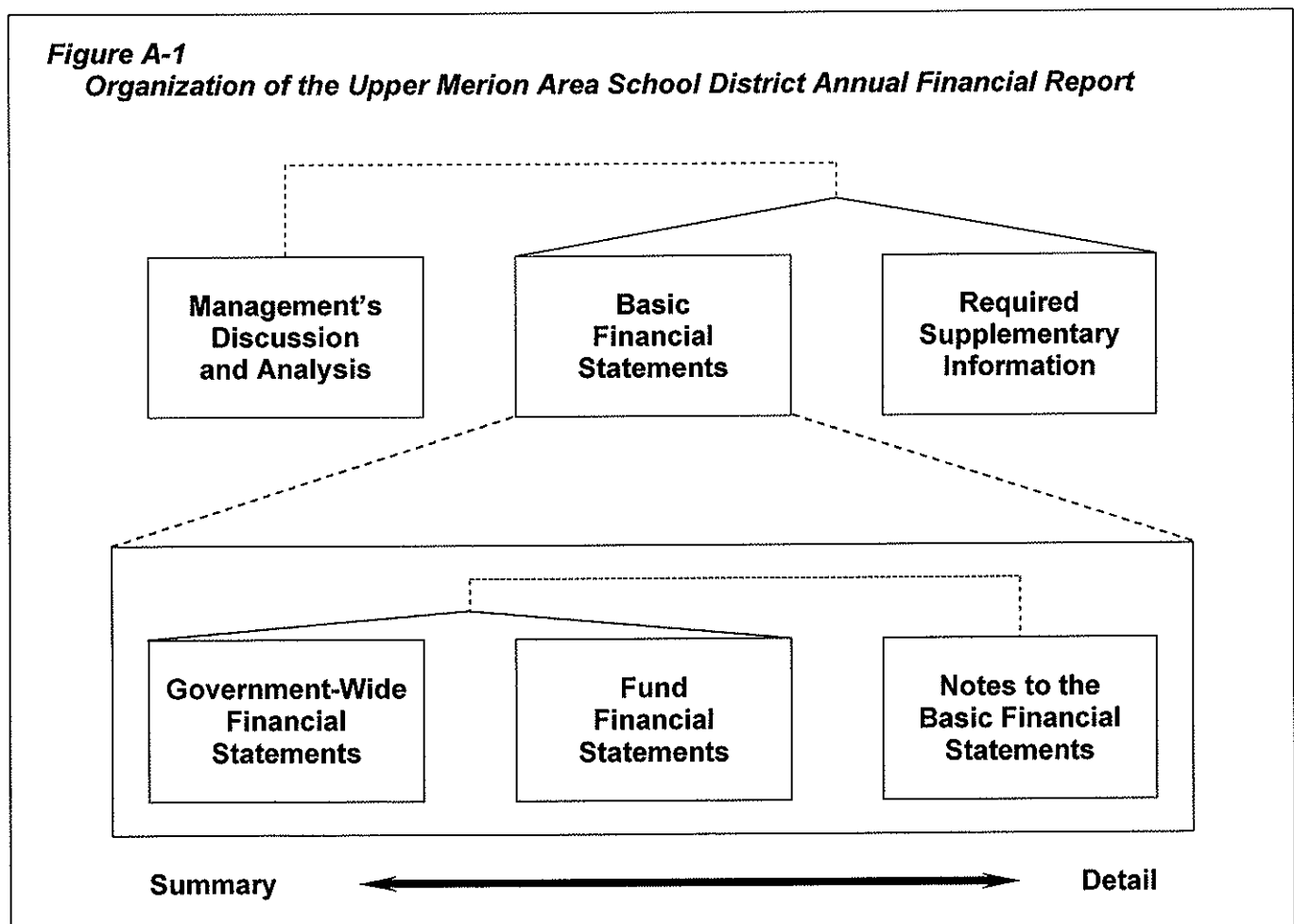
The **Governmental Funds** statements tell how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.

Proprietary Funds statements offer short- and long-term financial information about the activities the School District operates like businesses, such as food services.

Fiduciary Funds statements provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others.

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

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another.



UPPER MERION AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of the MD&A explains the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except Fiduciary Funds)	The activities of the School District that are not proprietary or fiduciary, such as education, administration and community services	Activities the School District operates similar to private businesses-- food services	Instances in which the School District is the trustee or agent to someone else's resources--Scholarship Funds
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

UPPER MERION AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE STATEMENTS

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

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

- Over time, increases or decreases in the School District's net position are an indication of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School District, you need to consider additional non-financial factors, such as changes in the School District's property tax base and the performance of the students.

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

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

FUND FINANCIAL STATEMENTS

The School District's fund financial statements provide detailed information about the most significant funds--not the School District as a whole. Some funds are required by state law and by bond requirements.

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

UPPER MERION AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

- **Proprietary Funds.** These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the School District charges customers for services it provides--whether to outside customers or to other units in the School District--these services are generally reported in Proprietary Funds. The Food Service and Extended Day Funds are the School District's Proprietary Funds and are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds.** The School District is the trustee, or fiduciary, for some Scholarship Funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Net Position

The following tables reflect the condensed statements of net position for the current and prior periods.

The School District's total net position was \$36,295,181 at June 30, 2014.

Table A-1
Condensed Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Current and other assets	\$ 30,678,971	\$ 2,128,601	\$ 32,807,572
Capital assets	76,628,404	82,647	76,711,051
TOTAL ASSETS	<u>107,307,375</u>	<u>2,211,248</u>	<u>109,518,623</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	594,748	-	594,748
LIABILITIES			
Current and other liabilities	11,283,610	1,361,814	12,645,424
Long-term liabilities	61,172,766	-	61,172,766
TOTAL LIABILITIES	<u>72,456,376</u>	<u>1,361,814</u>	<u>73,818,190</u>
NET POSITION			
Net investment in capital assets	21,271,195	82,647	21,353,842
Unrestricted	14,174,552	766,787	14,941,339
TOTAL NET POSITION	<u>\$ 35,445,747</u>	<u>\$ 849,434</u>	<u>\$ 36,295,181</u>

UPPER MERION AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

The School District's total net position was \$28,162,245 at June 30, 2013.

Table A-2
Condensed Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Current and other assets	\$ 23,576,578	\$ 1,431,739	\$ 25,008,317
Capital assets	<u>80,010,121</u>	<u>89,374</u>	<u>80,099,495</u>
TOTAL ASSETS	<u>103,586,699</u>	<u>1,521,113</u>	<u>105,107,812</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	<u>582,411</u>	<u>-</u>	<u>582,411</u>
LIABILITIES			
Current and other liabilities	9,757,331	707,175	10,464,506
Long-term liabilities	<u>67,063,472</u>	<u>-</u>	<u>67,063,472</u>
TOTAL LIABILITIES	<u>76,820,803</u>	<u>707,175</u>	<u>77,527,978</u>
NET POSITION			
Net investment in capital assets	19,366,310	89,374	19,455,684
Unrestricted	<u>7,981,997</u>	<u>724,564</u>	<u>8,706,561</u>
TOTAL NET POSITION	<u>\$ 27,348,307</u>	<u>\$ 813,938</u>	<u>\$ 28,162,245</u>

Most of the School District's net position is invested in capital assets (building, land and equipment) or in the form of invested bond proceeds to be used for future capital expenditures.

Statement of Activities

The results of this year's operations as a whole are reported in the statement of activities in the financial statements. The two largest general revenues are the Retirement Subsidy provided by the Commonwealth of Pennsylvania and the local taxes assessed to community taxpayers. Table A-3 takes the information from the statement of activities and rearranges it slightly, so you can see our total revenues for the year. The following tables reflect the revenues and expenses for the current and prior periods.

UPPER MERION AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

Table A-3
Changes in Net Position
Year Ended June 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
REVENUES			
Program revenues			
Charges for services	\$ -	\$ 1,674,979	\$ 1,674,979
Operating grants and contributions	12,220,202	825,445	13,045,647
General revenues			
Property taxes	67,325,460	-	67,325,460
Other taxes	2,391,757	-	2,391,757
Investment earnings	155,831	6,293	162,124
Other	1,150,973	-	1,150,973
TOTAL REVENUES	<u>83,244,223</u>	<u>2,506,717</u>	<u>85,750,940</u>
EXPENSES			
Instruction			
Regular programs	30,772,123	-	30,772,123
Special programs	10,145,611	-	10,145,611
Vocational programs	2,068,955	-	2,068,955
Other instructional programs	568,859	-	568,859
Support services			
Pupil personnel services	3,539,495	-	3,539,495
Instructional staff services	2,167,638	-	2,167,638
Administration services	4,183,467	-	4,183,467
Pupil health	1,094,047	-	1,094,047
Business services	812,012	-	812,012
Operation and maintenance of plant services	6,795,140	-	6,795,140
Student transportation services	4,385,718	-	4,385,718
Central services	1,169,598	-	1,169,598
Other support services	61,892	-	61,892
Non-instructional services			
Student activities	1,503,878	-	1,503,878
Community services	34,240	-	34,240
Refund of prior year revenues	25,734	-	25,734
Interest on long-term debt	2,393,731	-	2,393,731
Depreciation and amortization, unallocated	4,036,659	-	4,036,659
Food service	-	1,595,860	1,595,860
Extended day	-	875,361	875,361
TOTAL EXPENSES	<u>75,758,797</u>	<u>2,471,221</u>	<u>78,230,018</u>
CHANGE IN NET POSITION	7,485,426	35,496	7,520,922
NET POSITION, BEGINNING, restated	<u>27,960,321</u>	<u>813,938</u>	<u>28,774,259</u>
NET POSITION, ENDING	<u>\$ 35,445,747</u>	<u>\$ 849,434</u>	<u>\$ 36,295,181</u>

UPPER MERION AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

Table A-4
Changes in Net Position
Year Ended June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
REVENUES			
Program revenues			
Charges for services	\$ -	\$ 1,738,726	\$ 1,738,726
Operating grants and contributions	9,787,207	626,959	10,414,166
General revenues			
Property taxes	66,939,745	-	66,939,745
Other taxes	1,270,419	-	1,270,419
Investment earnings	143,251	3,539	146,790
Receipts from member districts	2,590	-	2,590
Other	2,369,432	-	2,369,432
TOTAL REVENUES	<u>80,512,644</u>	<u>2,369,224</u>	<u>82,881,868</u>
EXPENSES			
Instruction			
Regular programs	28,800,943	-	28,800,943
Special programs	9,851,979	-	9,851,979
Vocational programs	2,474,120	-	2,474,120
Other instructional programs	686,893	-	686,893
Support services			
Pupil personnel services	3,470,628	-	3,470,628
Instructional staff services	2,510,399	-	2,510,399
Administration services	3,746,126	-	3,746,126
Pupil health	951,595	-	951,595
Business services	867,042	-	867,042
Operation and maintenance of plant services	6,055,041	-	6,055,041
Student transportation services	4,025,507	-	4,025,507
Central services	1,520,471	-	1,520,471
Other support services	56,852	-	56,852
Non-instructional services			
Student activities	1,503,782	-	1,503,782
Community services	91,306	-	91,306
Refund on prior year revenues	574,204	-	574,204
Interest on long-term debt	1,620,033	-	1,620,033
Depreciation and amortization, unallocated	3,993,958	-	3,993,958
Food service	-	1,455,695	1,455,695
Extended day	-	865,118	865,118
TOTAL EXPENSES	<u>72,800,879</u>	<u>2,320,813</u>	<u>75,121,692</u>
CHANGE IN NET POSITION	7,711,765	48,411	7,760,176
NET POSITION, BEGINNING, restated	<u>19,636,542</u>	<u>765,527</u>	<u>20,402,069</u>
NET POSITION, ENDING	<u>\$ 27,348,307</u>	<u>\$ 813,938</u>	<u>\$ 28,162,245</u>

UPPER MERION AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

Capital Assets - At June 30, 2014, the School District had \$76,628,404 invested in a broad range of capital assets, including land, buildings and furniture and equipment.

Table A-5
Government-Wide Activities
Capital Assets - Net of Depreciation

	<u>2014</u>	<u>2013</u>
Land	\$ 3,778,132	\$ 3,778,132
Buildings and site improvements	67,189,534	69,643,955
Furniture and equipment	<u>5,660,738</u>	<u>6,588,034</u>
TOTAL	\$ <u>76,628,404</u>	\$ <u>80,010,121</u>

Debt Administration - As of July 1, 2013, the School District had total outstanding bond principal of \$59,165,000. During the year, the School District made net payments against principal of \$4,960,000, resulting in ending outstanding debt as of June 30, 2014, of \$54,205,000.

Table A-6
Outstanding Debt

	<u>2014</u>	<u>2013</u>
GENERAL OBLIGATION BONDS		
Series of 2004	\$ 3,130,000	\$ 4,065,000
Series of 2004A	-	3,080,000
Series of 2004B	2,905,000	11,430,000
Series of 2005	8,800,000	10,750,000
Series of 2011	9,815,000	9,980,000
Series of 2012	9,675,000	9,865,000
Series of 2013	9,885,000	9,995,000
Series of 2014	<u>9,995,000</u>	<u>-</u>
TOTAL	\$ <u>54,205,000</u>	\$ <u>59,165,000</u>

Other obligations include compensated absences (accrued vacation pay and sick leave for specific employees of the School District) and capital leases. More detailed information about our long-term liabilities is included in the notes to the financial statements.

UPPER MERION AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

FOR THE FUTURE

As the preceding information shows, the School District maintains a healthy investment in fixed assets to support and provide comprehensive educational services, considers future implications of current and ongoing financial obligations and prudently manages its financial assets. Academic performance is supported by regionally competitive per pupil spending. Balanced payment schedules on existing debt obligations should mean steady tax implications in the future.

Financial challenges face many school districts in the state of Pennsylvania and Upper Merion Area School District is not alone in this regard. With the passage of Act 1 of 2006, school districts are faced with a cap on the money that can be funded from a property tax increase. The cap is an inflationary index annually calculated by the Pennsylvania Department of Education (PDE). Act 1 does provide for some exceptions that permit districts to increase property taxes in excess of the cap. Exceptions are approved by the PDE. Limited tax relief arrived starting in the 2008-2009 fiscal year as the state distributed a portion of gambling revenue to offset real estate tax increases. The School District was fortunate to receive \$611,402 in the 2013-2014 fiscal year that offset property taxes for those property owners who qualified for the homestead exemption.

The 2013-2014 school year was a particularly strong year financially for the Upper Merion Area School District. The District was able to make a \$2,500,000 transfer to the Capital Reserve Fund, the third consecutive year with a transfer of at least \$1,500,000. In addition, the District assigned \$7,000,000 of fund balance for retirement stabilization (\$5,500,000), tax assessment appeal refunds (\$1,000,000) and future technology purchases (\$500,000). Finally, the unassigned fund balance decreased slightly from \$6,819,544 to \$6,738,669.

Upper Merion Area School District faces the common problem of escalating costs for employee benefits, particularly the medical benefit cost and the retirement expense of the PSERS system. Each of these costs is established by outside influences and is not, in large part, a discretionary cost that can be controlled by the School District.

Upper Merion Area School District has committed itself to educational and financial excellence. The District's system of budgeting and internal controls is well regarded and consistently followed. Continued diligence in all financial matters will be a key component of continued successful financial performance well into the future.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

The financial report is designed to provide the citizens, taxpayers, parents, students, investors and creditors with a general overview of the School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Michael Keeley, Business Administrator, Upper Merion Area School District, 435 Crossfield Road, King of Prussia, PA 19406-2363, 610-205-6400, mkeeley@umasd.org or visit the School District's website at www.umasd.org.

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 9,140,898	\$ 2,053,670	\$ 11,194,568
Investments	17,221,350	-	17,221,350
Receivables, net	1,417,090	8,692	1,425,782
Due from other governments	1,708,167	28,162	1,736,329
Internal balances	1,191,466	(1,191,466)	-
Inventories	-	38,077	38,077
Capital assets			
Land	3,778,132	-	3,778,132
Buildings and site improvements	99,703,427	-	99,703,427
Furniture and equipment	23,106,594	338,370	23,444,964
Accumulated depreciation	(49,959,749)	(255,723)	(50,215,472)
TOTAL ASSETS	107,307,375	1,019,782	108,327,157
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	594,748	-	594,748
LIABILITIES			
Accounts payable	3,527,105	11,209	3,538,314
Accrued salaries and benefits	7,110,663	35,790	7,146,453
Accrued interest	645,842	-	645,842
Unearned revenue	-	123,349	123,349
Long-term liabilities			
Portion due or payable within one year			
Advance on refunding	53,305	-	53,305
Bonds payable	5,455,000	-	5,455,000
Capital leases	419,622	-	419,622
Bond premiums and discounts, net	124,836	-	124,836
Early retirement	240,500	-	240,500
Compensated absences	449,874	-	449,874
Portion due or payable after one year			
Advance on refunding	88,838	-	88,838
Bonds payable	48,750,000	-	48,750,000
Bond premiums and discounts, net	465,608	-	465,608
Early retirement	285,000	-	285,000
Compensated absences	4,048,871	-	4,048,871
Net OPEB obligation	791,312	-	791,312
TOTAL LIABILITIES	72,456,376	170,348	72,626,724
NET POSITION			
Net investment in capital assets	21,271,195	82,647	21,353,842
Unrestricted	14,174,552	766,787	14,941,339
TOTAL NET POSITION	\$ 35,445,747	\$ 849,434	\$ 36,295,181

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction				
Regular programs	\$ 30,772,123	\$ -	\$ 4,104,137	\$ -
Special programs	10,145,611	-	2,677,764	-
Vocational programs	2,068,955	-	148,198	-
Other instructional programs	568,859	-	2,451,494	-
Support services				
Pupil personnel services	3,539,495	-	318,131	-
Instructional staff services	2,167,638	-	150,291	-
Administration services	4,183,467	-	272,438	-
Pupil health	1,094,047	-	85,657	-
Business services	812,012	-	63,438	-
Operation and maintenance of plant services	6,795,140	-	389,203	-
Student transportation services	4,385,718	-	1,089,045	-
Central services	1,169,598	-	73,915	-
Other support services	61,892	-	-	-
Non-instructional services				
Student activities	1,503,878	-	133,481	-
Community services	34,240	-	-	-
Refund of prior year revenues	25,734	-	-	-
Interest on long-term debt	2,393,731	-	263,012	-
Depreciation and amortization, unallocated	4,036,659	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	75,758,797	-	12,220,202	-
BUSINESS-TYPE ACTIVITIES				
Food service	1,595,860	770,670	761,151	-
Extended day	875,361	895,119	73,484	-
TOTAL BUSINESS-TYPE ACTIVITIES	2,471,221	1,665,789	834,635	-
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 78,230,018	\$ 1,665,789	\$ 13,054,837	\$ -

GENERAL REVENUES

Property taxes, levied for general purposes
Occupational, real estate transfer and amusement taxes
Public utility taxes
Investment earnings
Miscellaneous

TOTAL GENERAL REVENUES, TRANSFERS AND SPECIAL ITEM

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR, restated

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Totals
\$ (26,667,986)	\$ -	\$ (26,667,986)
(7,467,847)	-	(7,467,847)
(1,920,757)	-	(1,920,757)
1,882,635	-	1,882,635
(3,221,364)	-	(3,221,364)
(2,017,348)	-	(2,017,348)
(3,911,029)	-	(3,911,029)
(1,008,390)	-	(1,008,390)
(748,574)	-	(748,574)
(6,405,937)	-	(6,405,937)
(3,296,673)	-	(3,296,673)
(1,095,683)	-	(1,095,683)
(61,892)	-	(61,892)
(1,370,397)	-	(1,370,397)
(34,240)	-	(34,240)
(25,734)	-	(25,734)
(2,130,719)	-	(2,130,719)
(4,036,659)	-	(4,036,659)
(63,538,595)	-	(63,538,595)
-	(64,039)	(64,039)
-	93,242	93,242
-	29,203	29,203
(63,538,595)	29,203	(63,509,392)
67,325,460	-	67,325,460
2,305,950	-	2,305,950
85,807	-	85,807
155,831	6,293	162,124
1,150,973	-	1,150,973
71,024,021	6,293	71,030,314
7,485,426	35,496	7,520,922
27,960,321	813,938	28,774,259
\$ 35,445,747	\$ 849,434	\$ 36,295,181

UPPER MERION AREA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

		Capital Project Funds		Total
	General Fund	Capital Reserve Fund	R.A.C.P. Grant Fund	Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 6,262,804	\$ 2,878,094	\$ -	\$ 9,140,898
Investments	17,221,350	-	-	17,221,350
Taxes receivable, net	1,283,714	-	-	1,283,714
Other receivables	133,376	-	-	133,376
Due from other governments	1,708,167	-	-	1,708,167
Due from other funds	1,191,466	2,500,000	-	3,691,466
TOTAL ASSETS	\$ 27,800,877	\$ 5,378,094	\$ -	\$ 33,178,971
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 3,527,105	\$ -	\$ -	\$ 3,527,105
Accrued salaries and benefits	7,110,663	-	-	7,110,663
Due to other funds	2,500,000	-	-	2,500,000
TOTAL LIABILITIES	13,137,768	-	-	13,137,768
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues, property taxes	924,440	-	-	924,440
FUND BALANCES				
Assigned to				
Tax assessment appeal settlement refunds	1,000,000	-	-	1,000,000
Retirement stabilization	5,500,000	-	-	5,500,000
Technology purchases	500,000	-	-	500,000
Capital projects	-	5,378,094	-	5,378,094
Unassigned	6,738,669	-	-	6,738,669
TOTAL FUND BALANCES	13,738,669	5,378,094	-	19,116,763
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 27,800,877	\$ 5,378,094	\$ -	\$ 33,178,971

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 19,116,763

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist

Land	3,778,132
Buildings and site improvements	99,703,427
Furniture and equipment	23,106,594
Accumulated depreciation	(49,959,749)
Deferred amount on refunding	594,748

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	(645,842)
Advance on refunding	(142,143)
Bonds payable	(54,205,000)
Capital leases	(419,622)
Bond premiums and discounts	(590,444)
Early retirement	(525,500)
Compensated absences	(4,498,745)
Net OPEB obligation	(791,312)

Some of the School 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.

924,440

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 35,445,747

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General Fund	Capital Project Funds		Total Governmental Funds
		Capital Reserve Fund	R.A.C.P. Grant Fund	
REVENUES				
Local sources	\$ 71,535,608	\$ 7,414	\$ 3	\$ 71,543,025
State sources	10,565,667	-	-	10,565,667
Federal sources	1,205,469	-	-	1,205,469
TOTAL REVENUES	83,306,744	7,414	3	83,314,161
EXPENDITURES				
Instruction				
Regular programs	31,192,872	-	-	31,192,872
Special programs	10,199,414	-	-	10,199,414
Vocational programs	2,072,466	-	-	2,072,466
Other instructional programs	572,299	-	-	572,299
Support services				
Pupil personnel services	3,561,157	-	-	3,561,157
Instructional staff services	2,182,668	-	-	2,182,668
Administration services	4,183,439	-	-	4,183,439
Pupil health	1,118,458	-	-	1,118,458
Business services	816,332	-	-	816,332
Operation and maintenance of plant services	6,755,575	-	-	6,755,575
Student transportation services	4,407,097	-	-	4,407,097
Central services	1,246,276	-	-	1,246,276
Other support services	61,892	-	-	61,892
Non-instructional services				
Student activities	1,532,122	-	-	1,532,122
Community services	34,240	-	-	34,240
Refund of prior year revenues	473,008	-	-	473,008
Capital outlay	7,975	608,554	630	617,159
Debt service	7,539,377	-	-	7,539,377
TOTAL EXPENDITURES	77,956,667	608,554	630	78,565,851
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FORWARD	\$ 5,350,077	\$ (601,140)	\$ (627)	\$ 4,748,310

UPPER MERION AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General Fund	Capital Project Funds		Total Governmental Funds
		Capital Reserve Fund	R.A.C.P. Grant Fund	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FORWARDED	\$ 5,350,077	\$ (601,140)	\$ (627)	\$ 4,748,310
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	9,995,000	-	-	9,995,000
Premium on refunding bonds issued	330,890	-	-	330,890
Payment to refunded bond escrow agent	(10,168,856)	-	-	(10,168,856)
Proceeds from capital leases	-	-	-	-
Transfers in	-	3,000,000	-	3,000,000
Transfers out	(3,000,000)	-	-	(3,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	(2,842,966)	3,000,000	-	157,034
NET CHANGE IN FUND BALANCES	2,507,111	2,398,860	(627)	4,905,344
FUND BALANCES AT BEGINNING OF YEAR, as restated	11,231,558	2,979,234	627	14,211,419
FUND BALANCES AT END OF YEAR	\$ 13,738,669	\$ 5,378,094	\$ -	\$ 19,116,763

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 4,905,344
Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period.	(3,381,717)
Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues increased by this amount this year.	(69,938)
Repayment of bond and capital lease principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	15,351,127
Net borrowings proceeds is an increase to the Governmental Funds balance; however, this is an increase to liabilities in the statement of net position.	(9,995,000)
Governmental Funds report premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of the differences in the treatment of these items.	(57,188)
In the statement of activities, certain operating expenses--compensated absences (vacation and sick leave) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	771,639
Interest on long-term debt in the statement of activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues regardless of when it is due.	128,694
The net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.	<u>(167,535)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 7,485,426</u>

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Enterprise Funds		Total Proprietary Funds
	Food Service Fund	Extended Day Fund	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 825,690	\$ 1,227,980	\$ 2,053,670
Receivables	8,692	-	8,692
Due from other governments	25,951	2,211	28,162
Inventories	38,077	-	38,077
TOTAL CURRENT ASSETS	898,410	1,230,191	2,128,601
PROPERTY AND EQUIPMENT			
Accumulated depreciation	(255,723)	-	(255,723)
PROPERTY AND EQUIPMENT, net	82,647	-	82,647
TOTAL ASSETS	981,057	1,230,191	2,211,248
CURRENT LIABILITIES			
Accounts payable	10,057	1,152	11,209
Accrued payroll	11,158	24,632	35,790
Due to other funds	632,793	558,673	1,191,466
Unearned revenue	29,451	93,898	123,349
TOTAL CURRENT LIABILITIES	683,459	678,355	1,361,814
NET POSITION			
Net investment in capital assets	82,647	-	82,647
Unrestricted	214,951	551,836	766,787
TOTAL NET POSITION	\$ 297,598	\$ 551,836	\$ 849,434

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Enterprise Funds		Total Proprietary Funds
	Food Service Fund	Extended Day Fund	
OPERATING REVENUES			
Food service revenues	\$ 770,670	\$ -	\$ 770,670
Tuition revenues	-	895,119	895,119
TOTAL OPERATING REVENUES	770,670	895,119	1,665,789
OPERATING EXPENSES			
Salaries	532,205	520,370	1,052,575
Employee benefits	403,847	175,486	579,333
Other expenses	12,750	138,171	150,921
Supplies	629,786	41,334	671,120
Depreciation	17,272	-	17,272
TOTAL OPERATING EXPENSES	1,595,860	875,361	2,471,221
OPERATING INCOME (LOSS)	(825,190)	19,758	(805,432)
NONOPERATING REVENUES			
Earnings on investments	2,666	3,627	6,293
State sources	104,371	73,484	177,855
Federal sources	656,780	-	656,780
TOTAL NONOPERATING REVENUES	763,817	77,111	840,928
CHANGE IN NET POSITION	(61,373)	96,869	35,496
NET POSITION AT BEGINNING OF YEAR	358,971	454,967	813,938
NET POSITION AT END OF YEAR	\$ 297,598	\$ 551,836	\$ 849,434

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT**STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS****YEAR ENDED JUNE 30, 2014**

	Enterprise Funds		Total Proprietary Funds
	Food Service Fund	Extended Day Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 774,923	\$ 895,119	\$ 1,670,042
Payments to employees	(936,052)	(336,806)	(1,272,858)
Payments to suppliers	(356,800)	(185,767)	(542,567)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(517,929)	372,546	(145,383)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Facility acquisition, construction and improvements	(10,545)	-	(10,545)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State sources	103,543	71,273	174,816
Federal sources	652,372	-	652,372
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	755,915	71,273	827,188
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on investments	2,666	3,627	6,293
NET INCREASE IN CASH AND CASH EQUIVALENTS	230,107	447,446	677,553
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	595,583	780,534	1,376,117
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 825,690	\$ 1,227,980	\$ 2,053,670

UPPER MERION AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Enterprise Funds		Total Proprietary Funds
	Food Service Fund	Extended Day Fund	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (825,190)	\$ 19,758	\$ (805,432)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	17,272	-	17,272
Increase in			
Receivables	(300)	-	(300)
Inventories	(11,562)	-	(11,562)
Increase (decrease) in			
Accounts payable	(2,996)	(805)	(3,801)
Accrued payroll	(808)	2,486	1,678
Due to other funds	301,102	357,369	658,471
Unearned revenue	4,553	(6,262)	(1,709)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (517,929)	\$ 372,546	\$ (145,383)
SUPPLEMENTAL DISCLOSURES			
Noncash activities			
Donated foods	\$ 83,432	\$ -	\$ 83,432

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Private- Purpose Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ <u>205,993</u>	\$ <u>421,205</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Other current liabilities	\$ -	\$ 421,205
NET POSITION		
Held in trust for scholarships	<u>205,993</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>205,993</u>	\$ <u>421,205</u>

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2014

	Private- Purpose Trust Fund
ADDITIONS	
Donations	\$ 10,225
Investment income	<u>623</u>
TOTAL ADDITIONS	10,848
DEDUCTIONS	
Scholarships	<u>36,049</u>
CHANGE IN NET POSITION	(25,201)
NET POSITION AT BEGINNING OF YEAR	<u>231,194</u>
NET POSITION AT END OF YEAR	<u><u>\$ 205,993</u></u>

See accompanying notes to the basic financial statements.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Upper Merion Area School District (the "School District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its Proprietary Funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Reporting Entity

Upper Merion Area School District is located in King of Prussia, Pennsylvania. The School District's tax base includes portions of Montgomery County and consists of the following townships and boroughs: Upper Merion Township and the Boroughs of Bridgeport and West Conshohocken.

The School District is a unit established, organized and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out on the 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 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 eligible students between the ages of 5 and 21 years residing in such School District who may attend.

In order to establish, enlarge, equip, furnish, operate and maintain any schools, or to pay any school indebtedness which the School District is required to pay, the Board of School Directors is vested with all necessary authority and power annually to levy and collect the taxes required and granted by the legislature, in addition to the annual state appropriation, and is 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 accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, component units can be other organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. This report presents the activities of the Upper Merion Area School District. The School District is not a component unit of another reporting entity nor does it have any component units.

Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. This report presents the activities of the Upper Merion Area School District. The School District is not a component unit of another reporting entity nor does it have any component units.

The tax collectors are elected officers who collect taxes on behalf of the municipalities in the School District and for the School District in the county. The School District regards the tax collectors' offices as separate entities and, therefore, does not account for their activity in the financial statements.

Basis of Presentation and Accounting

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. The statements distinguish between those activities of the School 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 Funds 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.

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 School District and for each function or program of the School 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.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 School 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 School District. Expenses reported for functional activities include allocated indirect expenses.

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 School District. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate 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 School District considers revenues to be available if they are collected within 60 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 judgments 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.

All Proprietary Fund Types 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 position. The statement of cash flows provides information about how the School 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.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal operating revenues of the School District's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include 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.

Trust Funds are reported using the economic resources measurement focus.

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

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition and construction of capital equipment and improvements in accordance with the applicable general obligation bond agreements. The School District's *Capital Reserve Fund* and *R.A.C.P. Grant Fund* are accounted for in this fund type.

Proprietary Funds

Food Service and Extended Day Funds - The Food Service and Extended Day Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cash and Cash Equivalents

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

Investments

Investments are valued at fair value.

Short-Term Interfund Receivables/Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the Governmental Funds balance sheet. Short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the statement of net position, except for amounts due between governmental and business-type activities, which, when present, are shown as internal balances.

Inventories and Prepaid Items

Inventory of food and milk in the Food Service Fund consists of supplies purchased and donated food received from the federal government. The donated food is valued at fair market value in accordance with the *Manual of Accounting for Pennsylvania School Systems - Food Service Fund*. Food and supplies are carried at cost using the first-in, first-out method. Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased.

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

Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School District defines a capital asset as an asset with an initial, individual cost equal to or greater than \$500 or purchased with debt proceeds and must also have an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

	<u>Years</u>
Site improvements	15-20
Buildings and building improvements	20-40
Furniture and equipment	5-20

Long-Term Obligations

In the government-wide financial statements and Proprietary Fund Types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized during the period in which they were incurred.

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. 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 debt service expenditures.

Compensated Absences

Unused vacation amounts may be carried forward for one fiscal year only, except for bus drivers and custodians who may carry vacation forward for 1 1/2 years. Employees are paid for unused vacation only upon termination at their standard per diem rates in effect at the date of their departure. Sick leave is granted as appropriate (medical evidence required) with budgetary provisions being made annually for the estimated costs of substitute personnel. Contractual provisions with employees require payment at the employees' per diem rate (at retirement) for accumulated unused sick leave days upon retirement up to a maximum of 30 days. Teachers and administrators are eligible for an additional 15 days if certain notice requirements are met.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition prices. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the School District will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and Proprietary Fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Use of Estimates

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

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

The School District has adopted GASB Statement No. 54, which redefined how fund balances of the Governmental Funds are presented in the financial statements. Fund balances are classified as follows:

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- ***Restricted*** - Amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by grantors or creditors.
- ***Committed*** - Amounts that can be used only for specific purposes determined by a formal action by the Board of School Directors. This includes the budget reserve account.
- ***Assigned*** - Amounts that are intended to be used for a specific purpose, as expressed by the Board of School Directors or by an official or body to which the Board of School Directors delegates the authority.
- ***Unassigned*** - All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds balance sheet (page 18). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of School Directors. The School District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

NOTE B - CASH AND INVESTMENTS

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of FDIC limits. The School District does not have a deposit policy for custodial credit risk. The carrying value of the District's cash accounts at June 30, 2014 was \$11,821,766.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE B - CASH AND INVESTMENTS (Continued)

As of June 30, 2014, \$12,256,773 of the School District's bank balance of \$13,014,141 was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department not in the School District's name	\$ <u>12,256,773</u>
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Interest Rate Risk - The School District's investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments

As of June 30, 2014, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of deposit	\$ 16,108,051	\$ 16,108,051
State investment pools	<u>1,113,299</u>	<u>1,113,299</u>
	\$ <u>17,221,350</u>	\$ <u>17,221,350</u>

Credit Risk - State law permits the School District to invest funds in the following types of investments:

Obligations of (1) 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, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

The School District's investment policy does not further limit its investment choices. As of June 30, 2014, the School District's investment in the state investment pool was rated AAAM by Standard & Poor's.

Concentration of Credit Risk - The following investments represent greater than 5% of the School District's total investments:

Certificates of deposit with Valley Green Bank and PLGIT	\$ <u>16,108,051</u>
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UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE C - TAXES - REAL ESTATE AND OTHER

The School Board is authorized by state law to levy property taxes for School District operations, capital improvements and debt service. Property taxes are based on assessed valuations of real property within the School District.

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

Discount period July 1 to August 31 - 2% of gross levy
 Face period September 1 to October 31
 Penalty period November 1 to collection - 10% of gross levy
 Lien date January 15

School District taxes are billed and collected by the local elected tax collector. Property taxes attach as an enforceable lien on property as of July 1.

In addition, the School District participates in a \$52 Local Services Tax levied by the Township.

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014, consisted of taxes and other revenue. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of accounts receivable by fund is as follows:

	General Fund	Food Service Fund
Real estate taxes	\$ 1,283,714	\$ -
Other revenue	<u>133,376</u>	<u>8,692</u>
	<u>\$ 1,417,090</u>	<u>\$ 8,692</u>

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE E - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014, is as follows:

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 632,793
General Fund	Extended Day Fund	558,673
Capital Reserve Fund	General Fund	<u>2,500,000</u>
		<u>\$ 3,691,466</u>

The outstanding balances between funds result mainly 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.

Interfund Transfers

Transfers are used to move unrestricted revenues to finance various programs that the School District must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Reserve Fund	General Fund	\$ <u>3,000,000</u>

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE F - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 3,778,132	\$ -	\$ -	\$ 3,778,132
Capital assets being depreciated				
Buildings and site improvements	99,703,427	-	-	99,703,427
Furniture and equipment	22,726,655	646,689	(266,750)	23,106,594
TOTAL CAPITAL ASSETS				
BEING DEPRECIATED	122,430,082	646,689	(266,750)	122,810,021
Accumulated depreciation	(46,198,093)	(4,028,406)	266,750	(49,959,749)
TOTAL CAPITAL ASSETS BEING				
DEPRECIATED, net	76,231,989	(3,381,717)	-	72,850,272
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, net	80,010,121	(3,381,717)	-	76,628,404
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	327,825	10,545	-	338,370
Accumulated depreciation	(238,451)	(17,272)	-	(255,723)
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, net	89,374	(6,727)	-	82,647
CAPITAL ASSETS, net	\$ 80,099,495	\$ (3,388,444)	\$ -	\$ 76,711,051

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE G - LEASES

Capital Leases

The School District has entered into lease agreements, as lessee, for financing the acquisition of computer and other equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Building improvements	\$ 2,130,331
Equipment	<u>1,921,315</u>
	4,051,646
Accumulated depreciation	<u>(2,948,966)</u>
	<u>\$ 1,102,680</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 429,900
Amount representing interest	<u>(10,278)</u>
 PRESENT VALUE OF MINIMUM LEASE PAYMENTS	 <u>\$ 419,622</u>

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE H - LONG-TERM DEBT

General Obligation Bonds

Bonded debt payable at June 30, 2014, is comprised of the following individual issues:

General Obligation Bonds, Series of 2004, \$10,580,000 due in annual principal installments ranging from \$575,000 to \$1,100,000 through March 1, 2017, interest rate is fixed at 5.35%	\$ 3,130,000
General Obligation Bonds, Series of 2004B, \$20,640,000 due in annual principal installments ranging from \$5,000 to \$1,550,000 through February 15, 2025, interest rate is variable from 1.85% to 4.75%	2,905,000
General Obligation Bonds, Series of 2005, \$24,565,000 due in annual principal installments ranging from \$1,255,000 to \$2,365,000 through July 15, 2017, interest rate is variable from 2.05% to 5.00%	8,800,000
General Obligation Bonds, Series of 2011, \$9,995,000 due in annual principal installments ranging from \$5,000 to \$4,335,000 through February 15, 2021, interest rate is variable from 0.60% to 3.25%	9,815,000
General Obligation Bonds, Series of 2012, \$9,995,000 due in annual principal installments ranging from \$130,000 to \$1,525,000 through February 15, 2024, interest rate is variable from 0.62% to 2.30%	9,675,000
General Obligation Bonds, Series of 2013, \$9,995,000 due in annual principal installments ranging from \$65,000 to \$1,990,000 through February 15, 2025, interest rate is variable from 0.630% to 2.45%	9,885,000
General Obligation Bonds, Series of 2014, \$9,995,000 due in annual principal installments ranging from \$185,000 to \$1,440,000 through February 15, 2023, interest rate is variable from 0.230% to 4.00%	<u>9,995,000</u>
	<u>\$ 54,205,000</u>

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE H - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 5,455,000	\$ 1,578,977
2016	6,605,000	1,385,824
2017	6,515,000	1,114,629
2018	7,065,000	888,349
2019	6,950,000	731,099
2020 to 2024	20,030,000	1,411,056
2025	<u>1,585,000</u>	<u>38,833</u>
	<u>\$ 54,205,000</u>	<u>\$ 7,148,767</u>

General Obligation Bonds, Series of 2014

On January 30, 2014, the School District issued General Obligation Bonds, Series of 2014. The bonds were issued for the purpose of refunding the School District's remaining General Obligation Bonds, Series A of 2004, a portion of the School District's General Obligation Bonds, Series B of 2004, and the payment of financing costs. The bonds are scheduled to periodically mature from 2015 through 2023 with interest charged at rates from .23% to 4.00%. This new issue will decrease debt service payments for the School District by \$1,000,145.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE I - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
GENERAL OBLIGATION BONDS					
Series of 2004	\$ 4,065,000	\$ -	\$ (935,000)	\$ 3,130,000	\$ 990,000
Series of 2004A	3,080,000	-	(3,080,000)	-	-
Series of 2004B	11,430,000	-	(8,525,000)	2,905,000	995,000
Series of 2005	10,750,000	-	(1,950,000)	8,800,000	2,045,000
Series of 2011	9,980,000	-	(165,000)	9,815,000	170,000
Series of 2012	9,865,000	-	(190,000)	9,675,000	190,000
Series of 2013	9,995,000	-	(110,000)	9,885,000	880,000
Series of 2014	-	9,995,000	-	9,995,000	185,000
TOTAL GENERAL OBLIGATION BONDS	59,165,000	9,995,000	(14,955,000)	54,205,000	5,455,000
ADVANCE ON REFUNDING	195,448	-	(53,305)	142,143	53,305
CAPITAL LEASES	815,749	-	(396,127)	419,622	419,622
BOND PREMIUMS AND DISCOUNTS, net	467,614	330,890	(208,060)	590,444	124,836
EARLY RETIREMENT	766,000	-	(240,500)	525,500	240,500
COMPENSATED ABSENCES	5,029,884	968,487	(1,499,626)	4,498,745	449,875
NET OPEB OBLIGATION	623,777	404,559	(237,024)	791,312	-
TOTAL LONG-TERM LIABILITIES	<u>\$ 67,063,472</u>	<u>\$ 11,698,936</u>	<u>\$ (17,589,642)</u>	<u>\$ 61,172,766</u>	<u>\$ 6,743,138</u>

NOTE J - DEFEASED DEBT

In prior years, certain bonds were defeased in substance by placing an amount in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the in-substance defeased bonds are not included in the School District's financial statements.

As of June 30, 2014, the School District has defeased debt outstanding of \$25,075,000.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE K - UNEARNED REVENUE

Food Service Fund

Unearned revenue of \$18,090 in the Food Service Fund represents the carryover of student deposits. Unearned revenue of \$11,361 represents unearned donated foods revenue.

Extended Day Fund

Unearned revenue of \$93,898 represents deposits received for July and August summer camp programs and student deposits for the fall extended day programs.

NOTE L - JOINT VENTURE

The School District participates in an ongoing joint venture with other school districts in funding the operation of the Central Montgomery County Area Vocational-Technical School (the "Technical School"). The Technical School provides vocational education for all the participating schools. The School District has an accumulated interest in the Technical School that is reserved for building improvements and educational projects. The School District's proportionate share of the accumulated interest in the Technical School's operating fund balance is not material and is not included in the General Fund of these financial statements.

The financial statements of the Technical School are audited according to state guidelines and are available to the public for inspection at the Technical School.

The School District agreed to make additional payments to the Technical School for various improvements, renovations, modernizations and new equipment. The following is a schedule by years of future minimum payments under the contract:

Year Ending June 30,

2015	\$ 545,690
2016	547,286
2017	549,562
2018	548,126
2019 and thereafter	<u>3,289,318</u>
	<u>\$ 5,479,982</u>

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE M - PENSIONS

School districts in the Commonwealth of Pennsylvania participate in a state administered pension program. Under the program, contributions are made by each of three parties--the School District, the state and the employee. All full-time employees of the School District and part-time employees who meet certain minimum employment requirements participate in the program.

Plan Description

Name of Plan: Public School Employees' Retirement System (the "System").

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

Benefits: Retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments, healthcare insurance premium assistance to qualifying annuitants.

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

Annual Financial Report: The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 North 5th Street, Harrisburg, PA 17101-1905. The CAFR is also available on the publications page of the PSERS website at www.psers.state.pa.us.

Funding Policy

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

Contribution Rates

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.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE M - PENSIONS (Continued)

- 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 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%.

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2014, the rate of employer's contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16.00% for pension benefits and .93% for healthcare insurance premium assistance.

The School District's contribution to PSERS for the years ended June 30, 2014, 2013 and 2012, was \$6,886,376, \$4,791,530 and \$3,219,191, respectively, equal to the required contribution for each year.

NOTE N - ACCUMULATED COMPENSATED ABSENCES AND EARLY RETIREMENT INCENTIVE PLAN

School District employees who are required to work on a 12-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation (for most employee categories) may be taken or accumulated within certain limits and is paid prior to retirement or termination at the employee's current rate of pay.

The liability to current employees is estimated and will change since unused vacation will be paid at the rate of pay in effect at the time of separation. These accumulated leaves are recorded as an expenditure in the period taken or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, which was \$466,362 at June 30, 2014, is recorded in compensated absences on the statement of net position.

The School District pays a per diem rate to retirees for unused sick time based on employment classification. Compensation payable in future years, which was \$4,032,383 at June 30, 2014, is recorded in compensated absences on the statement of net position.

In addition, \$525,500 of future payments related to obligations under the School District's Early Retirement Incentive Plan is recorded on the statement of net position.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE O - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The School District provides medical and prescription drug insurance benefits to eligible retired employees, spouses and dependents through a single-employer defined benefit plan. The benefits, benefits level, employee contribution and employer contribution are administered by School District Supervisors and can be amended by the School District through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone financial report. The activity of the plan is reported in the School District's General Fund.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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

Normal cost	\$	224,157
Amortization of unfunded actuarial accrued liability		190,627
ANNUAL REQUIRED CONTRIBUTION (ARC)		414,784
Interest on net OPEB obligation		28,070
Adjustment to ARC		(38,295)
ANNUAL OPEB EXPENSE		404,559
Net OPEB contributions during the year		(237,024)
INCREASE IN NET OPEB OBLIGATION		167,535
Net OPEB obligation at beginning of year		623,777
NET OPEB OBLIGATION AT END OF YEAR	\$	791,312

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 381,045	63.1%	\$ 425,942
2013	407,802	51.5%	623,777
2014	404,559	58.6%	791,312

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE O - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$3,105,104 and the actuarial value of assets was \$0, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$37,850,224, and the ratio of the UAAL to the covered payroll was 8.20%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 53, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5%, reduced by decrements of .5% to an ultimate rate of 5.5% after four years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014, was 29 years.

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE P - COMMITMENTS AND CONTINGENCIES

There are a number of tax assessment appeals pending in the Court of Common Pleas of Montgomery County from the decisions of the Board of Assessment Appeals. Legal counsel for the School District cannot give an opinion on the outcome of these appeals nor can they reasonably estimate the financial impact.

NOTE Q - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the School District to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE R - PRIOR PERIOD ADJUSTMENT

Due to the significant annual increases in its pension contribution rates, the School District changed the way it accounts for the state share of contributions to its pension plan. Previously, the School District recorded payments when received from the state, which was on a one month deferral. During the current year, the School District determined it would be more prudent to record the payments on the accrual basis in order to more accurately represent the actual revenues of the current year. The School District adopted the change by means of a prior period adjustment to beginning fund balance in the amount of \$612,014.

NOTE S - ADOPTION OF NEW ACCOUNTING GUIDANCE

For the year ended June 30, 2014, the School District adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The adoption of this statement had no effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER MERION AREA SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 70,751,730	\$ 70,751,730	\$ 71,535,608	\$ 783,878
State sources	10,191,033	10,191,033	10,565,667	374,634
Federal sources	1,282,688	1,282,688	1,205,469	(77,219)
TOTAL REVENUES	82,225,451	82,225,451	83,306,744	1,081,293
EXPENDITURES				
Instruction				
Regular programs	31,530,143	31,481,132	31,192,872	288,260
Special programs	11,366,878	11,373,283	10,199,414	1,173,869
Vocational programs	2,042,603	2,043,588	2,072,466	(28,878)
Other instructional programs	908,879	911,138	572,299	338,839
TOTAL INSTRUCTION	45,848,503	45,809,141	44,037,051	1,772,090
Support services				
Pupil personnel services	3,590,492	3,595,739	3,561,157	34,582
Instructional staff services	2,152,255	2,201,753	2,182,668	19,085
Administration services	4,158,136	4,161,767	4,183,439	(21,672)
Pupil health	1,068,037	1,069,042	1,118,458	(49,416)
Business services	896,653	892,303	816,332	75,971
Operation and maintenance of plant services	7,076,784	7,076,784	6,755,575	321,209
Student transportation services	4,484,558	4,484,558	4,407,097	77,461
Central services	1,383,291	1,352,248	1,246,276	105,972
Other support services	57,192	61,892	61,892	-
TOTAL SUPPORT SERVICES	24,867,398	24,896,086	24,332,894	563,192
Non-instructional services				
Student activities	1,551,534	1,562,207	1,532,122	30,085
Community services	90,000	90,000	34,240	55,760
TOTAL NON-INSTRUCTIONAL SERVICES	1,641,534	1,652,207	1,566,362	85,845
Refund of prior year revenues	100,000	100,000	473,008	(373,008)
Capital outlay	15,000	15,000	7,975	7,025
Debt service	8,441,967	8,441,967	7,539,377	902,590
TOTAL EXPENDITURES	80,914,402	80,914,401	77,956,667	2,957,734
EXCESS OF REVENUES OVER EXPENDITURES	1,311,049	1,311,050	5,350,077	4,039,027
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of fixed assets	5,000	5,000	-	(5,000)
Refunding bonds issued	-	-	9,995,000	9,995,000
Premium on refunding bonds issued	-	-	330,890	330,890
Payment to refunded bond escrow agent	-	-	(10,168,856)	(10,168,856)
Interfund transfers out	(500,000)	(500,000)	(3,000,000)	(2,500,000)
Budgetary reserve	(250,000)	(250,000)	-	250,000
TOTAL OTHER FINANCING SOURCES (USES)	(745,000)	(745,000)	(2,842,966)	(2,097,966)
NET CHANGE IN FUND BALANCE	\$ 566,049	\$ 566,050	2,507,111	\$ 1,941,061
FUND BALANCE AT BEGINNING OF YEAR			11,231,558	
FUND BALANCE AT END OF YEAR			\$ 13,738,669	

See accompanying note to the budgetary comparison schedule.

UPPER MERION AREA SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2014

NOTE A - BUDGETARY INFORMATION

Budgets are adopted on a modified accrual basis plus encumbrances. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all Capital Project Funds.

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

1. Prior to March 1, the Business Administrator submits to the School Board a preliminary operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the School District offices to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The Business Administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for the Special Revenue Funds. Formal budgetary integration is also not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
6. Budgeted amounts are as originally adopted or as amended by the School Board.

All budget amounts presented in the accompanying required supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions to the annual budgets during the year).

UPPER MERION AREA SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2014

SCHEDULE OF FUNDING PROGRESS

Valuation Date July 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2008	\$ -	\$ 2,080,235	\$ 2,080,235	0%	\$ 32,216,372	6.46%
2010	-	2,907,701	2,907,701	0%	34,851,473	8.34%
2012	-	3,105,104	3,105,104	0%	37,850,224	8.20%

SUPPLEMENTARY INFORMATION SECTION

UPPER MERION AREA SCHOOL DISTRICT
SCHEDULE OF CURRENT REAL ESTATE SETTLEMENTS
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Borough of Bridgeport		Borough of West Conshohocken	
	Assessed Valuation	Tax at 17.99 Mills	Assessed Valuation	Tax at 17.99 Mills
CHARGES AGAINST TAX COLLECTORS				
Original duplicate	\$ 179,881,433		\$ 276,027,790	
Net reductions by Montgomery County Board of Assessment (Homestead Exclusion)	(3,227,910)		(1,415,750)	
TOTAL CHARGES AGAINST TAX COLLECTORS	<u>\$ 176,653,523</u>	<u>\$ 3,175,803</u>	<u>\$ 274,612,040</u>	<u>\$ 4,940,271</u>
CREDITS TO COLLECTORS				
Cash received from tax collectors				
Amount paid at discount	\$ 2,500,215		\$ 4,429,458	
Amount paid at face	375,936		265,520	
Amount paid at penalty	80,283		59,452	
NET TAX RECEIVED		\$ 2,956,434		\$ 4,754,430
Add 2% discount		52,437		90,022
Less 10% penalty		(5,907)		(3,493)
FACE AMOUNT OF TAXES COLLECTED		3,002,964		4,840,959
Delinquent taxes lienied with the county treasurer		172,839		99,312
TOTAL CREDITS TO COLLECTORS		<u>\$ 3,175,803</u>		<u>\$ 4,940,271</u>
	At Face	%	At Face	%
Collected at discount	\$ 2,552,652	80.4%	\$ 4,519,480	91.5%
Collected at face	375,936	11.8%	265,520	5.4%
Collected at penalty	74,376	2.3%	55,959	1.1%
TOTAL COLLECTED BY SCHOOL DISTRICT	3,002,964	94.5%	4,840,959	97.9%
Lienied taxes	172,839	5.5%	99,312	2.1%
TOTAL DUPLICATE	<u>\$ 3,175,803</u>	<u>100.0%</u>	<u>\$ 4,940,271</u>	<u>100.0%</u>

Township of Upper Merion		Totals	
Assessed Valuation	Tax at 17.99 Mills	Assessed Valuation	Tax at 17.99 Mills
\$ 3,436,403,671		\$ 3,892,312,894	
(29,306,025)		(33,949,685)	
<u>\$ 3,407,097,646</u>	<u>\$ 61,274,352</u>	<u>\$ 3,858,363,209</u>	<u>\$ 69,390,426</u>
\$ 55,140,898		\$ 62,070,571	
3,358,656		4,000,112	
587,582		727,317	
	\$ 59,087,136		\$ 66,798,000
	1,124,786		1,267,245
	(53,196)		(62,596)
	60,158,726		68,002,649
	1,115,626		1,387,777
	<u>\$ 61,274,352</u>		<u>\$ 69,390,426</u>
At Face	%	At Face	%
\$ 56,265,684	91.8%	\$ 63,337,816	91.3%
3,358,656	5.5%	4,000,112	5.8%
534,386	0.9%	664,721	1.0%
60,158,726	98.3%	68,002,649	98.0%
1,115,626	1.7%	1,387,777	2.0%
<u>\$ 61,274,352</u>	<u>100.0%</u>	<u>\$ 69,390,426</u>	<u>100.0%</u>

UPPER MERION AREA SCHOOL DISTRICT
SCHEDULE OF REVENUES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Revenue	Actual Revenue	Over (Under) Budget
6000 REVENUE FROM LOCAL SOURCES			
6111 Current real estate taxes	\$ 66,966,730	\$ 65,341,604	\$ (1,625,126)
6112 Interim real estate taxes	253,000	1,120,483	867,483
6113 Public utility realty tax	84,000	85,807	1,807
6143 Occupational privilege taxes	225,000	239,940	14,940
6153 Real estate transfer tax	1,000,000	2,039,152	1,039,152
6154 Amusement taxes	25,000	17,246	(7,754)
6410 Delinquent real estate tax	665,000	933,311	268,311
6440 Delinquent 511 and amusement taxes	-	9,612	9,612
6500 Earnings on investments	70,000	148,414	78,414
6700 Revenue from student activities	15,000	8,533	(6,467)
6910 Rentals	650,000	684,356	34,356
6940 Tuitions	6,000	-	(6,000)
6990 Miscellaneous revenue	792,000	907,150	115,150
TOTAL 6000 REVENUE FROM LOCAL SOURCES	70,751,730	71,535,608	783,878
7000 REVENUE FROM STATE SOURCES			
7110 Basic instructional subsidy	1,966,812	2,030,064	63,252
7271 Special education subsidy	1,398,213	1,411,147	12,934
7273 Medical assistance reimbursement	-	5,280	5,280
7310 Transportation	800,000	775,077	(24,923)
7320 Rentals and sinking fund payments	249,167	263,012	13,845
7330 Medical and dental subsidy	83,000	87,942	4,942
7340 State property tax reduction	611,402	611,402	-
7501 Pennsylvania accountability grant	41,813	41,813	-
7800 State's share of FICA payments	1,578,717	1,654,907	76,190
7810 State's share of retirement	3,461,909	3,685,023	223,114
TOTAL 7000 REVENUE FROM STATE SOURCES	10,191,033	10,565,667	374,634
8000 REVENUE FROM FEDERAL SOURCES			
8512 IDEA revenue	640,000	516,361	(123,639)
8514 Title I	280,609	273,042	(7,567)
8515 Title II	99,648	164,470	64,822
8516 Title III	42,431	27,699	(14,732)
8690 C.A.S.T. grant	100,000	92,191	(7,809)
8810 Federal Access funds	30,000	124,156	94,156
8820 Medical Assistance reimbursement	90,000	7,550	(82,450)
TOTAL 8000 REVENUE FROM FEDERAL SOURCES	1,282,688	1,205,469	(77,219)
9000 OTHER FINANCING SOURCES			
9400 Sale of fixed assets	5,000	-	(5,000)
TOTAL REVENUES	\$ 82,230,451	\$ 83,306,744	\$ 1,081,293

***Independent Auditors' 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
Upper Merion Area School District
King of Prussia, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Upper Merion Area School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Upper Merion Area School District's basic financial statements, and have issued our report thereon dated November 24, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting 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.

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Upper Merion Area 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.

A handwritten signature in black ink that reads "Maillie LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania
November 24, 2014

***Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance in Accordance with OMB Circular A-133***

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Upper Merion Area School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Upper Merion Area School District's major federal programs for the year ended June 30, 2014. Upper Merion Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

Basis for Qualified Opinion on U.S. Department of Education Individuals with Disabilities Education Act (IDEA)

As described in the accompanying schedule of findings and questioned costs, Upper Merion Area School District did not comply with requirements regarding CFDA 84.027 Individuals with Disabilities Education Act (IDEA) as described in findings 2014-001 and 2014-002 for allowable costs. Compliance with such requirements is necessary, in our opinion, for Upper Merion Area School District to comply with the requirements applicable to that program.

Qualified Opinion on U.S. Department of Education Individuals with Disabilities Education Act (IDEA)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Upper Merion Area 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 Individuals with Disabilities Education Act (IDEA) for the year ended June 30, 2014.

Other Matters

Upper Merion Area School District's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. Upper Merion Area School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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 significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

To the Board of School Directors
Upper Merion Area School District
King of Prussia, Pennsylvania

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be significant deficiencies.

Upper Merion Area School District's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. Upper Merion Area School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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

A handwritten signature in black ink that reads "Maullie LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania
November 24, 2014

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

UPPER MERION AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL
AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>
U.S. DEPARTMENT OF EDUCATION				
Passed through the Pennsylvania Department of Education				
Title I	I	84.010	13-120451	August 23, 2012 to September 30, 2013
Title I	I	84.010	13-130451	August 30, 2013 to September 30, 2014
Title III	I	84.365	10-130451	August 23, 2012 to September 30, 2013
Title III	I	84.365	10-140451	August 30, 2013 to September 30, 2014
Title II/A	I	84.367	20-130451	August 23, 2012 to September 30, 2013
Title II/A	I	84.367	20-140451	August 30, 2013 to September 30, 2014
IDEA	I	84.391	62-02014	July 1, 2013 to June 30, 2014
IDEA	I	84.027	62-02014	July 1, 2012 to June 30, 2013
IDEA	I	84.027	62-02014	July 1, 2013 to June 30, 2014
TOTAL FORWARD				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Drug Free Communities		93.276	044-007451	September 30, 2012 to September 29, 2017
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES FORWARD				

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2013</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2014</u>
\$ 299,846	\$ 18,491	\$ 18,491	\$ -	\$ -	\$ -
273,042	195,754	-	273,042	273,042	77,288
46,372	23,186	3,312	26,499	26,499	6,625
35,179	7,538	-	1,200	1,200	(6,338)
108,503	46,405	-	69,608	69,608	23,203
104,024	22,300	-	94,862	94,862	72,562
2,651	-	-	2,651	2,651	2,651
597,976	399,041	399,041	-	-	-
<u>513,710</u>	<u>359,817</u>	<u>-</u>	<u>513,710</u>	<u>513,710</u>	<u>153,893</u>
<u>1,981,303</u>	<u>1,072,532</u>	<u>420,844</u>	<u>981,572</u>	<u>981,572</u>	<u>329,884</u>
<u>622,940</u>	<u>150,050</u>	<u>44,710</u>	<u>92,191</u>	<u>92,191</u>	<u>(13,149)</u>
\$ <u>622,940</u>	\$ <u>150,050</u>	\$ <u>44,710</u>	\$ <u>92,191</u>	\$ <u>92,191</u>	\$ <u>(13,149)</u>

UPPER MERION AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL
AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>
U.S. DEPARTMENT OF EDUCATION				
TOTAL FORWARDED				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
TOTAL FORWARDED				
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Pennsylvania Department of Education				
Child Nutrition Cluster				
National School Lunch Program	I	10.555	N/A	July 1, 2012 to June 30, 2013
National School Lunch Program	I	10.555	N/A	July 1, 2013 to June 30, 2014
National School Breakfast Program	I	10.553	N/A	July 1, 2013 to June 30, 2014
National School Lunch Program	S	N/A	N/A	July 1, 2012 to June 30, 2013
National School Lunch Program	S	N/A	N/A	July 1, 2013 to June 30, 2014
Passed through the Pennsylvania Department of Agriculture				
National School Lunch Program	I	10.555	N/A	July 1, 2013 to June 30, 2014
TOTAL U.S. DEPARTMENT OF AGRICULTURE				
TOTAL FEDERAL AND CERTAIN STATE AWARDS				
LESS STATE SHARE				
TOTAL FEDERAL AWARDS				

See accompanying notes to the schedule of expenditures of federal and certain state awards.

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2013</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2014</u>
\$ <u>1,981,303</u>	\$ <u>1,072,532</u>	\$ <u>420,844</u>	\$ <u>981,572</u>	\$ <u>981,572</u>	\$ <u>329,884</u>
<u>622,940</u>	<u>150,050</u>	<u>44,710</u>	<u>92,191</u>	<u>92,191</u>	<u>(13,149)</u>
-	19,261	19,261	-	-	-
-	459,219	-	477,754	477,754	18,535
-	90,460	-	95,594	95,594	5,134
-	1,454	1,454	-	-	-
-	38,959	-	40,639	-	1,680
<u>-</u>	<u>88,527</u>	<u>(6,266)</u>	<u>83,432</u>	<u>83,432</u>	<u>(11,361)</u>
<u>-</u>	<u>697,880</u>	<u>14,449</u>	<u>697,419</u>	<u>656,780</u>	<u>13,988</u>
2,604,243	1,920,462	480,003	1,771,181	1,730,543	330,722
<u>-</u>	<u>(40,413)</u>	<u>(1,454)</u>	<u>(40,639)</u>	<u>-</u>	<u>(1,680)</u>
\$ <u><u>2,604,243</u></u>	\$ <u><u>1,880,049</u></u>	\$ <u><u>478,549</u></u>	\$ <u><u>1,730,543</u></u>	\$ <u><u>1,730,543</u></u>	\$ <u><u>329,043</u></u>

UPPER MERION AREA SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND CERTAIN STATE AWARDS
YEAR ENDED JUNE 30, 2014

NOTE A - ORGANIZATION AND SCOPE

The federal programs as listed in the schedule of expenditures of federal and certain state awards are accounted for by the School District in the General Fund for U.S. Department of Education programs and in the Food Service Fund for U.S. Department of Agriculture programs.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District uses the modified accrual basis of accounting to report federal, state and other grants. Revenues designated for payment of specified School District expenditures are recognized when the related expenditures are incurred. Any excess of receipts or expenditures at the fiscal year-end are recorded as deferred revenue or a receivable, respectively. The modified accrual basis of accounting is described in Note A to the financial statements.

Total assistance is valued at the sum of cash received and the value of U.S.D.A. donated foods based upon the federal price list accompanying each shipment.

NOTE C - PROGRAM OBJECTIVES

Title I Grants to Improve Basic Programs - To improve the teaching and learning of children who are at risk of not meeting challenging and academic standards and who reside in areas with high concentrations of children from low-income families.

National School Lunch Program - To (1) assist states through cash grants and donations in making lunch available to school children and (2) encourage the domestic consumption of agricultural commodities and other foods. To improve the diets of school children in need of food assistance and to increase the market for domestically produced foods acquired under surplus removal or price support operations.

Title II Improving Teacher Quality - To upgrade the expertise of teachers and other school staff to enable them to teach all children to meet state content standards and to sustain high quality professional development focused on core academic subjects.

Title III Language Instruction LEP/Immigrant Students - Improve education of limited English proficient students and provide enhanced instructional opportunities for immigrant children and youths.

Individuals with Disabilities Education (IDEA) Programs - To (1) ensure that all children with disabilities have available to them a free appropriate public education which emphasizes special education and related services designed to meet their unique needs; (2) ensure that the rights of children with disabilities and their parents or guardians are protected; (3) assist states, localities, educational service agencies and federal agencies to provide for the education of all children with disabilities; and (4) assess and ensure that effectiveness of efforts to educate children with disabilities.

UPPER MERION AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified: **No**

Significant deficiencies identified that are not considered to be material weaknesses: **No**

Noncompliance material to financial statements noted: **No**

Federal Awards

Type of auditors' report issued on compliance for major programs: **Qualified**

Internal control over major programs:

Material weaknesses(es) identified: **No**

Significant deficiencies identified that are not considered to be material weaknesses:
Yes

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the Circular: **Yes**

Identification of major programs:

<u>Program</u>	<u>CFDA</u>
IDEA	84.027

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

Auditee qualified as a low-risk auditee: **Yes**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

UPPER MERION AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

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

2014-001 - Allowable Costs

Federal Agency: U.S. Department of Education
Individuals with Disabilities Education (IDEA)
CFDA 84.027

Criteria: OMB Circular A-87 states that where employees are expected to work solely on a single federal award, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Condition: The School District did not complete periodic certifications that employees worked solely on the IDEA program in support of salaries and wages charged to the program.

Cause: The School District does not have procedures in place to ensure periodic certifications are completed for eligible employees working on the IDEA program.

Effect: The School District is not in compliance with the federal requirements for allowable costs.

Recommendation: The School District should improve its controls over the completion of periodic certifications. We suggest the School District task the program coordinator with reviewing payroll expenses at least semi-annually, determining if any employees work solely in the IDEA program and ensure those employees complete a periodic certification.

UPPER MERION AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

D. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT
(Continued)

2014-002 - Allowable Costs

Federal Agency: U.S. Department of Education
Individuals with Disabilities Education (IDEA)
CFDA 84.027

Criteria: OMB Circular A-87 states that, to be allowable under Federal awards, costs must meet certain criteria, be reasonable when compared to market prices, and be allocable to a Federal program.

Condition: During our audit, we noted the School District submitted an invoice for reimbursement for which it did not incur any expense.

Cause: The School District does not have procedures in place to ensure that all costs for which it seeks reimbursement under the program are adequately supported.

Effect: The School District is not in compliance with the federal requirements for allowable costs.

Questioned Costs: \$32,150

Recommendation: The School District should improve its controls over the review and approval of costs submitted for reimbursement under the Federal program.