

*In the opinion of Bond Counsel, under existing statutes, regulations and judicial decisions, interest on the Bonds is excluded from gross income for purposes of federal income taxation and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although in the case of corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. This opinion of Bond Counsel is subject to continuing compliance by the Technical School District with its covenants in the Resolution and other documents to comply with requirements of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder.*

*Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the Bonds are exempt from personal property taxes in the Commonwealth of Pennsylvania and the interest on the Bonds is exempt from the Commonwealth of Pennsylvania Personal Income Tax and the Commonwealth of Pennsylvania Corporate Net Income Tax. This summary of Bond Counsel's opinion and the summary of Bond Counsel's opinion set forth under the caption "Opinion of Bond Counsel" does not purport to be and should not be construed to be a complete recitation of Bond Counsel's opinion. The full text draft of Bond Counsel's opinion is appended hereto in Appendix "D" and reference is made hereto. For further information concerning federal and state tax matters relating to the Bonds, see "Tax Exemption and Other Tax Matters" herein.*

**\$17,765,000**  
**State Public School Building Authority**  
**Commonwealth of Pennsylvania**  
**(Upper Bucks County Technical School Project)**  
**Bucks County, Pennsylvania**  
**School Lease Revenue Bonds, Series of 2014**

**Dated:** April 24, 2014**Interest Due:** May 15 and November 15**Principal Due:** November 15, as shown on inside cover**First Interest Payment:** November 15, 2014

The State Public School Building Authority (Upper Bucks County Technical School Project), School Lease Revenues Bonds, Series of 2014 (the "Bonds") in the aggregate principal amount of \$17,765,000 will be issued in registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds will be registered in the name of Cede & Co., as the registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof only under the book-entry only system maintained by DTC through its brokers and dealers who are, or act through, DTC Participants. The purchasers of the Bonds will not receive physical delivery of the Bonds. For so long as any purchaser is the beneficial owner of a Bond, that purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein. If, under the circumstances described herein, Bonds are ever issued in certificated form, the Bonds will be subject to registration of transfer, exchange and payment as described herein.

The Bonds will be special limited obligations of the State Public School Building Authority (the "SPSBA or the "Authority") equally and ratably secured under the provisions of a Trust Indenture, dated as of April 15, 2005, as previously supplemented, and as shall be further supplemented by a Second Supplemental Indenture, dated as of April 24, 2014, (the "Indenture") between the Authority and the Trustee, Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania, as trustee. The Indenture provides that the Bonds shall be secured equally and ratably secured by a pledge and assignment by the Authority to the Trustee of the lease rentals payable by the Upper Bucks County Technical School (the "Technical School"). Payment of such rentals by the Technical School is guaranteed by the Pennridge School District and the Quakertown Community School District, located in Bucks County, Pennsylvania (collectively, the "Obligated School Districts"), under the terms of a Sublease Agreement dated April 15, 2005, as previously supplemented, and as shall be further supplemented by a Second Supplemental Sublease agreement dated as of April 24, 2014 (the "Second Supplemental Sublease"), between the Authority, as lessor, and Pennridge School District, Quakertown Community School District and Palisades School District (collectively, "the Participating School Districts"), as lessees, by certain funds to be held by the Trustee under the Indenture and by a covenant of guaranty of each of the Obligated School Districts contained in the Second Supplemental Sublease. The lease rentals payable by each of the Obligated School District pursuant to the Second Supplemental Sublease will be payable from the current revenues of each of the Obligated School Districts. For payment in respect of its guaranty of its proportionate share of the debt service on the Bonds, each of the Obligated School Districts has pledged its full faith, credit and taxing power. The taxing power of each of the Obligated School Districts presently includes the power to levy an annual ad valorem tax on all taxable real property and available taxing power located within such School District as to rate or amount for the purpose of making payments in respect of such Obligated School Districts' guaranty of its proportionate share of the debt service on the Bonds. *See information regarding the Taxpayer Relief Act (Act 1), of the Special Session of 2006, as amended, included in Appendices A and B included herein.*

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE RENTALS TO BE RECEIVED FROM EACH OF THE OBLIGATED SCHOOL DISTRICTS UNDER THE SECOND SUPPLEMENTAL SUBLEASE AND CERTAIN FUNDS THAT MAY BE HELD BY THE TRUSTEE UNDER THE INDENTURE, AS PROVIDED IN THE INDENTURE. NEITHER THE CREDIT OF THE AUTHORITY OR THE CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR OF ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE OBLIGATED SCHOOL DISTRICTS) IS PLEDGED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS AND THE BONDS SHALL NOT BE DEEMED GENERAL OBLIGATIONS OF THE AUTHORITY OR OBLIGATIONS OF THE COMMONWEALTH OF PENNSYLVANIA OR OF ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE OBLIGATED SCHOOL DISTRICTS), NOR SHALL THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE OBLIGATED SCHOOL DISTRICTS) BE LIABLE FOR THE PAYMENT OR THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

**The Bonds are subject to redemption prior to maturity as described herein.**

Proceeds of the Bonds will be used to acquire, design and construct renovations, additions and improvements to existing facilities (the "Capital Improvement Project"), and to pay the costs of issuing the Bonds. The Bonds are an authorized investment for fiduciaries in the Commonwealth pursuant to the Pennsylvania Probate, Estate and Fiduciaries Code, Act of June 30, 1972, No. 164, P.L. 508, as amended and supplemented.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY (BAM).



**MATURITIES, AMOUNTS, RATES AND PRICES/YIELDS**  
 (as shown on inside cover)

The Bonds are offered when, as and if issued, subject to withdrawal or modification of the offer without notice, and subject to the approving legal opinion of King, Spry, Herman, Freund & Faul, LLC, Bethlehem, Pennsylvania, Bond Counsel, to be furnished upon delivery of the Bonds. Certain other legal matters will be passed upon for the Authority by its Counsel, Hartman Underhill & Brubaker, LLC, Lancaster, Pennsylvania. Certain other legal matters will be passed upon by Sweet, Stevens, Katz & Williams, LLP, of New Britain, Pennsylvania, Solicitor to the Technical School. Public Financial Management, Inc., Harrisburg, Pennsylvania, serves as Financial Advisor to the Technical School in connection with the Bonds. It is expected that the Bonds will be available for delivery, in book-entry form through the Depository Trust Company in New York, New York, on or about April 24, 2014.

**BAIRD**

**\$17,765,000**  
**State Public School Building Authority**  
**Commonwealth of Pennsylvania**  
**(Upper Bucks County Technical School Project)**  
**Bucks County, Pennsylvania**  
**School Lease Revenue Bonds, Series of 2014**

**Dated:** April 24, 2014  
**Interest Due:** May 15 and November 15

**Principal Due:** November 15, as shown below  
**First Interest Payment:** November 15, 2014

<b>Nov. 15</b>	<b>Principal Amounts</b>	<b>Interest Rates</b>	<b>Initial Offering Yields</b>	<b>Prices</b>
2015	\$350,000	2.000%	0.300%	102.640%
2016	355,000	2.000	0.520	103.756
2017	370,000	3.000	0.880	107.410
2018	375,000	2.000	1.210	103.492
2019	390,000	3.000	1.550	107.693
2020	400,000	4.000	1.970	112.430
2021	420,000	4.000	2.340	111.437
2022	435,000	4.000	2.610**	110.041**
2023	450,000	4.000	2.850**	108.226**
2024	470,000	4.000	3.020**	106.961**
2027*	1,530,000	4.000	3.490**	103.553**
2028	555,000	4.000	3.620**	102.633**
2029	575,000	4.000	3.730**	101.862**
2030	600,000	4.000	3.920**	100.546**
2032*	1,275,000	4.000	4.050	99.349
2034*	1,380,000	4.000	4.130	98.208
2036*	1,500,000	4.100	4.220	98.262
2039*	2,490,000	4.200	4.330	97.999
2043*	3,845,000	4.250	4.400	97.530

\*Term Bonds

\*\*Yield/Price to Optional Redemption Date of May 15, 2022

# State Public School Building Authority

## Commonwealth of Pennsylvania

### Members of the Authority

Honorable Thomas W. Corbett  
Governor of the Commonwealth of Pennsylvania ..... President

Honorable Michael J. Folmer  
Designated by the President Pro Tempore of the Senate ..... Vice President

Honorable Andrew E. Dinniman  
Minority Leader of the Senate ..... Vice President

Honorable Warren E. Kampf  
Designated by the Speaker of the House of Representatives ..... Vice President

Honorable Robert M. McCord  
State Treasurer ..... Treasurer

Honorable Sheri L. Phillips  
Secretary of General Services ..... Secretary

Honorable Anthony M. DeLuca  
Minority Leader of the House of Representatives ..... Board Member

Honorable Eugene A. DePasquale  
Auditor General ..... Board Member

Honorable Carolyn C. Dumaesq  
Acting Secretary of Education ..... Board Member

### **EXECUTIVE DIRECTOR**

ROBERT BACCON

### **COUNSEL TO THE AUTHORITY**

(Appointed by the Office of General Counsel)  
HARTMAN UNDERHILL & BRUBAKER, LLC  
Lancaster, Pennsylvania

### **BOND COUNSEL**

(Appointed by the Office of General Counsel)  
KING, SPRY, HERMAN, FREUND, & FAUL, LLC  
Bethlehem, Pennsylvania

### **TRUSTEE**

MANUFACTURERS AND TRADERS TRUST COMPANY  
Harrisburg, Pennsylvania

### **FINANCIAL ADVISOR**

PUBLIC FINANCIAL MANAGEMENT, INC.  
Harrisburg, Pennsylvania

### **UNDERWRITER**

ROBERT W. BAIRD & CO., INC.  
Exton, Pennsylvania

### **AUTHORITY ADDRESS**

STATE PUBLIC SCHOOL BUILDING AUTHORITY  
1035 Mumma Road  
Wormleysburg, Pennsylvania 17043

# Upper Bucks County Technical School (Bucks County, Pennsylvania)

## JOINT OPERATING COMMITTEE

---

Dwight Anderson	Chairperson	Quakertown Community School District
James Hallowell	Vice-Chairperson	Palisades School District
Tracy Kram	Secretary*	
Suzette Schmidt	Treasurer	Pennridge School District
Bernadette Decker	Member	Palisades School District
Judy Lovekin	Member	Palisades School District
Ada Miller	Member	Pennridge School District
Stephen Ripper	Member	Quakertown Community School District
Charles Shermer	Member	Quakertown Community School District
Dr. Peter A. Yarnell	Member	Pennridge School District

---

\*Non-Voting Member

---

### EXECUTIVE DIRECTOR

BERNARD J. WAGENSELLER

### ASSISTANT DIRECTOR

CATHLEEN PLESNARSKI

### BUSINESS MANAGER

GAIL CAPUANO

### SOLICITOR

SWEET, STEVENS, KATZ & WILLIAMS, LLP

New Britain, Pennsylvania

### BOND COUNSEL

KING, SPRY, HERMAN, FREUND, & FAUL, LLC

Bethlehem, Pennsylvania

### FINANCIAL ADVISOR

PUBLIC FINANCIAL MANAGEMENT, INC.

Harrisburg, Pennsylvania

### TRUSTEE

MANUFACTURERS AND TRADERS TRUST COMPANY

Harrisburg, Pennsylvania

### UNDERWRITER

ROBERT W. BAIRD & CO., INC.

Exton, Pennsylvania

### TECHNICAL SCHOOL ADDRESS

3115 Ridge Road

Perkasie, Pennsylvania 18944

This Official Statement does not constitute an offer to sell, or a solicitation of an offer to buy, any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. No dealer, broker, salesman or other person has been authorized by the Authority, the Technical School, the Obligated School Districts or the Underwriter to give information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon. The information set forth herein has been obtained from the Authority, the Technical School, the Obligated School Districts and from other sources which are believed to be reliable but the Authority does not guarantee the accuracy or completeness of information from sources other than the Authority.

This Official Statement is not to be construed as a contract or agreement among the Authority, the Underwriter and the purchasers or owners of any offered Bonds. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

In making an investment decision, investors must rely on their own examination of the Authority, the Technical School, and the Obligated School Districts and the terms of the offering, including the merits and risks involved.

The order and placement of the materials in this Official Statement including the appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute forward-looking statements, as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Official Statement, the words, "estimate," "intend," "project" or "projection," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to risks and uncertainties, some of which are discussed herein, that could cause actual results to differ materially from those contemplated in such forward-looking statements. Investors and prospective investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Official Statement.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Appendix E - Specimen Municipal Bond Insurance Policy".

## TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
<b>INTRODUCTION .....</b>	<b>1</b>
<b>THE AUTHORITY .....</b>	<b>2</b>
<b>PURPOSE OF THE ISSUE .....</b>	<b>3</b>
SOURCES AND USES OF BOND PROCEEDS .....	3
<b>THE BONDS.....</b>	<b>3</b>
<b>BOND INSURANCE .....</b>	<b>4</b>
BOND INSURANCE POLICY .....	4
BUILD AMERICA MUTUAL ASSURANCE COMPANY .....	4
<b>BOOK-ENTRY-ONLY SYSTEM.....</b>	<b>5</b>
DISCONTINUANCE OF BOOK-ENTRY ONLY SYSTEM.....	7
<b>REDEMPTION OF BONDS .....</b>	<b>8</b>
MANDATORY REDEMPTION .....	8
OPTIONAL REDEMPTION .....	8
MANNER OF REDEMPTION .....	9
<b>SUMMARIES OF CERTAIN PROVISIONS.....</b>	<b>9</b>
	<b>OF THE LEASE, SECOND SUPPLEMENTAL SUBLEASE AND THE INDENTURE.....</b>
	<b>9</b>
	LEASE.....
	9
	SECOND SUPPLEMENTAL SUBLEASE .....
	9
	<b>THE INDENTURE .....</b>
	<b>10</b>
	<b>SOURCES OF PAYMENT FOR THE BONDS.....</b>
	<b>12</b>
	SECOND SUPPLEMENTAL SUBLEASE PAYMENTS .....
	12
	COMMONWEALTH ENFORCEMENT OF LEASE RENTALS AND DEBT SERVICE PAYMENTS .....
	12
	<b>DESCRIPTION AND ORGANIZATION OF THE UPPER BUCKS COUNTY TECHNICAL SCHOOL ...</b>
	<b>12</b>
	ARTICLES OF AGREEMENT .....
	13
	<b>SCHOOL FINANCES .....</b>
	<b>14</b>
	INTRODUCTION .....
	14
	FINANCIAL REPORTING .....
	14
	SUMMARY AND DISCUSSION OF FINANCIAL RESULTS .....
	15
	<b>LABOR RELATIONS.....</b>
	<b>17</b>

PENSION PROGRAM .....	17
OTHER POST-EMPLOYMENT BENEFITS (OPEB) .....	17
<b>AT THIS TIME, THE TECHNICAL SCHOOL OFFERS OTHER POST-EMPLOYMENT BENEFITS TO ITS EMPLOYEES, BUT AT FULL-COST TO THE EMPLOYEE. ....</b>	<b>17</b>
<b>INFORMATION REGARDING THE OBLIGATED SCHOOL DISTRICTS.....</b>	<b>17</b>
<b>LITIGATION .....</b>	<b>17</b>
FUTURE FINANCING.....	18
<b>TAX EXEMPTION AND OTHER TAX MATTERS ....</b>	<b>19</b>
OPINION OF BOND COUNSEL .....	19
FEDERAL INCOME TAX MATTERS .....	19
FEDERAL INCOME TAX INTEREST EXPENSE DEDUCTIONS FOR FINANCIAL INSTITUTIONS .....	19
OTHER FEDERAL INCOME TAX CONSEQUENCES .....	20
PENNSYLVANIA TAX MATTERS .....	20
<b>CONTINUING DISCLOSURE UNDERTAKING .....</b>	<b>20</b>
<b>RATING .....</b>	<b>22</b>
<b>UNDERWRITING .....</b>	<b>22</b>
<b>LEGAL OPINION.....</b>	<b>22</b>
<b>FINANCIAL ADVISOR .....</b>	<b>22</b>
<b>MISCELLANEOUS.....</b>	<b>23</b>
<b>APPENDIX A - PENNRIDGE SCHOOL DISTRICT BUCKS COUNTY, PENNSYLVANIA DESCRIPTIVE, FINANCIAL AND ECONOMIC INFORMATION</b>	
INTRODUCTION.....	A-1
ADMINISTRATION .....	A-1
SCHOOL FACILITIES.....	A-1
ENROLLMENT TRENDS .....	A-1
INTRODUCTION.....	A-2
FINANCIAL REPORTING .....	A-2
SUMMARY AND DISCUSSION OF FINANCIAL RESULTS .....	A-3
REVENUE .....	A-5
IN GENERAL .....	A-7
LIMITATIONS ON LOCAL TAXES.....	A-8
ACT 130 OF 2008.....	A-9
TAX LEVY TRENDS.....	A-10
REAL PROPERTY TAX .....	A-11
OTHER TAXES .....	A-12
DEBT STATEMENT .....	A-13
DEBT SERVICE REQUIREMENTS .....	A-14
FUTURE FINANCING.....	A-14
DEBT LIMIT AND REMAINING BORROWING CAPACITY ..	A-14
SCHOOL DISTRICT EMPLOYEES.....	A-15
PENSION PROGRAM .....	A-15

OTHER POST-EMPLOYMENT BENEFITS.....	A-16
-------------------------------------	------

**APPENDIX B - QUAKERTOWN COMMUNITY  
SCHOOL DISTRICT BUCKS COUNTY,  
PENNSYLVANIA DESCRIPTIVE, FINANCIAL AND  
ECONOMIC INFORMATION**

INTRODUCTION .....	B-1
ADMINISTRATION .....	B-1
SCHOOL FACILITIES .....	B-1
ENROLLMENT TRENDS .....	B-2
INTRODUCTION .....	B-2
FINANCIAL REPORTING .....	B-2
BUDGETING PROCESS IN SCHOOL DISTRICTS UNDER THE TAXPAYER RELIEF ACT .....	B-3
SUMMARY AND DISCUSSION OF FINANCIAL RESULTS .....	B-3
REVENUE.....	B-5
IN GENERAL .....	B-7
THE TAXPAYER RELIEF ACT (ACT 1).....	B-7
STATUS OF THE BONDS UNDER ACT 1.....	B-8
ACT 24 OF 2001 .....	B-8
ACT 48 OF 2003 .....	B-9
TAX LEVY TRENDS .....	B-9
REAL PROPERTY TAX .....	B-10
OTHER TAXES.....	B-11
STATE AID TO SCHOOL DISTRICTS .....	B-12
DEBT STATEMENT .....	B-12
DEBT LIMIT AND REMAINING BORROWING CAPACITY ..	B-13
DEBT SERVICE REQUIREMENTS .....	B-14
FUTURE FINANCING .....	B-14
SCHOOL DISTRICT EMPLOYEES .....	B-14
PENSION PROGRAM.....	B-14
OTHER POST-EMPLOYMENT BENEFITS.....	B-15

**APPENDIX C - BUCKS COUNTY, PENNSYLVANIA  
DESCRIPTIVE, FINANCIAL AND ECONOMIC  
INFORMATION**

POPULATION.....	C-1
EMPLOYMENT .....	C-1
INCOME .....	C-3
COMMERCIAL ACTIVITY .....	C-4
MEDICAL FACILITIES .....	C-4
TRANSPORTATION.....	C-4

**APPENDIX D - FORM OF BOND COUNSEL OPINION**

**APPENDIX E - SPECIMEN MUNICIPAL BOND  
INSURANCE POLICY**

**APPENDIX F - AUDITED FINANCIAL STATEMENTS  
OF THE TECHNICAL SCHOOL AND THE  
OBLIGATED SCHOOL DISTRICTS FOR FISCAL  
YEAR ENDED JUNE 30, 2013**

# **OFFICIAL STATEMENT**

**\$17,765,000**

## **STATE PUBLIC SCHOOL BUILDING AUTHORITY**

**(Commonwealth of Pennsylvania)**

**(Upper Bucks County Technical School Project)**

**Bucks County, Pennsylvania**

**School Lease Revenue Bonds, Series of 2014**

### **INTRODUCTION**

This Official Statement is furnished by the State Public School Building Authority (the “SPSBA or the “Authority”) in connection with the offering of \$17,765,000 aggregate principal amount of State Public School Building Authority (Upper Bucks County Technical School Project), School Lease Revenue Bonds, Series of 2014, dated as of April 24, 2014 (the “Bonds”). The Bonds are authorized to be issued pursuant to the State Public School Building Authority Act of 1947, P.L. 1217, as supplemented and amended (the “Act”), a Resolution as adopted February 19, 2014, which approved the projects financed thereunder (the “Resolution”) and a Trust Indenture dated as of April 15, 2005 (the “Original Indenture”), as supplemented by the First Supplemental Trust Indenture dated as of July 1, 2010 (the “First Supplemental Indenture”), and as further supplemented by the Second Supplemental Trust Indenture, dated as of April 24, 2014 (the “Second Supplemental Indenture”) (the Original Indenture, as supplemented by the First Supplemental Indenture and the Second Supplemental Indenture being collectively referred to herein as the “Indenture”) between the Authority and Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania, as Trustee (the “Trustee”). The Bonds are being issued as additional bonds pursuant to the terms and conditions set forth in the Indenture.

The Upper Bucks County Technical School (the “Technical School”) is sponsored by Palisades School District, Pennridge School District and Quakertown Community School District, all located in Bucks County, Pennsylvania (the “Participating School Districts”). The land and buildings constituting the Technical School are owned jointly by the Participating School Districts. Palisades School District will be making a cash contribution towards their pro rata share of the projects financed herein and will not be an Obligated School District (hereinafter defined) with respect to the Bonds.

The Participating School Districts have leased real and personal property of the existing Technical School, together with the Capital Improvement Project, as herein defined, (the “Leased Property”) to the Authority under the original terms of a Lease Agreement commencing on April 1, 2005, (the “Lease”), together with, if any supplements for a term not less than the maturity of the Bonds, and the Authority under the Lease covenants and agrees to make available to the Technical School the proceeds of the Bonds to pay the costs of the Capital Improvement Project and costs and expenses related to the issuance of the Bonds. The Authority will sublease the Leased Property to the Technical School and the Participating School Districts under a Sublease Agreement dated April 15, 2005 (the “Original Sublease”), as supplemented by the First Supplemental Sublease Agreement dated July 1, 2010 (the “First Supplemental Sublease Agreement”), as further supplemented by a Second Supplemental Sublease Agreement dated as of April 24, 2014 (the “Second Supplemental Sublease”) for rental payments in amounts sufficient to provide for the debt service on the Bonds. Under the Indenture, the Authority will pledge and assign to the Trustee the lease rentals to be paid pursuant to the Second Supplemental Sublease. Such lease rental payments are pledged by the Authority for the benefit of the holders of the Bonds.

The Authority is a body corporate and politic created in 1947 by the Act. Under the Act, the Authority is constituted a public corporation and governmental instrumentality, having perpetual existence, for the purpose of acquiring, financing, refinancing, constructing, improving, maintaining and operating public school and educational broadcasting facilities, and furnishing and equipping the same for use as part of the public school system of the Commonwealth of Pennsylvania (the “Commonwealth”) under the jurisdiction of the Pennsylvania Department of Education (the “Department” or “PDE”). Under the Act and Article XIX-A of the Public School Code, Act of July 1, 1985, P.L. 103, No.31, Section 1 et seq., as amended, the Authority also has for its purpose the acquiring, financing, refinancing, construction, improvement, furnishing, equipping, maintenance and operation of community college buildings.

The descriptions and summaries of the Indenture, the Second Supplemental Sublease and various other legal documents set forth in this Official Statement do not purport to be comprehensive or definitive and reference is made to each such document for complete details of its terms and conditions; all statements made herein are qualified in their entirety by the terms of such documents.

Copies of the Indenture, the Lease, the Supplemental Sublease Agreement, and other legal documents relating to the Bonds are available upon request from the administrative offices of the Upper Bucks County Technical School, 3115 Ridge Road, Perkasié, PA, Attention: Business Manager, or from the offices of the Financial Advisor, Public Financial Management, One Keystone Plaza, Suite 300, N. Front and Market Streets, Harrisburg, Pennsylvania 17101, Attention: Ms. Jamie Doyle.

## THE AUTHORITY

The Authority and the Pennsylvania Higher Educational Facilities Authority (PHEFA) share an executive, fiscal and administrative staff, and operate under a joint administrative budget. The Authority serves as a conduit issuer for school districts, community colleges and technical schools and intermediate units in the Commonwealth and has issued, and will continue to issue, multiple series of bonds to finance various projects. Each such series of bonds is or will be secured by instruments and collateral separate and apart from other series, including the Bonds.

Under the Act, the Authority consists of the Governor of the Commonwealth, the State Treasurer, the Auditor General, the Secretary of Education, the Secretary of the Department of General Services, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Minority Leader of the Senate and the Minority Leader of the House of Representatives. The President Pro Tempore of the Senate, the Minority Leader of the Senate, the Speaker of the House of Representatives and the Minority Leader of the House of Representatives may designate any member of his or her legislative body to act as a member of the Authority in his or her stead. The members of the Authority serve without compensation but are entitled to reimbursement for all necessary expenses incurred in connection with the performance of their duties as members. The powers of the Authority are exercised by a governing body consisting of the members of the Authority acting as a board.

The Bonds are being issued by the Authority on behalf of the Technical School pursuant to the Act, the Indenture and the Resolution, which approved the projects financed thereunder. The Authority has and will continue to issue bonds/notes for other eligible institutions and projects in the Commonwealth. None of the revenues of the Authority pledged to payment of the Bonds will be pledged to the payment of such other bonds/notes.

The following are key staff members of the Authority who are involved in the administration of the financing and projects:

**Robert Baccon**  
**Executive Director**

Mr. Baccon has served as an executive with the Authority and PHEFA since 1984. He is a graduate of St. John's University with a bachelor's degree in management, and holds a master's degree in international business from the Columbia University Graduate School of Business. Prior to joining the Authority, Mr. Baccon held financial management positions with multinational U.S. corporations and was Vice President - Finance for a major highway construction contractor.

**David Player**  
**Comptroller & Director of Financial Management**

Mr. Player serves as the Comptroller & Director of Financial Management of both the Authority and PHEFA. He has been with the Authorities since 1999. Prior to his present position, he served as Senior Accountant for both Authorities and as an auditor with the Pennsylvania Department of the Auditor General. Mr. Player is a graduate of the Pennsylvania State University and a Certified Public Accountant.

**Beverly M. Nawa**  
**Administrative Officer**

Mrs. Nawa has served as the Administrative Officer of both the Authority and PHEFA since 2004. She is a graduate of Alvernia University with a bachelor's degree in business administration. Prior to her present employment, Mrs. Nawa served as an Audit Senior and an Accounting Systems Analyst with the Pennsylvania Department of the Auditor General.



## PURPOSE OF THE ISSUE

Proceeds of the Bonds will be used to acquire, design and construct renovations, additions and improvements to existing facilities (the “Capital Improvement Project”), and to pay the costs of issuing the Bonds.

### Sources and Uses of Bond Proceeds

The following is a summary of the sources and uses of the proceeds from the issuance of the Bonds.

#### Source of Funds

Par Amount .....	\$17,765,000.00
Net Original Issue Premium .....	183,316.25
Total Source of Fund .....	<u>\$17,948,316.25</u>

#### Use of Funds

Deposit to Project Fund .....	\$17,693,540.00
Costs of Issuance <sup>(1)</sup> .....	254,776.25
Total Use of Funds .....	<u>\$17,948,316.25</u>

<sup>(1)</sup>Includes total bond discount, legal, financial advisor, municipal bond insurance, printing, rating, trustee, and miscellaneous fees.

## THE BONDS

The Bonds will be dated April 24, 2014 and will bear interest from such date at the rates set forth on the inside front cover page hereof, payable semiannually on May 15 and November 15 of each year (each, an “Interest Payment Date”), commencing November 15, 2014 (until maturity or prior redemption), and will mature on the dates and in the amounts forth on the inside front cover page hereof. The Bonds when issued will be registered in the name of Cede & Co., as a nominee for The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. While the Bonds are in the Book-Entry-Only System, references to the “owner” or the “registered owner” as described herein are to Cede & Co., as registered owner for DTC. Each beneficial owner of a Bond may desire to make arrangements with a DTC Participant to receive notices or communications with respect to matters described herein. See “Book-Entry-Only System” herein.

The Bonds will be issued in fully registered form in denominations of \$5,000 or any multiple thereof. While all of the Bonds are held in Book-Entry-Only form, payments thereon shall be made to Cede & Co., as holder thereof. See “Book-Entry-Only System” herein. At all other times, the principal of the Bonds, and the premium, if any, payable upon redemption, are payable at the designated corporate trust office of the Trustee, and the interest thereon is payable by check mailed by the Trustee on each Interest Payment Date to the persons who were the registered owners of the Bonds on the registration books maintained by the Trustee, at the close of the last day of the calendar month (whether or not a business day) immediately preceding the month of an Interest Payment Date (a “Regular Record Date”), irrespective of any transfer or exchange of any Bond subsequent to such regular record date and prior to such interest payment date, unless the Authority defaults in the payment of interest due on such Interest Payment Date. In the event of any such default, any defaulted interest will be payable to the person in whose name such Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered owners of the Bonds not fewer than fifteen (15) business days preceding such special record date.

The Bonds may be transferred or exchanged by the registered owner thereof only upon presentation thereof to the Trustee, accompanied by a duly executed instrument of transfer by the registered owner thereof or his authorized representative, and, in the case of a transfer, containing written instructions as to the details of such transfer. Neither the Authority nor the Trustee will be required to issue, exchange or transfer any of the Bonds during the fifteen (15) days preceding the mailing of any notice of redemption of Bonds or to transfer any of the Bonds selected for redemption in whole or in part. The person in whose name any Bond is registered shall be deemed the owner thereof by the Authority and the Trustee, and any notice to the contrary shall not be binding upon the Authority or the Trustee.

No service charge will be made to the Bondholders of the Bonds for any exchange or transfer, but the Authority may require payment of a sum sufficient to pay any tax or other governmental charge that may be imposed in relation thereto. In the event any Bond is mutilated, lost, stolen, or destroyed, the Authority may execute and the Trustee may authenticate a new Bond of like tenor and denomination in accordance with the provisions of the Supplemental Indenture, and the Authority and the Trustee may charge the registered owner of such Bond with its reasonable fees and expenses and require indemnity in connection therewith.

## **BOND INSURANCE**

### **BOND INSURANCE POLICY**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **BUILD AMERICA MUTUAL ASSURANCE COMPANY**

BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 1 World Financial Center, 27th Floor, 200 Liberty Street, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

#### *Capitalization of BAM*

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2013 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$486.5 million, \$17.5 million and 469.0 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM’s most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM’s website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE”.

#### *Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at [buildamerica.com/creditsights/](http://buildamerica.com/creditsights/).

**Obligor Disclosure Briefs.** Subsequent to closing, BAM posts an Obligor Disclosure Brief on every issue insured by BAM, including the Bonds. BAM Obligor Disclosure Briefs provide information about the gross par insured by CUSIP, maturity and coupon; sector designation (e.g. general obligation, sales tax); a summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. The Obligor Disclosure Briefs are also easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/).

**Disclaimers.** The Obligor Disclosure Briefs and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Obligor Disclosure Briefs and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Obligor Disclosure Briefs and Credit Insight videos are prepared by BAM and have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and they assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

## **BOOK-ENTRY-ONLY SYSTEM**

Portions of the following information concerning The Depository Trust Company ("DTC") and DTC's book-entry-only system have been obtained from DTC. The Authority (sometimes herein referred to as the "Issuer"), the Technical School, the Financial Advisor, and the Underwriter make no representation as to the accuracy of such information.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to Tender Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to Tender Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A BONDHOLDER WITH RESPECT TO EITHER: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY OR THE TIMELINESS OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO THE OWNER OF THE BONDS; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

Neither the Authority nor the Trustee shall have any responsibility or obligation to any DTC Participant or Indirect Participant with respect to:

- (i) the accuracy of the records of DTC, its nominee or any DTC Participant or Indirect Participant with respect to any beneficial ownership interest in any Bonds;
- (ii) the delivery to any DTC Participant or Indirect Participant or any other Person, other than the registered owner of a Bond, as shown in the Bond Register, of any notice with respect to any Bond, including, without limitation, any notice of redemption;
- (iii) the selection by DTC or any DTC Participant or Indirect Participant of any person to receive payment in the event of a partial redemption of Bonds;
- (iv) the payment to any DTC Participant or Indirect Participant or any other Person other than the registered owner of a Bond, as shown in the Bond Register, of any amount with respect to the principal of, redemption price, or interest on, any Bond; or
- (v) any consent given by DTC as registered owner.

Prior to the discontinuation of the book-entry only system as described herein, the Authority and the Trustee may treat DTC and any successor securities depository to be the absolute owner of the Bonds for all purposes, including, without limitation:

- (i) the payment of principal of redemption price or interest on the Bonds;
- (ii) giving notices of redemption and other matters with respect to the Bonds;
- (iii) registering transfers with respect to the Bonds; and
- (iv) the selection of Bonds for redemption.

The Beneficial Owners of the Bonds have no right to a securities depository for the Bonds. DTC or any successor securities depository may resign as depository for the Bonds by giving notice to the Trustee and discharging its responsibilities under applicable law. In addition, the Authority, or the Authority at the request of the Technical School, may remove DTC or a successor securities depository for any reason at any time. In such event, the Authority shall (i) appoint a securities depository qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, notify the prior securities depository of the appointment of such successor depository and transfer separate bond certificates to such successor securities depository or (ii) notify the securities depository of the availability through the securities depository of bond certificates and transfer one or more separate bond certificates to Depository Participants having Bonds credited to their accounts at the securities depository. In such event, such Bonds shall no longer be restricted to being registered in the registration books of the Authority in the name of the securities depository or its nominee, but may be registered in the name of the successor securities depository or its nominee, or in whatever name or names the Depository Participants receiving such Bonds shall designate, in accordance with the provisions of the Indenture.

#### **Discontinuance of Book-Entry Only System**

The book-entry only system for registration of the ownership of the Bonds may be discontinued at any time if: (i) DTC determines to resign as securities depository for the Bonds; or (ii) the Authority determines that continuation of the system of book-entry transfers through DTC (or through a successor securities depository) is not in the best interests of the Beneficial Owners. In either such event (unless the Authority appoints a successor securities depository), Bonds will then be delivered in registered certificate form to such persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the Authority, or the Trustee for the accuracy of such designation. Whenever DTC requests the Authority or the Trustee to do so, the Authority or the Trustee shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

THE AUTHORITY, THE TECHNICAL SCHOOL AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (I) PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS, (II) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, OR (III) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

## REDEMPTION OF BONDS

### Mandatory Redemption

In the manner and upon the terms and conditions provided in the Resolution, the Bonds stated to mature on November 15, 2027, 2032, 2034, 2036, 2039, and 2043 are subject to annual mandatory sinking fund redemptions in direct order of maturity pursuant to operation of the Sinking Fund in the manner set forth in the Resolution at a redemption price equal to one-hundred percent (100%) of the principal amount thereof, together with accrued interest on November 15 of the following years in the following principals amounts:

***Bonds stated to mature November 15, 2027:***

2025	\$490,000
2026	510,000
2027	530,000*

\*Final Maturity

***Bonds stated to mature November 15, 2032:***

2031	\$625,000
2032	650,000*

\*Final Maturity

***Bonds stated to mature November 15, 2034:***

2033	\$675,000
2034	705,000*

\*Final Maturity

***Bonds stated to mature November 15, 2036:***

2035	\$735,000
2036	765,000*

\*Final Maturity

***Bonds stated to mature November 15, 2039:***

2037	\$795,000
2038	830,000
2039	865,000*

\*Final Maturity

***Bonds stated to mature November 15, 2043:***

2040	\$900,000
2041	940,000
2042	980,000
2043	1,025,000*

\*Final Maturity

### Optional Redemption

The Bonds stated to mature on or after November 15, 2022 shall be subject to redemption prior to maturity, at the option of the Authority, as a whole, on May 15, 2022 or on any date thereafter, or from time to time, in part, in any order of maturities, on May 15, 2022 or on any date thereafter, in any such case upon payment of a redemption price of 100% of the principal amount to be redeemed plus interest accrued thereon to the redemption date. In the event that less than all Bonds of any particular maturity are to be redeemed, the Bonds of such maturity to be redeemed shall be drawn by lot.

## **Notice of Redemption**

Notice of any redemption shall be given by depositing a copy of the redemption notice in first class mail not more than sixty (60) days and not less than thirty (30) days prior to the date fixed for redemption addressed to each of the registered owners of Bonds to be redeemed, in whole or in part, at the addresses shown on the registration books kept by the Trustee as of the day such Bonds are selected for redemption. Failure to give such notice of redemption, or any defect therein or in the mailing thereof shall not affect the validity of any proceeding for redemption of other Bonds so called for redemption as to which proper notice has been given.

On the date designated for redemption, notice having been provided as aforesaid, and money for payment of the principal, premium, if any, and accrued interest being held by the Trustee, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and such Bonds or portions thereof so called for redemption shall cease to be entitled to any benefit or security under the Supplemental Indenture, and registered owners of such Bonds or portions thereof so called for redemption shall have no rights with respect thereto, except to receive payment of the principal to be redeemed and accrued interest thereon to the date fixed for redemption, together with the redemption premium, if any.

If the redemption date for any Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the Commonwealth are authorized by law or executive order to close, then the date for payment of the principal, premium, if any, and interest upon such redemption shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the nominal date of redemption.

## **Manner of Redemption**

If a Bond is of a denomination larger than \$5,000, a portion of such Bond may be redeemed. For the purposes of redemption, a Bond shall be treated as representing that number of Bonds that is equal to the principal amount thereof divided by \$5,000, each \$5,000 portion of such Bond being subject to redemption. In the case of partial redemption of a Bond, payment of the redemption price shall be made only upon surrender of such Bond in exchange for Bonds of authorized denominations in aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

## **SUMMARIES OF CERTAIN PROVISIONS OF THE LEASE, SECOND SUPPLEMENTAL SUBLEASE AND THE INDENTURE**

The following pages contain descriptions of certain provisions of the Lease, the Second Supplemental Sublease and the Indenture. The Bonds are secured by the Indenture and are payable from payments due under the Second Supplemental Sublease. *These descriptions are brief summaries and do not purport to be and should not be regarded as complete statements of the terms of either the Lease, the Second Supplemental Sublease or the Indenture or as complete synopses thereof. Reference is made to the documents in their entirety, copies of which may be obtained from the Trustee, for a complete statement of the terms and conditions therein.*

### **Lease**

The Lease Agreement provides for the leasing of the "Leased Property" by the Participating School Districts, as owners and lessors, and the Technical School as co-lessor, to the Authority as lessee. The Leased Property will be subleased to the Technical School pursuant to the Second Supplemental Sublease described below. The original term of the Lease commenced on April 1, 2005, and subject to the Technical School's option to discharge its obligation under the Second Supplemental Sublease by prepaying its obligations thereunder, ends 15 calendar days after the earlier to occur of the final maturity date of the Bonds or such time as the Indenture has been satisfied and discharged. As rental under the Second Supplemental Sublease the Authority will deposit with the Trustee the net proceeds of the issuance sale of the Bonds for application to the cost of the Capital Improvement Project as provided in the Indenture. Under the terms of the Lease, the Authority has no responsibilities with respect to the maintenance, repair or operation of the Leased Property. All such obligations, including the duties to insure the Leased Property and pay all expenses related thereto, are assumed by the Technical School and the Participating School Districts under the terms of the Lease and Second Supplemental Sublease.

### **Second Supplemental Sublease**

In connection with the issuance of the Bonds, the Technical School and the Participating School Districts will enter into the Second Supplemental Sublease with the Authority. The Second Supplemental Sublease will provide for rental payments by the Technical School to the Authority at the times and in amounts sufficient to pay the debt service requirements on the Bonds. The Technical School has the right, subject to the terms of the Bonds, to prepay Second Supplemental Sublease Rentals to redeem the Bonds pursuant to optional redemption provisions.

*Representations, Warranties and Covenants:* The Obligated School Districts make certain representations, warranties and covenants under the Second Supplemental Sublease, including without limitation, with respect to the existence and authority of the Obligated School Districts, the enforceability of the Second Supplemental Sublease and Bonds and the absence of material litigation.

*Source of Rental Payments:* The lease rentals are payable by the Technical School from its current revenues appropriated by the Obligated School Districts under the Articles of Agreement. The taxing power of the Obligated School Districts are pledged as security for the obligation of the Technical School to pay lease rentals under the resolutions of the Obligated School Districts.

*Assignment of Second Supplemental Sublease:* The lease rentals shall be paid by the Technical School directly to the Trustee under an assignment by the Authority to the Trustee of such payments for the benefit and security of the Bondholders under the Indenture.

*Unconditional Obligation of the Technical School:* The obligations of the Technical School to pay the lease rentals due under the Second Supplemental Sublease and all other sums payable under the Second Supplemental Sublease are absolute and unconditional. The lease rentals are required to be made in full directly to the Trustee, as assignee, when due without delay or diminution for any cause whatsoever, including without limitation thereto, destruction of any School Facilities, and without right of set-off for default on the part of the Authority under the Second Supplemental Sublease.

*Maintenance and Repair:* The Technical School covenants under the terms of the Second Supplemental Sublease to pay the costs to operate, to maintain and repair the Technical School facilities from time to time as may be necessary. It is understood that this provision applies to all repairs, major as well as minor, without exception.

*Insurance:* The Technical School also covenants in the Second Supplemental Sublease to maintain adequate insurance on the Technical School facilities in the name of the Technical School, the Authority and the Trustee as their interest may appear, with any loss payable to the Trustee. The total amount recovered from time to time in connection with any fire or other casualty covered by insurance shall, at the option of the Technical School, be made available by the Trustee to the Technical School for the purpose of rebuilding, repairing or replacing such destroyed or partially destroyed Technical School facilities or to be retained by the Trustee and credited to the Bond Redemption Fund provided for in the Indenture. The Technical School agrees to remain in possession of its Technical School facilities during the period of reconstruction or repair and to continue to pay its lease rentals irrespective of the damage.

*Compliance with Code:* The Technical School covenants to comply with all applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code") in order to protect the tax-exempt status of the Bonds.

*Defaults and Remedies:* Under the Second Supplemental Sublease, the failure of the Technical School to make any payments required of it as lease rentals or otherwise, or the failure to comply with covenants after written notice, or the occurrence of a default under the Indenture on payment of the Bonds by acceleration, or the failure to carry out the Capital Improvement Project to be financed in part by the proceeds of the Bonds, shall constitute events of default. In the event of any such default, and after due notice as required, the Authority, and/or the Trustee as its assignee, may, in addition to any other remedies (i) declare all sums payable under the Second Supplemental Sublease to be immediately due; or (ii) by legal action enforce all rights of Authority under the Second Supplemental Sublease; and (iii) in the event of a default in payment, notify the Department of Education of the Commonwealth of Pennsylvania to commence proceedings for the withholding of any appropriations due the Obligated School Districts under the Public School Code, as appropriate.

## **THE INDENTURE**

*Limited Obligations of the Bonds:* The Bonds are limited obligations of the Authority and are secured by a pledge and assignment to the Trustee of payments and other revenues or income derived by or for the Authority from or with respect to the Second Supplemental Sublease and all moneys to be paid over to the Trustee under the provisions of the Indenture. The Authority has no taxing power. Neither the general credit of the Authority nor the credit or taxing power of the United States of America, the Commonwealth of Pennsylvania or any of its other school districts (other than the Obligated School Districts under the Second Supplemental Sublease and the resolutions of the Obligated School Districts) or any political subdivision thereof is pledged for the payment of the principal of, or the interest on the Bonds; nor shall the Bonds be deemed to be obligations of the Authority, the Commonwealth of Pennsylvania, its other school districts or any other political subdivision thereof. The Obligated School Districts are empowered to levy ad valorem taxes, and the Obligated School Districts irrevocably have pledged their full faith, credit and taxing power with respect to the lease rentals under the Second Supplemental Sublease and the resolutions adopted by the Obligated School Districts, which taxing power includes the power to levy ad valorem taxes on all taxable property within the Obligated School Districts within the limits provided by law (see "TAXING POWERS OF THE SCHOOL DISTRICT" in Appendix A and "TAXING POWERS AND LIMITS" in Appendix B).

*Pledge and Assignment of Certain Revenues:* The Authority has pledged to the Trustee, in the Indenture its right, title and interest in all Second Supplemental Sublease Rentals and other sums payable under the Second Supplemental Sublease, except for "Reserved Rights" as described below, for the benefit and security of the registered owners of the Bonds issued under such Second Supplemental Indenture.



*Project Fund:* The proceeds of the issuance of the sale of the Bonds are required to be deposited in the Project Fund, from which monies shall be disbursed at the requisition of the Authority and the Technical School for payment of the costs and expenses of the Capital Improvement Project in accordance with the terms of the Indenture. Upon completion of the Capital Improvement Project, the balance in the Project Fund shall be transferred to the Revenue Fund and used to pay or redeem Bonds.

*Revenue Fund: Debt Service Fund and Sinking Fund:* All lease rentals with respect to the Bonds are required to be deposited to the Revenue Fund established with the Trustee at least 30 days prior to the due date of debt service payments beginning November 15, 2014. Moneys in the Revenue Fund are required to be transferred by the Trustee to the Debt Service and Sinking Fund established under the Indenture and applied to pay the debt service on the Bonds when due.

*Rebate Fund:* The Trustee shall establish a Rebate Fund. The Authority will periodically, and upon retirement of the last Bond, determine the sum required to be deposited in the Rebate Fund (if any) and direct the Trustee to transfer such sum from the other funds and accounts established under the Indenture. The Authority will direct the Trustee to pay to the United States Government the sums on deposit in the Rebate Fund at the times and in the amounts (if any) required by the Internal Revenue Code of 1986, as amended, and all extant regulations promulgated hereunder.

*Investment of Funds:* Moneys held in the Revenue Fund, the Debt Service Fund and Sinking Fund and the Project Fund, may, and upon instructions of the Authority, shall be wholly or partially deposited and redeposited in interest bearing accounts or time certificates of deposit with the commercial department of the Trustee or any other authorized depository, which deposits to the extent not insured, shall be secured as provided by the Indenture; or invested or reinvested by the Trustee upon instructions of the Authority solely in obligations which meet the requirements set forth in the Second Supplemental Indenture, subject to the limitations provided therein.

*Additional Bonds:* The Indenture permits under certain circumstances and conditions, the issuance of additional bonds for the purposes of refunding any series of outstanding bonds of the Authority issued on behalf of the Technical School or any obligation of the Technical School issued for a purpose for which the Authority is authorized to issue bonds under the Act and financing projects (as defined in the Indenture).

*Default and Remedies:* The act, which governs the Authority, provides remedies to the Bondholders in the event of default or failure on the part of the Authority to fulfill its covenants under the Indenture.

Under the Second Supplemental Indenture, in the event of any default therein, the Trustee may enforce and upon written request of the holders of 25% in principal amount of the Bonds then outstanding accompanied by indemnity as provided in the Indenture shall enforce, for the benefit of all Bondholders all their rights of entry, of bringing suit, action or proceeding at law or in equity and of having a receiver appointed. Neither the Trustee nor any receiver, however, may sell, assign, mortgage, or otherwise dispose of any assets of the Authority. For more complete statement of rights and remedies of the Bondholders and for limitations thereon, reference is made to the Second Supplemental Indenture.

Neither the Trustee nor any receiver, however, may sell, assign, mortgage, or otherwise dispose of any assets of the Authority other than its right to receive lease rentals. For a more complete statement of rights and remedies of the Bondholders and of the limitations thereon, reference is made to the Indenture.

*Modifications and Amendments:* Amendments to the Indenture are permitted without consent of Bondholders for certain purposes, including the imposition of additional restrictions and conditions respecting the issuance of bonds, the addition of covenants and agreements by the Authority, the modification of the Indenture to conform the same with governmental regulations (so long as the rights of the Bondholders issued thereunder are not adversely affected thereby), the curing of any ambiguity, defect or inconsistency in the Indenture, and the making of provision for matters which are necessary or desirable and which do not adversely affect the interests of Bondholders. Certain other modifications may be made to the Indenture, but only with the consent of the Issuer and the owners of not less than 66 2/3% in principal amount of Outstanding Bonds (as defined in the Indenture) issued thereunder.

*Insurance Provisions:* Certain rights are granted under the Indenture to the bond insurer. These rights include, among others, the approval of amendments, consents in addition to bondholder consents, control and direction of remedies, receipt and copies of notices, and third-party beneficiary status.

*Reserved Rights:* Under the terms of the Indenture, the Authority has reserved the right to receive payment of any fees, costs and expenses from the Technical School and its right to indemnification by the Technical School. Such rights are not assigned to the Trustee.

*Defeasance:* Whenever all Bonds outstanding under the Indenture and all other sums due thereunder have been paid, or provision shall have been made for payment, then the rights, title and interest of the Trustee under the Indenture shall cease and the Trustee shall release and discharge the lien of the Indenture. Provision for payment of the Bonds may be made by depositing with the Trustee any combination of direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America.

## SOURCES OF PAYMENT FOR THE BONDS

### Second Supplemental Sublease Payments

The Bonds are limited obligations of the Authority, payable solely from (a) Second Supplemental Sublease rentals payments to the Authority from the Technical School (the "Second Supplemental Sublease Rentals"), (b) moneys derived from the investment of such Second Supplemental Sublease Rentals; and (c) other receipts, revenues and moneys otherwise available to the Authority under the Indenture. **Neither the Authority nor the Technical School has any taxing power.**

The Second Supplemental Sublease Rentals payable under the Second Supplemental Sublease will be assigned to the Trustee. The Second Supplemental Sublease Rentals are payable by the Technical School from its current revenues appropriated by the Obligated School Districts. Under the Articles of Agreement, among the Participating School Districts, the Participating School Districts are obligated to pay allocable shares of any rentals payable by the Technical School for the use or construction of buildings, for the purchase of equipment, the purchase and improvement of real estate and all other expenses related thereto, including the Second Supplemental Sublease Rentals, however, Palisades School District will make a cash contribution for their pro rata share of the project and therefore will not be obligated for future debt service payments for the Bonds. Under a covenant guaranty contained within the resolutions of Pennridge School District dated February 12, 2014 and Quakertown Community School District dated February 27, 2014, each of those Obligated School Districts has covenanted to and with the holders and/or registered owners of the Bonds from time to time "Outstanding" under the Indenture, that it (i) shall include its proportionate share of the debt service on the Bonds payable in respect of the guaranty, for each fiscal year in which such sums shall be payable in its budget for that year, (ii) shall appropriate such amounts from its taxes and general revenues for payment to the Trustee of its obligations under the covenant of guaranty, and (iii) shall duly and punctually pay or cause to be paid from its sinking fund created for the purpose or any other of its revenues or funds the amounts payable in respect of such guaranty, at the dates and in the manner provided for under the covenant of guaranty. For such budgeting, appropriation and payment, each of the Obligated School Districts has pledged, irrevocably, its full faith, credit and taxing power. The Pennsylvania Local Government Unit Debt Act provides that such a covenant shall be specifically enforceable. The covenant of guaranty shall remain in full force and effect until the principal of and interest on the Bonds has been paid or provisions therefore made the satisfaction of the Trustee.

See "DESCRIPTION AND ORGANIZATION OF THE UPPER BUCKS COUNTY TECHNICAL SCHOOL– Articles of Agreement" for information on the financial obligations of the Participating School Districts under the Articles of Agreement.

**THE BONDS DO NOT PLEDGE THE GENERAL CREDIT OF THE Authority OR THE CREDIT OR TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA. THE AUTHORITY AND THE TECHNICAL SCHOOL HAVE NO TAXING POWER.**

### Commonwealth Enforcement of Lease Rentals and Debt Service Payments

Section 785 of the School Code, as amended by Act No. 154, approved December 21, 1998, provides that if any school district fails to pay rental payment due any State Public School Building Authority in accordance with the terms of any lease entered into under the provisions of Section 785, the Secretary of Education shall withhold any state appropriations due such school district and pay over the amount so withheld to the Authority in payment of the rental.

The withholding provisions of Section 785 described above are no part of any contract with the registered owners of the Bonds and may be amended or repealed by future legislation. The effectiveness of Section 785 may be limited by the application of other withholding provisions contained in the School Code, such as provisions for withholding and paying over the appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles effecting the enforcement of creditors' rights generally. Nor can there be any assurance that any payments pursuant to such withholding provision will be made the date on which such payments are due to the bondholders.

## DESCRIPTION AND ORGANIZATION OF THE UPPER BUCKS COUNTY TECHNICAL SCHOOL

The purpose of the Technical School is to provide vocational or technical training and education for secondary school pupils, out-of-school youth, and adults within the Participating School Districts.

Under Articles of Agreement, dated August 7, 1962, (the "Articles of Agreement") which comply with Act No. 579 of the General Assembly of the Commonwealth of Pennsylvania approved June 21, 1965, the Participating School Districts established and provided for the method of operation of the Technical School and for the allocation of payments between the Participating School Districts represented by the debt service on certain bonds as lease rental payments and the Guaranty thereof.

The Boards of School Directors of all of the Participating School Districts (the "School Boards"), collectively, pursuant to the Articles of Agreement established the Technical School to be operated, managed and the affairs to be supervised and directed by the School Boards acting jointly as the Upper Bucks County Technical School Joint Board.

The Upper Bucks County Technical School Joint Committee (the “Joint Committee”) consists of nine (9) members that shall be composed of three members from each of the three Participating School Districts, to be elected by the Participating School Districts’ Boards of School Directors, at their annual December meeting. The terms of each of the members of the Joint Committee shall be staggered so that one member shall be elected each December, each serving a three year term. Officers of the Joint Committee are appointed by the members. The members of the Joint Committee, their offices, the Participating School Districts they represent, and the expiration of their terms are set forth below:

<u>Name</u>	<u>Appointing Participating School District</u>	<u>Term Expiration</u>
Dwight Anderson, Chairperson	Quakertown Community School District	2016
James Hallowell, Vice-Chairperson	Palisades School District	2014
Suzette Schmidt, Treasurer	Pennridge School District	2016
Bernadette Decker	Palisades School District	2015
Judy Lovekin	Palisades School District	2016
Ada Miller	Pennridge School District	2014
Stephen Ripper	Quakertown Community School District	2015
Charles Shermer	Quakertown Community School District	2014
Dr. Peter A. Yarnell	Pennridge School District	2015

### **Articles of Agreement**

Certain provisions of the Articles of Agreement and relevant bond documents include:

*Annual Operating Budget:* The Technical School shall be within the limits of the annual operating budget adopted by the Upper Bucks County Technical School Joint Board and the School Boards. On or before July 1<sup>st</sup> of each year, a copy of the adopted budget for the ensuing fiscal year shall be submitted to the Department for its approval.

*Joint Committee:* This Committee shall be composed of three members from each of the School Boards, to be elected by the individual School Boards, at their annual December meeting and to serve for terms of three years each. The terms of each of the members from a Participating School District shall be staggered so that one member shall be elected each December.

*Special Committees:* The Committee may be appointed by the Joint Committee. However, when such a committee makes a final report, it shall be discharged. A Special Committee shall not have any supervisory authority and shall report on to the Joint Committee. Standing Committees shall be created only by the action of the Joint Committee and their composition shall be similarly determined by the Joint Committee.

*Lease Debt:* All lease debt payable shall be borne by the Obligated School Districts, payable from their current revenues, in the proportion which the market value of taxable real property in each Obligated School Districts bears to the total market valuation of the taxable real property in all of the Obligated School Districts. The market valuation shall be those certified by the State Tax Equalization Board (“STEB”) during the preceding school year. Palisades School District will make a cash contribution for their pro rata share of the project and therefore will not be obligated for lease debt payments associated with the Bonds.

*Prorating of Operating and Capital Expenses:* The current General Fund operating expenditures of the Technical School shall be borne by the Participating School Districts in proportionate shares according to the average of the last five year average daily membership (“ADM”) of the pupils in the Technical School from each Participating School District, computed at the end of the school year. In addition, major capital expenditures, which are categorized in Function code 4000 of the accounting records, shall be borne by the Participating School Districts in proportionate share according to the most current STEB market value.

*Payment of Operating and Capital Expenses by the Participating School Districts:* Beginning July 1, 1999, each Participating School District shall make payment of their share of operating and capital expenses once every month by the 15<sup>th</sup> day of the month. The amount shall be based on the Participating School District’s share of the operating and capital budget for that fiscal year divided by 12 months. Prior to the start of the fiscal year, the Technical School shall forward to each district a schedule of payments and due dates. Upon completion of the Annual Local Auditor’s Report and calculation of the actual ADM for the last fiscal year, each Participating School District’s actual share of the operating and capital expenditures shall be determined. This amount shall be reconciled to the payments made. In July of the subsequent fiscal year refunds of overpayment or payment for shortfalls will be made to or by each Participating School District, with consideration of the amount of fund balance the Technical School must maintain.

The following 20 State-approved programs\* (in-house) and related educational services exist at the Technical School:

Animal Technology	Dental Health Careers
Auto Collision Technology	Diesel Equipment Technology
Automotive Technology	Electrical Technology
Baking & Pastry Arts	Graphic Communications
Cabinetmaking	Health Care Careers
Career Internship Program	Landscape Construction & Plant Technology
Carpentry	Law Enforcement/Police Science
Construction Technology	Machining Technologies
Cosmetology	Plumbing Technology
Culinary Arts/Quantity Food Production, Management & Service	Welding & Fabrication Technology

\*An additional program, Small Engines, will begin in the 2014-15 fiscal year.

## **SCHOOL FINANCES**

### **Introduction**

The Technical School budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by the Director and Business Manager and submitted to the Upper Bucks Technical School Joint Board and the School Boards for approval prior to the beginning of the fiscal year on July 1.

### **Financial Reporting**

The Technical School's financial statements are audited annually by an independent certified public accountant, as required by State law.

Copies of the audited financial statements of the Technical School and the Obligated School Districts for the fiscal year ended June 30, 2013 are included in Appendix F.

## Summary and Discussion of Financial Results

Table 1 below shows the Technical School's Combined Balance Sheet, Table 2 on the following page shows Changes in Fund Balance and revenues and expenditures for recent years, and the Technical School's budget for the 2013-14 school year.

**TABLE 1  
UPPER BUCKS COUNTY TECHNICAL SCHOOL  
COMBINED BALANCE SHEET**

	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>
<b>ASSETS</b>					
Cash.....	\$2,406,524	\$2,619,278	\$3,207,471	\$3,430,305	\$3,739,058
Investments (At Cost).....	0	0	0	0	0
Taxes Receivable (Net) .....	0	0	0	0	0
Due From Other Funds .....	1,510	13	12,590	29,265	297,143
Due from Other Governments .....	56,530	75,854	102,316	106,568	151,064
Inventories.....	0	0	0	0	0
Prepaid Expenses.....	14,266	0	8,868	82,092	225
Other Receivables.....	0	49,643	22,760	20,102	22,714
Other/Other Current Assets .....	30,310	0	0	0	0
<b>TOTAL ASSETS.....</b>	<b><u>\$2,509,140</u></b>	<b><u>\$2,744,788</u></b>	<b><u>\$3,354,005</u></b>	<b><u>\$3,668,332</u></b>	<b><u>\$4,210,204</u></b>
<b>LIABILITIES</b>					
Due to other funds .....	\$18,479	\$5,742	\$8,926	\$0	\$0
Due to other governmentals.....	3,616	8,948	9,057	0	0
Accounts Payable .....	188,437	165,900	165,078	167,949	227,313
Current Portion of Long-Term Debt.....	30,458	49,818	40,773	0	0
Accrued Salaries & Benefits.....	315,327	296,020	332,900	336,545	358,014
Accrued Liability for Compensated Absences	0	0	0	15,189	25,616
Payroll Deducts & Withholdings.....	0	883	879	748	564
Deferred Revenues .....	700	864	3,715	1,700	1,700
Other.....	306	0	0	416	416
<b>TOTAL LIABILITIES .....</b>	<b><u>\$557,323</u></b>	<b><u>\$528,175</u></b>	<b><u>\$561,328</u></b>	<b><u>\$522,547</u></b>	<b><u>\$613,623</u></b>
<b>FUND EQUITIES</b>					
Non-spendable.....	\$0	\$0	\$8,868	\$82,092	\$225
Restricted.....	0	0	32,791	10,604	17,376
Assigned.....	0	0	300,000	400,000	600,000
Unassigned .....	0	0	2,451,018	2,653,089	2,978,980
Reserve for inventories.....	14,266	0	0	0	0
Standard Fund Balance Reserves.....	0	0	0	0	0
Unreserved – designated.....	100,000	200,000	0	0	0
Unreserved – undesignated.....	1,837,551	2,016,613	0	0	0
<b>TOTAL FUND EQUITY.....</b>	<b><u>\$1,951,817</u></b>	<b><u>\$2,216,613</u></b>	<b><u>\$2,792,677</u></b>	<b><u>\$3,145,785</u></b>	<b><u>\$3,596,581</u></b>
<b>TOTAL LIABILITIES &amp; FUND EQUITIES</b>	<b><u>\$2,509,140</u></b>	<b><u>\$2,744,788</u></b>	<b><u>\$3,354,005</u></b>	<b><u>\$3,668,332</u></b>	<b><u>\$4,210,204</u></b>

Source: Technical School Audits.

**TABLE 2**  
**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES\***  
**AND CHANGES IN FUND BALANCE\***  
**(Fiscal Years Ending June 30)**

	Actual					Budget
REVENUES	2009	2010	2011	2012	2013	2014 <sup>(1)</sup>
Local Revenue.....	\$6,244,306	\$6,522,133	\$6,807,077	\$6,653,041	\$6,646,280	\$6,983,623
State Sources.....	597,744	552,649	630,255	713,523	884,748	854,402
Federal Sources.....	119,474	119,000	109,425	101,267	132,185	115,000
Other Sources.....	0		0	41,686	4,592	576,500
TOTAL REVENUE.....	<u>\$6,961,524</u>	<u>\$7,193,782</u>	<u>\$7,546,757</u>	<u>\$7,509,517</u>	<u>\$7,667,805</u>	<u>\$8,529,525</u>
EXPENDITURES						
Instruction.....	\$4,071,193	\$4,107,080	\$4,157,365	\$4,252,478	\$4,340,145	\$4,934,448
Support Services.....	2,498,003	2,819,695	2,810,646	2,898,051	2,869,866	3,266,644
Noninstructional Services.....	2,810	2,811	2,832	1,256	3,000	3,733
Capital Outlay.....	3,011	0	0	4,624	3,672	15,000
Debt Service.....	0	0	0	0	0	309,700
Budgetary Reserve.....	0	0	0	0	0	0
TOTAL EXPENDITURES.....	<u>\$6,575,018</u>	<u>\$6,929,586</u>	<u>\$6,970,843</u>	<u>\$7,156,409</u>	<u>\$7,216,683</u>	<u>\$8,529,525</u>
REVENUES UNDER (OVER) EXPENDITURES	<u>\$386,506</u>	<u>\$264,196</u>	<u>\$575,914</u>	<u>\$353,108</u>	<u>\$451,122</u>	<u>\$0</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from Extended Term Financing.....	\$0	\$0	\$0	\$0	\$0	
Interfund Transfers In.....	0	0	0	0	0	
Sale/Compensation for Fixed Assets.....	0	600	150	0	0	
Payment to bond refunding escrow agent.....	0	0	0	0	0	
Refunds of Prior Year Receipts.....	-137	0	0	0	-326	
Operating Transfers Out.....	0	0	0	0	0	
TOTAL OTHER FINANCING SOURCES (USES)	<u>-137</u>	<u>600</u>	<u>150</u>	<u>0</u>	<u>-326</u>	
NET CHANGE IN FUND BALANCES.....	\$386,370	\$264,796	\$576,064	\$353,108	\$450,796	
FUND BALANCES – BEGINNING.....	1,565,447	1,951,817	2,216,613	2,792,677	3,145,785	
FUND BALANCES – ENDING.....	<u>\$1,951,817</u>	<u>\$2,216,613</u>	<u>\$2,792,677</u>	<u>\$3,145,785</u>	<u>\$3,596,581</u>	

\*Totals may not add due to rounding.

<sup>(1)</sup>Budget as adopted June 13, 2013.

Source: Technical School Audit Reports and Budget.

## **LABOR RELATIONS**

There are currently 48 full time employees, 21 part-time employees and 30 temporary employees (such as substitutes and adult education evening) of the Technical School, including 26 teachers, 9 administrators/supervisors, and 34 support personnel including secretaries, maintenance staff, instructional facilitators, and cafeteria employees. There are approximately 30 temporary/part time employees who staff the Adult Evening School programs and/or serve as substitute teachers.

The School's full time teachers are represented by the Upper Bucks County Area Vocational Technical School Education Association, an affiliate of the Pennsylvania State Educational Association ("PSEA-NEA"), under a contract which will expire June 30, 2014. The School's support staff is represented by a collective bargaining unit, under a contract which expires June 30, 2016.

### **Pension Program**

Technical schools in Pennsylvania are required to participate in a statewide pension program administered by the State Public School Employees Retirement System ("PSERS"). All of the Technical School's full-time employees and part-time employees who work more than 80 days in a school year, and hourly employees who work over 500 hours a year, participate in the program. However, please note a recent Pennsylvania Supreme Court decision has removed the hourly de minimis requirement for part-time employees regarding participation in the program.

The PSERS Board of Trustees has set the fiscal year 2013-14 employer retirement contribution rate at 16.93 percent of payroll. Both the Technical School and the Commonwealth are responsible for paying a portion of the employer's share. Employers are divided into two groups; school entities and non-school entities. School entities are responsible for paying 100 percent of the employer share of contributions to PSERS. The Commonwealth reimburses the employer for one-half the payment for employees. Recent Technical School payments have been as follows:

2008-09	\$174,974
2009-10	\$173,424
2010-11	\$200,318
2011-12	\$331,811
2012-13	\$441,536
2013-14 (budgeted)	\$710,163

The Technical School is current in all payments. The PSERS complete report is available on the PSERS website on the Internet: [www.psers.state.pa.us](http://www.psers.state.pa.us).

Source: PSERS – Financial Highlights.

### **Other Post-Employment Benefits (OPEB)**

At this time, the Technical School offers other post-employment benefits to its employees, but at full-cost to the employee.

## **INFORMATION REGARDING THE OBLIGATED SCHOOL DISTRICTS**

Reference is made to Appendix A and B for information concerning each of the Obligated School Districts.

## **LITIGATION**

At the time of settlement, the Technical School will deliver a certificate and the Technical School Solicitor will issue an opinion stating that there is no litigation pending with respect to the Bonds, the Indenture or the right of the Authority to issue the Bonds.

**TABLE 3**  
**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**DEBT SERVICE REQUIREMENTS\***

<u>Year</u>	<u>Other Outstanding Debt<sup>(1)</sup></u>	<u>Series 2014</u>			<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	<u>Subtotal</u>	
2013-14	\$309,700	\$0	\$0	\$0	\$309,700
2014-15	308,475	0	738,180	738,180	1,046,655
2015-16	307,100	350,000	693,993	1,043,993	1,351,093
2016-17	310,500	355,000	686,943	1,041,943	1,352,443
2017-18	313,600	370,000	677,843	1,047,843	1,361,443
2018-19	306,550	375,000	668,543	1,043,543	1,350,093
2019-20	309,044	390,000	658,943	1,048,943	1,357,986
2020-21	306,000	400,000	645,093	1,045,093	1,351,093
2021-22	312,300	420,000	628,693	1,048,693	1,360,993
2022-23	307,938	435,000	611,593	1,046,593	1,354,530
2023-24	308,138	450,000	593,893	1,043,893	1,352,030
2024-25	312,531	470,000	575,493	1,045,493	1,358,024
2025-26	306,000	490,000	556,293	1,046,293	1,352,293
2026-27		510,000	536,293	1,046,293	1,046,293
2027-28		530,000	515,493	1,045,493	1,045,493
2028-29		555,000	493,793	1,048,793	1,048,793
2029-30		575,000	471,193	1,046,193	1,046,193
2030-31		600,000	447,693	1,047,693	1,047,693
2031-32		625,000	423,193	1,048,193	1,048,193
2032-33		650,000	397,693	1,047,693	1,047,693
2033-34		675,000	371,193	1,046,193	1,046,193
2034-35		705,000	343,593	1,048,593	1,048,593
2035-36		735,000	314,425	1,049,425	1,049,425
2036-37		765,000	283,675	1,048,675	1,048,675
2037-38		795,000	251,298	1,046,298	1,046,298
2038-39		830,000	217,173	1,047,173	1,047,173
2039-40		865,000	181,578	1,046,578	1,046,578
2040-41		900,000	144,288	1,044,288	1,044,288
2041-42		940,000	105,188	1,045,188	1,045,188
2042-43		980,000	64,388	1,044,388	1,044,388
2043-44		1,025,000	21,781	1,046,781	1,046,781
<b>Total</b>	<u>\$4,017,875</u>	<u>\$17,765,000</u>	<u>\$13,319,421</u>	<u>31,084,421</u>	<u>35,102,296</u>

<sup>(1)</sup> Debt service in relation to the State Public School Building Authority, Commonwealth of Pennsylvania, (Upper Bucks County Area Vocational Technical School Project), Bucks County, Pennsylvania, School Lease Revenue Bonds, Series of 2010, outstanding in the amount of \$3,025,000 as of March 20, 2014.

\*Totals may not add due to rounding.

#### **Future Financing**

The Technical School does not anticipate issuance of additional (non-refunding) long-term debt in the next 3 years.



## **TAX EXEMPTION AND OTHER TAX MATTERS**

### **Opinion of Bond Counsel**

The information which follows is a summary of Bond Counsel's opinion. This summary does not purport and should not be construed to be a complete recitation of Bond Counsel's opinion. The full text draft of Bond Counsel's opinion is appended hereto in Appendix "D" and reference is made hereto. On the date of delivery of the Bonds, King, Spry, Herman, Freund & Faul, LLC, as Bond Counsel, will issue an opinion to the effect that under existing statutes, regulations and judicial decisions, interest on the Bonds is excluded from gross income for purposes of Federal income taxation and is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations, but that in the case of corporations (as defined for Federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. This opinion of Bond Counsel will assume the accuracy of certifications made by the Technical School and will be subject to the condition that the Technical School will comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excluded from gross income for Federal income tax purposes. The Technical School has covenanted to comply with all such requirements. Failure to comply with such requirements could cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. In the opinion of Bond Counsel, under the law of the Commonwealth of Pennsylvania, the Bonds, their transfer and income therefrom shall at all times be free from taxation for state and local purposes within the Commonwealth of Pennsylvania but such exemption does not extend to gift, succession, or inheritance taxes, taxes on gain on the same or transfer thereof, or other taxes not levied or assessed directly on the Bonds or the transfer thereof. All other discussions concerning the Code or tax consequences discussed within this Official Statement are not statements or comments of Bond Counsel and are not matters to which Bond Counsel will opine.

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

### **Federal Income Tax Matters**

Certain maturities of the Bonds may be sold to the public in the initial offering at a price less than the stated redemption price of such Bonds at maturity (that is, at less than par or the stated principal amount), the difference being "original issue discount". Generally, original issue discount accruing on a tax-exempt obligation is treated as interest excludable from gross income for federal income tax purposes. In addition, original issue discount that has accrued on a tax-exempt obligation is treated as an adjustment to the issue price of the obligation for the purpose of determining taxable gain upon sale or other disposition of such obligation prior to maturity. The Internal Revenue Code of 1986, as amended, provides specific rules for the accrual of original issue discount on tax-exempt obligations for federal income tax purposes. Prospective purchasers of Bonds being sold with original issue discount should consult their tax advisors for further information.

No representation is made or can be made by the Technical School or any other party associated with the issuance of the Bonds as to whether or not any legislation now or hereafter introduced and enacted will be applied retroactively so as to subject interest on the Bonds to inclusion in gross income for Federal income tax purposes or so as to otherwise affect the marketability or market value of the Bonds. Enactment of any legislation that subjects the interest on the Bonds to inclusion in gross income for federal income tax purposes or otherwise imposes taxation on the Bonds or the interest paid thereon may have an adverse effect on the market value or marketability of the Bonds.

### **Federal Income Tax Interest Expense Deductions for Financial Institutions**

Under the Code, financial institutions are disallowed 100 percent of their interest expense deductions that are allocable, by a formula, to tax-exempt obligations acquired after August 7, 1986. An exception, which reduces the amount of the disallowance, is provided for certain tax-exempt obligations that are designated or "deemed designated" by the issuer as "qualified tax-exempt obligations" under Section 265 of the Code.

**The Bonds have not been designated, nor are “deemed designated”, as a “qualified tax-exempt obligation” for purposes and effect contemplated by Section 265 of the Code (relating to expenses and interest relating to tax-exempt income of certain financial institutions.)**

Financial institutions intending to purchase Bonds should consult with their professional tax advisors to determine the effect of the interest expense disallowance on their federal income tax liability.

### **Other Federal Income Tax Consequences**

Ownership of the Bonds may result in other collateral Federal income tax consequences to certain taxpayers, including, but not limited to, financial institutions, property and casualty insurance companies, certain subchapter S corporations with substantial passive income and subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. No opinion or representation concerning these matters is being given or made by the Technical School, Bond Counsel or any other party associated with the issuance, offering or sale of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors concerning these matters.

### **Pennsylvania Tax Matters**

The Pennsylvania Department of Revenue has issued final regulations which provide that unstated or imputed interest, such as original issue discount on the Bonds, will be computed in the same manner as such unstated interest is required to be computed for federal income tax purposes. The final regulations further provide that the basis of a Pennsylvania state or local obligation in the hands of the holder will be adjusted upward by the amount of unstated or imputed interest that would have been includible in income but for its statutory exemption and shall be adjusted downward, but not below zero, by the amount of payments under the obligation, other than payment of stated interest. Prospective purchasers of the Bonds should consult with their tax advisors regarding the treatment of original issue discount with respect of the Bonds and the reporting of profits, gains or other income related to the sale, exchange or other disposition of the Bonds for Pennsylvania tax purposes.

Prospective purchasers of the Bonds issued with original issue discount should consult their tax advisors for further information and advice concerning the reporting of profits, gains or other income related to a sale, exchange or other disposition of such Bonds for Pennsylvania tax purposes, including information with respect to any revision of the referenced Statement of Policy and Proposed Regulations or the adoption of final regulations by the Department of Revenue subsequent to the preparation of this Official Statement.

### **CONTINUING DISCLOSURE UNDERTAKING**

The Technical School and each of the Obligated School Districts, or the Technical School on their behalf, covenants to provide, pursuant to Rule 15c2-12(b) (the “Rule”) promulgated by the Securities and Exchange Commission, for the benefit of the holders of the Bonds certain financial and operating data on an annual basis in accordance herewith. Under the terms of the Rule, the Technical School and each of the Obligated School Districts (being an “obligated person” within the meaning of the Rule) agree:

(A) Annually, not later than 180 days following the end of each fiscal year, beginning with the fiscal year ending June 30, 2014, the following financial information and operating information for the Obligated School Districts:

- the financial statements for the most recent fiscal year, prepared in accordance with generally accepted accounting principles for local government units and audited in accordance with generally accepted auditing standards
- a summary of the budget for the current fiscal year
- the assessed value and market value of all taxable real estate for the current fiscal year
- the taxes and millage rates imposed for the current fiscal year
- the real property tax collection results for the most recent fiscal year, including (1) the real estate levy imposed (expressed both as a millage rate and an aggregate dollar amount), (2) the dollar amount of real estate taxes collected that represented current collections (expressed both as a percentage of such fiscal year’s levy and as an aggregate dollar amount), (3) the amount of real estate taxes collected that represented taxes levied in prior years (expressed as an aggregate dollar amount), and (4) the total amount of real estate taxes collected (expressed both as a percentage of the current year’s levy and as an aggregate dollar amount)
- a list of the ten (10) largest real estate taxpayers and, for each, the total assessed value of real estate for the current fiscal year

- pupil enrollment figures, including enrollment at the end of the most recent fiscal year, current enrollment and projected enrollment for the beginning of the next fiscal year, including a breakdown between elementary and secondary enrollment and enrollment at the Technology Center (to the extent reasonably feasible);
- (B) Annually, not later than 180 days following the end of each fiscal year, beginning with the fiscal year ending June 30, 2014, the following financial information and operating information for the Technical School:
- the financial statements for the most recent fiscal year, prepared in accordance with generally accepted accounting principles for local government units and audited in accordance with generally accepted auditing standards
  - a summary of the budget for the current fiscal year
- (C) If not submitted as part of the annual financial information, then when and if available, audited financial statements for the Technical School and each Obligated School District;
- (D) In a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Technical School or Obligated School Districts; (13) the consummation of a merger, consolidation, or acquisition involving the Technical School or Obligated School Districts or the sale of all or substantially all of the assets of Technical School or Obligated School Districts, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; and
- (E) in a timely manner, notice of a failure of any of the Obligated School Districts or the Technical School to provide the required annual financial information specified above, on or before the date specified above.

With respect to the filing of annual financial and operating information, the Technical School and each Obligated School District reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information to the extent necessary or appropriate as a result of a change in legal requirements or a change in the nature of the Technical School or each Obligated School District or its operations or financial reporting, but the Technical School and each Obligated School District will agree that any such modification will be done in a manner consistent with the Rule.

The events listed in (D) above are those specified in the Rule, not all of which may be relevant to the Bonds. The Technical School and each Obligated School District may from time to time choose to file notice of the occurrence of other events, in addition to the events listed in (D) above, but the Technical School and each Obligated School District do not commit to provide notice of the occurrence of any events except those specifically listed in (D) above.

The Technical School and each Obligated School District acknowledge that its own undertaking pursuant to the Rule described herein is intended to be for the benefit of the holders and beneficial owners of the Bonds and shall be enforceable by the holders and beneficial owners of the Bonds, but the right of the holders and beneficial owners of the Bonds to enforce the provisions of the Technical School and each Obligated School District's continuing disclosure undertaking shall be limited to a right to obtain specific enforcement, and any failure by any of the Technical School and each Obligated School District to comply with the provisions of the undertaking shall not be an event of default with respect to the Bonds.

The Technical School and each Obligated School District's obligations with respect to continuing disclosure described herein shall terminate upon the prior redemption or payment in full of all of the Bonds or if and when the Technical School and each Obligated School District is no longer an "obligated person" with respect to the Bonds, within the meaning of the Rule.

The MSRB has been designated by the SEC to be the central and sole repository for continuing disclosure information filed by issuers of municipal securities since July 1, 2009. Information and notices filed by municipal issuers (and other "obligated persons" with respect to municipal securities issues) are made available through the MSRB's Electronic Municipal Market Access (EMMA) System, which may be accessed on the internet at <http://www.emma.msrb.org>.

During the past five (5) years, the Technical School has been in compliance with respect to all prior written undertakings under the Rule to provide continuing disclosure with respect to its outstanding securities, with the following exception(s): The Technical School failed to file in a timely manner the required annual financial and operating information for fiscal year ending June 30, 2009; however, the Technical School submitted such information to the MSRB for June 30, 2009 on February 3, 2010 and the same is now available through the MSRB's EMMA System. The Technical School implemented procedures to ensure that all future filings required by its continuing disclosure undertakings will be made in a timely manner. The Technical School submitted the required annual financial and operating information for fiscal year ending June 30, 2010 through June 30, 2013 in a timely manner. In addition, the Technical School failed to file a copy of its budget (or a summary of its budget) for the then current fiscal year in years ending June 30, 2009 through June 30, 2013, and such budgets, or summaries thereof, for years ending June 30, 2013 and June 30, 2014 are now available through the MSRB's EMMA System.

For each of the Obligated School District's continuing disclosure undertakings with respect to its own outstanding indebtedness during the past 5 years please refer to the appropriate Appendix.

## **RATING**

Standard & Poor's Ratings Group has assigned an underlying rating of "A+" to the Bonds. Standard & Poor's Ratings Group is expected to assign its municipal bond rating of "AA" (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy with respect to the Bonds will be issued by BAM. Such ratings reflect only the view of such organization and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following address: 55 Water Street, New York, New York 10041-0003. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## **UNDERWRITING**

Robert W. Baird & Co., Inc. (the "Underwriter") has agreed to purchase the Bonds from the Authority, subject to certain conditions precedent, and will purchase the Bonds if any of such Bonds are purchased. The Bonds will be purchased for a purchase price of \$17,858,603.00, equal to the par amount of the Bonds less an underwriter's discount of \$89,713.25 plus a net original issue premium of \$183,316.25, plus accrued interest, if any from the dated date of the Bonds to the date of delivery of the Bonds.

## **LEGAL OPINION**

The Bonds are offered when, as and if issued, subject to withdrawal or modification of the offer without notice, and subject to the approving legal opinion of King, Spry, Herman, Freund & Faul, LLC, Bethlehem, Pennsylvania, Bond Counsel, to be furnished upon delivery of the Bonds. Certain other legal matters will be passed upon for the Authority by its Counsel, Hartman Underhill & Brubaker, Lancaster, Pennsylvania. Certain other legal matters will be passed upon for the by Sweet, Stevens, Katz & Williams, LLP, of New Britain, Pennsylvania, Solicitor to the Upper Bucks County Technical School.

## **FINANCIAL ADVISOR**

The Authority has retained Public Financial Management, Inc. of Harrisburg, Pennsylvania, as financial advisor (the "Financial Advisor") in connection with the preparation, authorization and issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## **MISCELLANEOUS**

This Official Statement has been prepared under the direction of the Authority and the Technical School by Public Financial Management, Inc., Harrisburg, Pennsylvania, in its capacity as Financial Advisor to the Authority and the Technical School. The information set forth in this Official Statement has been obtained from the Authority, the Technical School, the Obligated School Districts and from other sources believed to be reliable. Insofar as any statement herein includes matters of opinion or estimates about future conditions, it is not intended as representation of fact, and there is no guarantee that it is, or will be, realized. Summaries or descriptions of provisions of the Bonds, the Resolution, and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof. Reference is hereby made to the complete documents, copies of which will be furnished by the Authority or the Financial Advisor upon request. The information assembled in this Official Statement is not to be construed as a contract with holders of the Bonds.

The Authority has authorized the distribution of this Official Statement.

The Authority has no responsibility for the Technical School's compliance with the Continuing Disclosure Agreement or for the contents of, or any omissions from, the financial information, operating data or notices provided thereunder.

The Authority has not assisted in the preparation of this Official Statement, except for the statements under the section captioned "THE AUTHORITY" herein and, except for that section, the Authority is not responsible for any statements made in this Official Statement. Except for the authorization, execution and delivery of documents required to effect the issuance of the Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the Bonds. Accordingly, except as aforesaid, the Authority assumes no responsibility for the disclosures set forth in this Official Statement.

### **STATE PUBLIC SCHOOL BUILDING AUTHORITY**

By: /s/ Robert Baccon  
Executive Director

Approved:

### **UPPER BUCKS COUNTY TECHNICAL SCHOOL**

By: /s/ Dwight Anderson  
Chairman

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**APPENDIX A**

**PENNRIDGE SCHOOL DISTRICT  
Bucks County, Pennsylvania**

**Descriptive, Financial and Economic Information**

**[THIS PAGE INTENTIONALLY LEFT BLANK]**



## Introduction

The School District is located in upper Bucks County, approximately 10 miles north of Doylestown, the County seat, 35 miles north of center-city Philadelphia, and 20 miles southeast of Allentown. The School District encompasses an area of 91.1 square miles and is comprised of four boroughs and four townships: the Boroughs of Dublin, Perkasio, Sellersville and Silverdale, and the Townships of Bedminster, East Rockhill, Hilltown and West Rockhill. A small portion (less than 1/2 of 1% according to market value) of the Township of Hilltown is part of the North Penn School District.

## Administration

The School District is governed by a nine-member Board of School Directors (the "School Board"), elected for four-year terms. The Superintendent is the chief administrative officer of the School District, with overall responsibility for the entire educational program. The Business Administrator, under the supervision of the Superintendent, is responsible for all fiscal and budgetary affairs. Both of these officials are appointed by the School Board.

## School Facilities

The School District presently operates seven elementary schools, three middle schools and one high school, all as described on the following table.

**TABLE A-1  
PENNRIDGE SCHOOL DISTRICT FACILITIES**

<b>Building</b>	<b>Original Construction Date</b>	<b>Addition/ Renovation Date(s)</b>	<b>Grades</b>	<b>Rated Pupil Capacity</b>	<b>2013-14 Enrollment</b>
<b><i>Elementary:</i></b>					
Bedminster .....	1957	1963/1989/2008	K-5	525	437
R. B. Deibler.....	1956	2001 & 2009	K-5	500	476
Guth.....	1963	1989/2008/2011	K-5	525	526
J. M. Grasse.....	1963	2002 & 2010	K-5	575	452
M. M. Seylar.....	1953	2003 & 2009	K-5	600	440
West Rockhill.....	1990	2007	K-5	550	450
Sellersville.....	1964	1967/1989/2009	K-5	575	527
<b><i>Middle Schools:</i></b>					
Central .....	1998	---	6-8	856	633
South .....	1930	1957/1993/2009	6-8	716	460
North .....	2007	---	6-8	675	622
<b><i>High School:</i></b>					
Upper.....	1975	2007	9-12	2,450	2,318

Source: School District Officials. Does not include vocational-technical school students.

## Enrollment Trends

The following Table A-2 presents recent trends in school enrollment and projections of enrollments.

**TABLE A-2  
PENNRIDGE SCHOOL DISTRICT ENROLLMENT TRENDS**

<b>Actual Enrollments</b>				<b>Projected Enrollments</b>			
<b>Fiscal Year</b>	<b>Elementary</b>	<b>Secondary</b>	<b>Total</b>	<b>Fiscal Year</b>	<b>Elementary</b>	<b>Secondary</b>	<b>Total</b>
2009-10	3,211	4,024	7,235	2014-15	3,378	4,234	7,612
2010-11	3,240	4,059	7,299	2015-16	3,350	4,327	7,677
2011-12	3,244	4,135	7,379	2016-17	3,310	4,458	7,768
2012-13	3,224	4,126	7,350				
2013-14	3,308	4,033	7,341				

Source: School District Officials.

## SCHOOL DISTRICT FINANCES

### Introduction

The School District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by the Superintendent and Business Administrator and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1.

### Financial Reporting

The School District keeps its books and prepares its financial reports according to a modified accrual basis. Major accrual items are payroll taxes and pension fund contributions payable, delinquent taxes receivable, loans receivable from other funds, and revenues receivable from other governmental units. Its financial statements are audited by an independent certified public accountant, as required by State law. The firm of Maillie Falconiero & Company, LLP, Oaks, Pennsylvania, currently serves as the School District's Auditor.

### Budgeting Process in School Districts under the 2006 Taxpayer Relief Act

In General. School districts budget and expend funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by school district administrative officials on a uniform form furnished by such Department and submitted to the board of school directors for approval prior to the beginning of the fiscal year on July 1.

Procedures for Adoption of the Annual Budget. Under the Pennsylvania Act No. 1 of the Special Session of 2006, as amended by Act 25 of 2011 ("Act 1" or the "Taxpayer Relief Act"), all school districts of the first class A, second class, third class and fourth class (except as described below) must adopt a preliminary budget proposal (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the election immediately preceding the fiscal year. The preliminary budget proposal must be printed and made available for public inspection at least 20 days prior to its adoption; the board of school directors may hold a public hearing on the budget; and the board must give at least 10 days' public notice of its intent to adopt the final budget.

If the adopted preliminary budget includes an increase in the rate of any tax levy, the preliminary budget must be submitted to the Pennsylvania Department of Education (PDE) no later than 85 days prior to the date of the election immediately preceding the fiscal year. PDE is to compare the proposed percentage increase in the rate of any tax with the school district's Index (*see* "**Limitations on Local Taxes**" herein) and within 10 days, but not later than 75 days prior to the upcoming election, inform the school district whether the proposed percentage increase is less than or equal to the Index. If PDE determines that a proposed tax increase will exceed the Index, the school district must reduce the proposed tax increase, seek voter approval for the tax increase at the upcoming election, or seek approval to utilize one of the referendum exceptions authorized under the Taxpayer Relief Act.

With respect to the utilization of any of Taxpayer Relief Act referendum exceptions for which PDE approval is required (*see* "**Limitations on Local Taxes**" herein), the school district must publish notice of its intent to seek PDE approval not less than one week before submitting its request for approval to PDE and, if PDE determines to schedule a public hearing on the request, a notice of the date, time and place of such hearing. PDE is required by the Taxpayer Relief Act to rule on the school district's request and inform the school district of its decision no later than 55 days prior to the upcoming election so that, if PDE denies the school district's request, the school district may submit a referendum question to the local election officials at least 50 days before the upcoming election, if it so chooses.

If a school district seeks voter approval to increase taxes at a rate higher than the applicable Index, whether or not it first seeks approval to utilize one of the referendum exceptions available under the Taxpayer Relief Act, and the referendum question is not approved by a majority of the voters voting on the question, the board of school directors may not approve an increase in the tax rate greater than the applicable Index.

Simplified Procedures in Certain Cases. The above budgetary procedures will not apply to a school district if the board of school directors adopts a resolution no later than 110 days prior to the election immediately preceding the upcoming fiscal year declaring that it will not increase any tax at a rate that exceeds the Index and that a tax increase at or below the rate of the Index will be sufficient to balance its budget. In that case, the Taxpayer Relief Act requires only that the proposed annual budget be prepared at least 30 days, and made available for public inspection at least 20 days, prior to its adoption, and that at least ten (10) days' public notice be given of the board's intent to adopt the annual budget. No referendum exceptions are available to a school district adopting such a resolution.

## Summary and Discussion of Financial Results

A summary of the General Fund balance sheet and changes in fund balances is presented in Tables A-3 and A-4. Table A-5 shows revenues and expenditures for the past five years and the Budget for 2013-14. On May 28, 2013 the School District adopted its budget for the 2013-14 school year.

**TABLE A-3**  
**PENNRIDGE SCHOOL DISTRICT**  
**SUMMARY OF COMPARATIVE GENERAL FUND BALANCE SHEET**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>ASSETS</b>					
Cash .....	\$581,382	\$7,919,148	\$18,691,218	\$12,858,175	\$23,340,702
Investments.....	17,227,605	10,137,214	3,133,000	12,333,000	2,940,000
Taxes Receivable (Net) .....	1,930,450	1,612,311	2,013,836	1,950,261	1,711,915
Interfund Receivables.....	181,460	191,377	107,365	12,102	106,614
Intergovernmental Receivables.....	1,187,626	1,255,137	1,061,096	905,204	827,237
Other Intergovernmental Rev. Rec. ....	0	0	381,862	0	0
Inventories.....	508,159	489,201	426,711	478,715	476,144
Prepaid Expenses.....	101,548	64,852	95,748	76,651	26,271
Other Receivables.....	244,787	214,433	0	146,287	416,452
<b>TOTAL ASSETS.....</b>	<u>\$21,963,017</u>	<u>\$21,883,673</u>	<u>\$25,910,836</u>	<u>\$28,760,395</u>	<u>\$29,845,335</u>
<b>LIABILITIES</b>					
Due to Other Funds .....	\$2,000,000	\$0	\$2,370,039	\$2,370,039	\$1,650,000
Accounts Payable .....	6,873,874	4,038,356	1,471,403	1,347,553	1,667,363
Accrued Salaries & Benefits.....	7,277,894	7,394,104	6,884,238	6,874,484	8,796,695
Deferred Revenues .....	1,020,593	984,048	2,081,667	2,747,308	966,333
<b>TOTAL LIABILITIES .....</b>	<u>\$17,172,361</u>	<u>\$12,416,508</u>	<u>\$12,807,347</u>	<u>\$13,339,384</u>	<u>\$13,080,391</u>
<b>Deferred Inflows of Resources.....</b>	\$0	\$0	\$0	\$0	\$1,169,853
<b>FUND EQUITIES</b>					
Nonspendable Fund Balance .....	\$508,159	\$489,201	\$522,459	\$555,366	\$502,415
Committed Fund Balance.....	0	64,852	8,123,805	11,641,416	9,625,618
Unassigned Fund Balance .....	4,282,497	8,913,112	4,457,225	3,224,229	5,467,058
<b>TOTAL FUND EQUITY.....</b>	<u>\$4,790,656</u>	<u>\$9,467,165</u>	<u>\$13,103,489</u>	<u>\$15,421,011</u>	<u>\$15,595,091</u>
<b>TOTAL LIABILITIES</b>					
<b>AND FUND EQUITIES .....</b>	<u>\$21,963,017</u>	<u>\$21,883,673</u>	<u>\$25,910,836</u>	<u>\$28,760,395</u>	<u>\$29,845,335</u>

Source: School District Annual Financial Reports.

**TABLE A-4**  
**PENNRIDGE SCHOOL DISTRICT GENERAL FUND**  
**SUMMARY OF CHANGES IN FUND BALANCE\***

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<b>Budget <u>2014<sup>(1)</sup></u></b>
<b>Beginning Fund Balance.....</b>	\$4,650,826	\$4,790,656	\$9,467,165	\$13,153,468	\$15,421,011	\$15,595,091
Excess of Revenues over						
(under) Expenditures.....	139,830	4,676,509	3,636,324	2,267,543	174,080	(1,373,830)
Chg. Inv./RS equity Trans/Prior Year Adj...	<u>0</u>	<u>0</u>	<u>49,979<sup>(2)</sup></u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance.....	<u>\$4,790,656</u>	<u>\$9,467,165</u>	<u>\$13,153,468</u>	<u>\$15,421,011</u>	<u>\$15,595,091</u>	<u>\$14,221,261</u>

\*Totals may not add due to rounding.

<sup>(1)</sup> Budget as adopted May 28, 2013.

<sup>(2)</sup> Effective July 1, 2010, the Athletic Fund was combined with the General Fund.

Source: School District Annual Financial Reports and Budget.

{REMAINDER OF PAGE INTENTIONALLY LEFT BLANK}

## Revenue

The School District received \$113,523,659 in revenue (net of refunded bond issue) in 2012-13 and has budgeted revenue of \$114,752,584 in 2013-14. Local sources increased slightly as a share of total revenue in the past five years, from 77.10 percent in 2008-09 to 78.38 percent in 2012-13. Revenue from Commonwealth sources decreased as a share of total revenue from 21.34 percent to 20.50 percent in 2012-13. Federal and other sources decreased as a share of total revenue from 1.54 percent to 1.12 percent during this period.

**TABLE A-5**  
**PENNRIDGE SCHOOL DISTRICT**  
**SUMMARY OF SCHOOL DISTRICT GENERAL FUND**  
**REVENUES\***  
**(Years Ending June 30)**

REVENUE						Budget
Local Sources	2009	2010	2011	2012	2013	2014(1)
Real Estate Taxes (Current) .....	\$66,532,113	\$68,444,501	\$71,242,166	\$70,538,684	\$70,372,107	\$71,317,207
Interim Real Estate Taxes .....	890,657	453,033	501,634	428,378	403,648	500,000
Public Utility Tax .....	99,247	112,943	115,691	114,507	101,875	115,000
Payments in Lieu of Current Taxes .....	8,839	9,046	110,288	110,329	173,587	115,000
Total Act 511 Taxes .....	12,099,391	12,392,748	12,504,916	13,381,105	14,195,233	13,544,656
Delinquent Taxes .....	1,150,744	1,144,249	1,569,799	1,517,776	1,621,799	1,135,000
Earnings on Investments .....	795,590	384,763	112,911	95,353	95,609	100,000
Revenue from Student Activities .....	28,167	36,908	11	0	25,676	45,000
IDEA Funding from the Intermediate Unit .....	1,209,122	1,232,928	1,261,574	0	1,206,988	1,122,000
Federal ARRA IDEA Pass Through Revenue .....	0	745,418	689,394	1,231,820	0	0
Rentals .....	123,922	181,034	132,059	169,915	228,808	210,000
Contributions & Donations from Private Sources .....	0	0	0	0	0	0
Tuition .....	62,289	64,109	83,044	90,531	69,721	70,000
Receipts from Other LEAS in PA – Education .....	13,043	141,056	179,703	140,538	192,203	0
Transportation Services Provided other PA LEAS .....	0	3,698	7,433	6,504	0	0
Refunds of Prior Years' Expenditures .....	1,231	28,588	330	62,828	88	0
Other Sources .....	0	72,226	55,303	66,352	78,114	102,000
All Other Local Revenues Not Specified .....	108,442	7,258	82,206	144,569	212,974	60,000
<b>Total Local Revenue .....</b>	<b>\$83,122,797</b>	<b>\$85,454,505</b>	<b>\$88,648,461</b>	<b>\$88,099,189</b>	<b>\$88,978,430</b>	<b>\$88,435,863</b>
<b>State Sources</b>						
Instructional Subsidy .....	\$9,491,841	\$8,687,139	\$8,333,828	\$9,491,843	\$9,491,843	\$9,730,492
Charter Schools .....	288,776	261,830	257,940	0	0	0
Vocational Education .....	3,362	2,671	3,548	1,797	2,867	3,000
Tuition - Orphans & Children Placed in Priv. Homes .....	84,114	24,719	22,876	2,631	40,095	25,000
Homebound Instruction .....	821	0	0	0	0	0
Alternative Education .....	69,840	0	0	0	0	0
Special Education .....	3,216,302	3,284,431	3,238,708	3,246,925	3,445,504	3,073,264
Transportation .....	2,177,637	1,515,986	1,512,358	1,609,501	1,361,171	1,689,974
Rentals and Sinking Fund Reimbursements .....	1,363,981	911,496	821,401	851,505	654,705	860,000
Health Services .....	140,595	139,811	144,936	140,442	140,319	140,000
State Property Tax Reduction Allocation .....	2,325,573	2,346,511	2,382,948	2,254,286	2,427,580	2,328,996
PA Accountability Grant .....	627,846	627,846	588,756	231,315	231,315	231,315
Dual Enrollment Grants .....	0	1,372	6,120	0		
Revenue for Social Security .....	1,924,750	1,983,250	1,989,008	1,428,051	2,018,860	2,200,000
Revenue for Retirement .....	1,291,260	1,293,865	1,530,025	2,084,728	3,460,506	4,900,000
<b>Total State Sources .....</b>	<b>\$23,006,699</b>	<b>\$21,080,926</b>	<b>\$20,832,452</b>	<b>\$21,343,024</b>	<b>\$23,274,765</b>	<b>\$25,182,041</b>
<b>Total Federal Sources .....</b>	<b>\$1,661,323</b>	<b>\$2,662,435</b>	<b>\$3,041,329</b>	<b>\$1,159,172</b>	<b>\$1,270,464</b>	<b>\$1,134,680</b>
<b>Total Other Sources .....</b>	<b>\$16,980</b>	<b>\$936,772</b>	<b>\$57</b>	<b>\$3,899</b>	<b>\$44,094,188</b>	<b>\$0</b>
<b>TOTAL REVENUE .....</b>	<b>\$107,807,799</b>	<b>\$110,134,638</b>	<b>\$112,522,299</b>	<b>\$110,605,284</b>	<b>\$157,617,847</b>	<b>\$114,752,584</b>

\*Totals may not add due to rounding.

(1) Budget as adopted May 28, 2013.

Source: School District Annual Financial Reports and Budget.

**TABLE A-5**  
**(cont.)**  
**PENNRIDGE SCHOOL DISTRICT**  
**SUMMARY OF SCHOOL DISTRICT GENERAL FUND**  
**EXPENDITURES\***  
**(Years Ending June 30)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Budget 2014(1)</u>
<b>EXPENDITURES</b>						
Instruction .....	\$59,338,476	\$61,243,324	\$59,258,387	\$62,328,634	\$66,842,228	\$69,444,818
Pupil Personnel .....	3,410,526	3,547,675	3,426,589	3,533,202	3,749,560	4,096,183
Instructional Staff .....	3,333,124	3,255,503	3,305,518	3,477,848	2,863,062	3,247,676
Administration .....	5,414,014	5,614,202	5,646,544	5,963,640	6,106,494	6,856,209
Pupil Health .....	914,487	954,266	962,677	1,046,484	1,129,468	1,221,748
Business .....	670,740	708,424	664,980	756,973	658,027	683,856
Operation and Maintenance .....	8,877,096	8,508,027	8,481,400	8,134,739	8,246,206	9,256,927
Student Transportation .....	6,099,373	4,788,694	4,905,535	5,047,915	4,840,884	5,343,735
Central .....	476,573	250,701	268,322	395,402	1,490,084	1,103,613
Other Support .....	438,991	392,282	487,710	325,024	371,249	347,460
Operation of Noninstructional Services .....	264,414	249,024	1,263,617	1,268,606	1,349,012	1,369,769
Facilities Acquisition, Construction and Improvement .....	0	0	0	0	1,391,090	0
Debt Service .....	14,201,850	13,416,136	13,663,807	13,976,763	12,375,881	11,847,551
Fund Transfers .....	4,228,305	2,529,871	6,550,889	1,978,250	2,000,000	932,205
Refund of Prior Year Receipts .....	0	0	0	104,261	711,180	0
Debt Service - Refunded Bond Issue .....	0	0	0	0	43,319,342	0
Budgetary Reserve .....	0	0	0	0		374,664
<b>TOTAL EXPENDITURES.....</b>	<u>\$107,667,969</u>	<u>\$105,458,129</u>	<u>\$108,885,975</u>	<u>\$108,337,741</u>	<u>\$157,443,767</u>	<u>\$116,126,414</u>
<b>REVENUES UNDER (OVER) EXPENDITURES.....</b>	<u>\$139,830</u>	<u>\$4,676,509</u>	<u>\$3,636,324</u>	<u>\$2,267,543</u>	<u>\$174,080</u>	<u>(\$1,373,830)</u>

\*Totals may not add due to rounding.

(1) Budget as adopted May 28, 2013.

Source: School District Annual Financial Reports and Budget.

**[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]**

## TAXING POWERS OF THE SCHOOL DISTRICT

### In General

*Subject to certain limitations imposed by the Taxpayer Relief Act, Act No. 1 of the Special Session of 2006, as amended (see “Limitations on Local Taxes” herein), the School District is empowered by the School Code and other statutes to levy the following taxes:*

1. A basic annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.
2. An unlimited ad valorem tax on the property taxable for school purposes to provide funds:
  - a. for minimum salaries and increments of the teaching and supervisory staff;
  - b. to pay rentals due any municipality authority or non-profit corporation or due the State Public School Building Authority;
  - c. to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the school district; and
  - d. to pay for the amortization of a bond or note issue which provided a school building prior to the first Monday of July, 1959.
3. An annual per capita tax on each resident or inhabitant over 18 years of age of not more than \$5.00.
4. Additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended (“The Local Tax Enabling Act”). These taxes, which may include, among others, an additional per capita tax, a wage and other earned income tax, a real estate transfer tax, a gross receipts tax, a local services tax and an occupation tax, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth – “STEB”) multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10 those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year. The Local Tax Enabling Act also authorizes, but does not require, taxing authorities to exempt from per capita, occupation, and earned income taxes and any local services tax levied at a rate of \$10 or less per year, any person whose total income from all sources is less than \$12,000 per year.

***[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]***

## Limitations on Local Taxes

Under the Taxpayer Tax Relief Act a school district may not levy any new tax for the support of the public schools or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions summarized below is applicable and the use of such exception is approved by the Pennsylvania Department of Education (PDE):

1. to pay interest and principal on indebtedness originally incurred (i) prior to September 4, 2004, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2004, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2004; to pay interest and principal on any indebtedness approved by the voters at referendum (electoral debt); and to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;
2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances; and
3. to make payments into the State Public School Employees' Retirement System when the increase in the estimated payments between the current year and the upcoming year is greater than the Index, as determined by PDE in accordance with the provisions of Act 1.

Any revenue derived from an increase in the rate of any tax allowed under the exception numbered 1 above may not exceed the anticipated dollar amount of the expenditure, and any revenue derived from an increase in the rate of any tax allowed pursuant to any other exception enumerated above may not exceed the rate increase required, as determined by PDE. If a school district's petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

The Index (to be determined and reported by PDE by September of each year for application to the following fiscal year) is the average of the percentage increase in the statewide average weekly wage, as determined by the State Department of Labor and Industry for the preceding calendar year, and the employment cost index for elementary and secondary schools, as reported by the federal Bureau of Labor Statistics for the preceding 12-month period beginning July 1 and ending June 30. If and when a school district has a Market Value/Income Aid Ratio greater than 0.40 for the prior school year, however, the Index is adjusted upward by multiplying the unadjusted Index by the sum of 0.75 and such Aid Ratio.

The Act 1 Indices applicable to the School District in the current and prior fiscal years are as follows:

<b>Fiscal Year (ending June 30)</b>	<b>Applicable Index</b>
2014	1.7%
2013	1.7
2012	1.4
2011	2.9
2010	4.1

In accordance with Act 1, the School District placed a referendum question on the May, 15, 2007, primary election ballot seeking voter approval to levy (or increase the rate of) the earned income and net profits tax ("EIT") or a new personal income tax ("PIT") and use the proceeds to reduce local real estate taxes by a homestead and farmstead exclusion. The referendum was **NOT** approved by the voters.

A board of school directors may submit, but is not required to submit, a referendum question to the voters at the municipal election seeking approval to levy or increase the rate of an EIT or impose PIT for the purpose of funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate that is required to provide the maximum homestead and farmstead exclusions allowable under law.

The information set forth above is a summary of the Taxpayer Relief Act. This summary is not intended to be an exhaustive discussion of the provisions of the Taxpayer Relief Act nor a legal interpretation of any provision of the Taxpayer Relief Act and a prospective purchaser of the Bonds should review the full text of the Taxpayer Relief Act as a part of any decision to purchase the Bonds.



## Act 130 of 2008

Act 130 of 2008 of the Commonwealth amended the Local Tax Enabling Act so as to authorize school districts levying an occupation tax to replace that occupation tax with an increased earned income tax or, if the school district has implemented a personal income tax in accordance with the Taxpayer Relief Act, an increased personal income tax, in a revenue neutral manner. To so replace an occupation tax, the board of school directors must first hold at least one public hearing on the matter and then place a binding referendum question on the ballot at a general or municipal election for approval by the voters.

Pursuant to statutory authorization and procedure, the School District received voter approval in the November 2002 election to eliminate the occupation tax and increase the earned income tax rate to cover the revenue shortfall. Effective July 1, 2003, the School District eliminated its occupation tax and increased the earned income tax rate to 1.0%.

### The Bonds are Not Eligible for Act 1 Exception

The Bonds are not eligible for any exception under Act 1 and any real estate increase required to pay the debt service on such Bonds, together with tax increases for general school expenses in the same year, must not exceed the Index (as described above) in that year or face a voter referendum on the increase above the Index. The School District believes that it will not exceed the Act 1 Index established for the 2013-14 fiscal year as the full amount of the millage required to pay the debt service on such Bonds is presently in place.

### Legislation Limiting Unreserved Fund Balances

Pennsylvania Act No. 2003-48 (enacted December 23, 2003) prohibits a school district from increasing real property taxes for the school year 2005-2006 or any subsequent school year, unless the school district has adopted a budget for such school year that includes an estimated ending unreserved undesignated fund balance which is not more than a specified percentage of the total budgeted expenditures, as set forth below:

<b>Total Budgeted Expenditures</b>	<b>Estimated Ending Unreserved Undesignated Fund Balance as a Percentage of Total Budgeted Expenditures</b>
Less than or equal to \$11,999,999	12.0%
Between \$12,000,000 and \$12,999,999	11.5%
Between \$13,000,000 and \$13,999,999	11.0%
Between \$14,000,000 and \$14,999,999	10.5%
Between \$15,000,000 and \$15,999,999	10.0%
Between \$16,000,000 and \$16,999,999	9.5%
Between \$17,000,000 and \$17,999,999	9.0%
Between \$18,000,000 and \$18,999,999	8.5%
Greater than or equal to \$19,000,000	8.0%

“Estimated ending unreserved fund balance” is defined in Act 2003-48 as that portion of the fund balance which is appropriable for expenditure or not legally or otherwise segregated for a specific or tentative future use, projected for the close of the school year for which a school district’s budget was adopted and held in the general fund accounts of the school district.

## Tax Levy Trends

Table A-6 shows the recent trend of tax rates levied by the School District. Table A-7 shows the comparative trend of real property tax rates for the School District, the County and the municipalities within the School District.

**TABLE A-6  
PENNRIDGE SCHOOL DISTRICT TAX RATES**

<b>Fiscal Year</b>	<b>Real Estate (mills)</b>	<b>Wage Income (%)</b>	<b>Real Estate Transfer (%)</b>	<b>Local Services<sup>(1)</sup> (\$)</b>
2009-10	119.5500	1.00	1.00	5.00
2010-11	123.0169	1.00	1.00	5.00
2011-12	123.0169	1.00	1.00	5.00
2012-13	123.0169	1.00	1.00	5.00
2013-14	125.1081	1.00	1.00	5.00

<sup>(1)</sup>Previous levied as Emergency and Municipal Services Tax; formerly as the Occupation Privilege Tax.  
Source: School District Officials.

**TABLE A-7  
PENNRIDGE SCHOOL DISTRICT  
COMPARATIVE REAL PROPERTY TAX RATES  
(Mills on Assessed Value)**

	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>	<b><u>2013-14</u></b>
<b>School District</b> .....	119.5500	123.0169	123.0169	123.0169	125.1081
<b><i>Bucks County</i></b> .....	21.9422	21.9422	23.2000	23.2000	23.2000
Bedminster Township.....	4.0000	4.0000	4.0000	4.0000	4.0000
Dublin Borough.....	8.5000	8.5000	8.5000	8.5000	11.5000
East Rockhill Township .....	5.2250	5.2250	5.2250	5.2250	5.2250
Hilltown Township.....	3.1500	5.7500	5.7500	5.7500	6.0500
Perkasie Borough .....	4.7500	4.7500	4.7500	4.7500	4.7500
Sellersville Borough .....	12.0000	16.0000	16.0000	17.5000	17.5000
Silverdale Borough.....	2.7500	2.7500	2.7500	2.7500	2.7500
West Rockhill Township .....	4.2500	4.2500	4.2500	4.2500	4.2500

Source: Department of Community and Economic Development – Municipal Statistics Tax Reports

## Real Property Tax

The real property tax (excluding delinquent collections) produced \$70,775,755 in 2012-13, approximately 62.3 percent of total revenue. The tax is levied on July 1 of each year. Taxpayers who remit within 60 days receive a 2 percent discount, and those who remit subsequent to 120 days after July 1 are assessed a 10 percent penalty. Beginning with the 2007-08 fiscal year, eligible taxpayers could opt into the installment method of payment for their school taxes. Installment payments are based upon three (3) one-third payments of the base tax amount.

The following tables summarize recent trends of assessed and market valuations of real property and real property tax collection data.

**TABLE A-8  
PENNRIDGE SCHOOL DISTRICT  
REAL PROPERTY ASSESSMENT DATA**

<b>Fiscal Year</b>	<b>Market Value</b>	<b>Assessed Value</b>	<b>Ratio</b>
2008-09 .....	\$4,653,212,716	\$605,929,010	13.02%
2009-10 .....	4,680,372,847	612,467,470	13.09%
2010-11 .....	4,989,068,748	609,405,440	12.21%
2011-12 .....	5,002,025,550	610,939,240	12.21%
2012-13 .....	5,070,433,502	611,103,040	12.05%
Compound Average Annual Percentage Change .....	1.73%	0.17%	

Source: Pennsylvania State Tax Equalization Board.

**TABLE A-9  
PENNRIDGE SCHOOL DISTRICT  
REAL PROPERTY ASSESSMENT DATA BY MUNICIPALITY**

	<b>2011-12 Market Value</b>	<b>2011-12 Assessed Value</b>	<b>2012-13 Market Value</b>	<b>2012-13 Assessed Value</b>
<i>School District</i> .....	\$5,002,025,550	\$610,939,240	\$5,070,433,502	\$611,103,040
Bedminster Township.....	1,002,120,013	101,390,500	1,005,955,666	102,594,220
Dublin Borough.....	148,052,018	18,721,010	162,770,348	18,727,530
East Rockhill Township .....	568,620,288	73,406,810	571,965,485	73,189,930
Hilltown Township.....	1,665,452,761	209,771,280	1,713,821,615	211,399,000
Perkasie Borough .....	621,931,616	82,454,070	629,843,515	82,494,940
Sellersville Borough.....	285,899,504	37,433,680	292,370,394	37,386,680
Silverdale Borough.....	68,818,942	9,399,520	68,964,411	9,308,230
West Rockhill Township .....	641,130,408	78,362,370	624,742,068	76,002,510
Bucks County .....	65,969,602,141	7,986,716,335	67,526,835,263	8,012,286,085

Source: Pennsylvania State Tax Equalization Board.

**TABLE A-10  
PENNRIDGE SCHOOL DISTRICT  
ASSESSMENT BY LAND USE**

	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Residential.....	\$438,781,180	\$450,570,390	\$449,476,750	\$449,046,650	\$452,874,000
Lots.....	9,800,500	7,842,970	5,972,930	6,467,380	6,187,010
Industrial .....	23,332,990	21,258,370	22,848,740	22,231,790	21,897,640
Commercial .....	68,944,620	69,882,150	66,060,690	66,642,150	63,705,270
Agriculture .....	64,741,600	62,241,700	62,982,930	63,467,130	63,467,870
Land .....	328,120	671,890	2,063,400	635,410	899,970
Trailers .....	0	0	0	2,448,730	2,071,280
<b>Totals</b> .....	<u>\$605,929,010</u>	<u>\$612,467,470</u>	<u>\$609,405,440</u>	<u>\$610,939,240</u>	<u>\$611,103,040</u>

Source: Pennsylvania State Tax Equalization Board.

**TABLE A-11**  
**PENNRIDGE SCHOOL DISTRICT**  
**REAL PROPERTY TAX COLLECTION DATA**

<b>Fiscal Year</b>	<b>Assessed Value</b>	<b>Tax Rate</b>	<b>Amount of Levy</b>	<b>Current Year Collections (July-June)</b>	<b>Total Collections as Percent of Total Adjusted Flat Billing</b>	<b>Total Collections in Levy Year</b>	<b>Total Collections as Percent of Total Adjusted Flat Billing</b>
2008-09	611,297,180	116.6000	71,277,257	65,977,852	92.57%	67,095,278	94.13%
2009-10	611,477,040	119.5500	71,036,179	68,444,501	96.35%	70,041,783	98.60%
2010-11	612,295,470	123.0169	72,870,745	71,242,166	97.77%	73,313,599	100.61%
2011-12	613,771,060	123.0169	72,842,874	69,878,338	95.93%	70,941,319	97.39%
2012-13	611,594,960	123.0169	72,805,579	69,789,129	95.86%	70,849,631	97.31%

Source: School District Officials.

The ten largest real property taxpayers, together with 2013-14 assessed values, are shown in Table A-12. The aggregate assessed value of these ten taxpayers totals approximately 2.7 percent of total assessed value.

**TABLE A-12**  
**PENNRIDGE SCHOOL DISTRICT**  
**TEN LARGEST REAL PROPERTY TAXPAYERS, 2013-14**

<b>Owner</b>	<b>2013-14 Assessed Value</b>
Hilltown Crossings	\$ 3,211,080
Heritage Orchard Hill L.P.	2,220,400
N A D Inc.	1,828,000
Holling Corp.	1,646,620
County Line Plaza Rlty. Assoc. L.P.	1,504,200
Heritage Summer Lea II LP	1,313,100
Convention Center Plaza	1,268,850
Pacaz Rty. L.L.C.	1,257,770
Fres Co. System USA, Inc.	1,161,600
Healey, William & Robert T. c/o Viking Associates	1,069,600
<b>Total</b>	<b>\$16,481,220</b>

Source: School District Officials.

### Other Taxes

Under Act 511, the School District collected \$14,195,233 in other taxes in 2012-13. Among the taxes authorized by Act 511, the Real Estate Transfer Tax, Wage and Income Tax, Local Services Tax (see Table 6), and the Per Capita Tax are levied by the School District. The Act 511 limit, equal to 12 mills on the market value of real property, was \$60,845,202.

*Real Estate Transfer.* The School District levies a tax of 0.5 percent of the value of real estate transfers. In 2012-13 the collected portion of this tax yielded \$1,001,055.

*Wage and Income Tax.* A tax at an effective rate of 1.0 percent is levied on the earned income of school district residents. In 2012-13 the collected portion of this tax yielded \$13,095,857.

*Local Services Tax (formerly Emergency & Municipal Services Tax) (replaced Occupational Privilege Tax).* A tax of \$10.00 is levied on each resident with an occupation (of which \$5.00 is subject to sharing with the municipality that levies the same tax). In 2012-13 the collected portion of this tax yielded \$98,321.

## State Aid to School Districts

Pennsylvania school districts receive financial assistance from the Commonwealth in a number of forms, all subject to statutory provisions and annual appropriation by the Pennsylvania General Assembly.

The largest subsidy, basic instructional subsidy, is allocated to all school districts based on factors such as: (1) the per pupil market value of assessable real property in the school district; (2) the per pupil earned income in the school district; (3) the school district's tax effort, as compared with the tax effort of other school districts in the Commonwealth; and (4) student count. School districts also receive subsidies for special education, pupil transportation, health service and debt service.

## DEBT AND DEBT LIMITS

### Debt Statement

Table A-13 which follows shows the principal amount of debt of the School District as of March 20, 2014, including the issuance of the Bonds.

**TABLE A-13  
PENNRIDGE SCHOOL DISTRICT  
DEBT STATEMENT\***

<b>NONELECTORAL DEBT</b>	<b>Gross Outstanding</b>
General Obligation Bonds, Series A of 2013 (last maturity 2025) .....	\$6,600,000
General Obligation Bonds, Series of 2013 (last maturity 2029) .....	8,930,000
General Obligation Bonds, Series AA of 2012 (last maturity 2026) .....	9,775,000
General Obligation Bonds, Series A of 2012 (last maturity 2028) .....	9,950,000
General Obligation Bonds, Series of 2012 (last maturity 2026) .....	7,915,000
General Obligation Bonds, Series of 2010 (last maturity 2024) .....	7,055,000
General Obligation Bonds, Series of 2009 (last maturity 2021) .....	15,410,000
General Obligation Notes, Series A of 2008 (last maturity 2023) <sup>(1)</sup> .....	17,577,524
General Obligation Notes, Series B of 2008 (last maturity 2020) <sup>(1)</sup> .....	13,047,842
General Obligation Notes, Series C of 2008 (last maturity 2023) <sup>(1)</sup> .....	10,264,658
General Obligation Notes, Series C of 2004 (last maturity 2014) <sup>(1)</sup> .....	10,000,000
General Obligation Notes, Series A of 2004 (last maturity 2014) <sup>(1)</sup> .....	12,500,000
General Obligation Notes, Series A of 2003 (last maturity 2023) <sup>(1)</sup> .....	16,900,000
General Obligation Note, Series of 2000 (last maturity 2021) <sup>(1)</sup> .....	4,810,000
General Obligation Note, Series of 1999 (last maturity 2018) <sup>(1)</sup> .....	1,695,000
Subtotal .....	\$152,430,024
Less: Debt Deemed Self-liquidating .....	(39,400,000)
<b>TOTAL NONELECTORAL DEBT</b> .....	<b>\$113,030,024</b>
<b>LEASE RENTAL DEBT</b>	
General Obligation Note, Series of 2014 (last maturity 2043) <sup>(2)</sup> .....	\$10,648,341
General Obligation Note, Series of 2010 (last maturity 2025) <sup>(3)</sup> .....	1,419,633
<b>TOTAL PRINCIPAL OF DIRECT DEBT</b> .....	<b>\$125,097,998</b>

\*Includes the Bonds offered through this Official Statement.

<sup>(1)</sup>The School District entered into a fixed payor swap, which went into effect in October 2005. The swap, which has a termination date of August 1, 2014, is related to the Emmaus General Authority Bond Pool Notes.

<sup>(2)</sup>The School District's pro rata share in relation to the Bonds offered through this Official Statement.

<sup>(3)</sup>The School District's pro rata share in relation to the State Public School Building Authority, Commonwealth of Pennsylvania, (Upper Bucks County Area Vocational Technical School Project), Bucks County, Pennsylvania, School Lease Revenue Bonds, Series of 2010.

## Debt Service Requirements

The School District has never defaulted on the payment of debt service.

## Future Financing

The School District contemplates issuing approximately \$10 million of additional long-term debt for capital projects in the near future, although has not been approved or authorized.

## Debt Limit and Remaining Borrowing Capacity

The statutory borrowing limit of the School District under the Act is computed as a percentage of the School District's "Borrowing Base". The "Borrowing Base" is defined as the annual arithmetic average of "Total Revenues" (as defined by the Act), for the three full fiscal years ended next preceding the date of incurring debt. The School District calculates its present borrowing base and borrowing capacity as follows:

Total Revenues for 2010-11 .....	\$ 111,700,841
Total Revenues for 2011-12 .....	109,749,880
Total Revenues for 2012-13 .....	<u>112,868,954</u>
<b>Total</b> .....	\$ 334,319,675
Annual Arithmetic Average (Borrowing Base) .....	\$ 111,439,892

Under the Act as presently in effect, new lease rental debt or new nonelectoral debt may not be incurred if the net amount of such new debt plus all outstanding net nonelectoral debt and net lease rental debt would cause the total net nonelectoral plus net lease rental debt to exceed 225% of the Borrowing Base. The application of the aforesaid percentage to the School District's Borrowing Base produces the following product:

	<b><u>Legal Limit</u></b>	<b><u>Net Debt Outstanding*</u></b>	<b><u>Remaining Borrowing Capacity</u></b>
<b>Net Nonelectoral and Lease Rental Debt Limit:</b>			
225% of Borrowing Base .....	\$250,739,757	\$125,097,998	\$125,641,759

\*Includes the Bonds described herein, does reflect credits against gross indebtedness that may be claimed for a portion of principal of debt estimated to be reimbursed by State Aid.

***[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]***

## LABOR RELATIONS

### School District Employees

There are presently 1001 employees of the School District, comprised of 536 teachers and administrators and 465 support personnel. The support personnel include secretaries, custodial employees, cafeteria employees, maintenance employees, transportation employees and teachers' aides.

The School District's teachers are represented by the Pennridge Education Association, an affiliate of the Pennsylvania State Education Association, under a contract with the School District, which expires on June 30, 2014. Secretarial, custodial, maintenance, teachers' aides and transportation employees are represented by the Pennsylvania Educational Support Personnel Association under a contract which expired June 30, 2013 (negotiations currently underway). All other non-teaching employees are not represented by a bargaining unit.

### Pension Program

School districts in the Commonwealth participate in The Public School Employees' Retirement System (PSERS), a State administered, governmental cost sharing multiple employer defined benefit plan established under legislative authority. Established by the Authority of Public School Employees' Retirement Code (Act 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535), contributions are made by each of three parties: the School District, the Commonwealth, and the employee. The plan provides retirement and disability benefits, legislative mandated ad hoc cost of living adjustments, and health care insurance premium assistance to qualifying annuitants. All of the School District's full-time employees, part-time employees salaried over eighty days, and hourly employees working more than 500 hours per year participate in the program. Currently, each party to the program contributes a fixed percentage of employees' gross earnings.

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

Members, who joined PSERS after June 30 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

The PSERS Board of Trustees has set the fiscal year 2013-14 employer retirement contribution rate at 16.93 percent of payroll. Both the School District and the Commonwealth are responsible for paying a portion of the employer's share. Employers are divided into two groups; school entities and non-school entities. School entities are responsible for paying 100 percent of the employer share of contributions to PSERS. The Commonwealth reimburses the employer for one-half the payment for employees. Recent School District payments, net of reimbursement, have been as follows:

2008-09	\$2,652,491
2009-10	3,345,374
2010-11	3,869,165
2011-12	4,864,683
2012-13	6,853,233
2013-14 (budgeted)	9,483,462

The School District is current in all payments. Current financial projections indicate the possibility of further significant increases in the contribution rate in future years. For further discussions of this increase, please refer to the PSERS website on the Internet: [www.psers.state.pa.us](http://www.psers.state.pa.us).

**Other Post-Employment Benefits**

The School District is obligated under certain professional employees' collective bargaining agreements to provide health insurance coverage for retired employees until age 65. Historically, the School District has funded such costs on a current basis from operations; the cost of such post-employment benefits has averaged approximately \$17,500 over the last three fiscal years. Beginning with the current fiscal year, the School District will become subject to the requirements of GASB Statements No. 43 and 45 which require certain actuarial valuations and accounting adjustments for such post-employment benefits.

**CONTINUING DISCLOSURE UNDERTAKING**

The School District unintentionally failed to file the required Annual Disclosure for fiscal years June 30, 2009 through June 30, 2012; however, the Annual Reports were subsequently filed by the School District with EMMA and the School District is currently in compliance with its filing requirements for these fiscal years. The School District filed timely the Annual Disclosure information for the fiscal year ending June 30, 2013. The School District will continue to improve its procedures to make sure future filings are made in a timely manner.



**APPENDIX B**

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**Bucks County, Pennsylvania**

**Descriptive, Financial and Economic Information**

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

## THE SCHOOL DISTRICT

### Introduction

The School District is located in Upper Bucks County and is comprised of the Boroughs of Quakertown, Richlandtown, and Trumbauersville, and the Townships of Haycock, Richland and Milford. The population of the School District for 2010 was 36,426 residents.

### Administration

The present School District was re-organized by a consolidation of a number of smaller school districts. It is governed by a nine-member Board of School Directors (the "School Board"), elected for four-year terms. The Superintendent is the chief administrative officer of the School District, with overall responsibility for all aspects of operations, including education and finance. The Business Administrator is responsible for budget and financial operations. Both of these officials are appointed by the School Board.

### School Facilities

The School District presently operates seven elementary schools, two middle schools, one freshman center, and one senior high school, all as described on the following table. Students in grades 9-12 may attend the Upper Bucks County Career Center.

**TABLE B-1  
QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
SCHOOL FACILITIES**

<b>Building</b>	<b>Original Construction Date</b>	<b>Addition/ Renovation Date(s)</b>	<b>Grades</b>	<b>Number of Classrooms</b>	<b>Rated Pupil Capacity</b>	<b>2013-14 Enrollment</b>
<i><b>Elementary:</b></i>						
Haycock Elementary School .....	1953	1971	1-5	5	125	Closed
Neidig Elementary School .....	1974	-	K-5	18	400	408
Quakertown Elementary School.....	1929	1967	K-5	17	325	311
Richland Elementary School .....	1957	2010	K-5	25	475	452
Tohickon Valley Elementary School..	1952	1982/88	K-5	19	475	410
Trumbauersville Elementary School ..	1999	-	K-5	19	475	438
Pfaff Elementary School .....	2005	-	K-5	18	450	453
<i><b>Secondary:</b></i>						
Quakertown Community Senior High	1956	1966/88	10-12	63	1,473	435
Quakertown Freshman Center.....	1967	2005	9	22	550	1,165
<i><b>Elementary/Secondary</b></i>						
Milford Middle School.....	1974	-	6-8	31	577	418
Strayer Middle School.....	2004	-	6-8	31	1,000	828

Source: School District Officials.

## Enrollment Trends

The following Table B-2 presents recent trends in school enrollment and projections of enrollment for the next three years.

**TABLE B-2**  
**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**ENROLLMENT TRENDS**

Actual Enrollments				Projected Enrollments			
<u>School</u> <u>Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>	<u>School</u> <u>Year</u>	<u>Elementary</u>	<u>Secondary</u>	<u>Total</u>
2009-10	2,976	2,451	5,427	2014-15	2,949	2,415	5,364
2010-11	2,929	2,449	5,378	2015-16	2,889	2,417	5,306
2011-12	2,897	2,489	5,386	2016-17	2,830	2,427	5,257
2012-13	2,532	2,870	5,402				
2013-14	2,472	2,846	5,318				

Source: Actual enrollments as provided by School District officials. Projected enrollments as provided by Pennsylvania Department of Education.

## SCHOOL DISTRICT FINANCES

### Introduction

The School District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by the Superintendent and Business Administrator and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1.

### Financial Reporting

The financial statements of the School District are prepared in accordance with accounting principles generally accepted in the United States of America. The School District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The government-wide and proprietary fund financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The government wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Its financial statements are audited annually by an independent certified public accountant, as required by Commonwealth law.

The School District keeps its books and prepares its financial reports according to a modified accrual basis.

## **Budgeting Process in School Districts under the Taxpayer Relief Act**

**In General.** School districts budget and expend funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by school district administrative officials on a uniform form furnished by such Department and submitted to the board of school directors for approval prior to the beginning of the fiscal year on July 1.

**Procedures for Adoption of the Annual Budget.** Under the Taxpayer Relief Act, all school districts of the first class A, second class, third class and fourth class (except as described below) must adopt a preliminary budget proposal (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the election immediately preceding the fiscal year. The preliminary budget proposal must be printed and made available for public inspection at least 20 days prior to its adoption; the board of school directors may hold a public hearing on the budget; and the board must give at least 10 days' public notice of its intent to adopt the final budget.

If the adopted preliminary budget includes an increase in the rate of any tax levy, the preliminary budget must be submitted to the Pennsylvania Department of Education (PDE) no later than 85 days prior to the date of the election immediately preceding the fiscal year. PDE is to compare the proposed percentage increase in the rate of any tax with the school district's Index (*see* "**The Taxpayer Relief Act**" herein) and within 10 days, but not later than 75 days prior to the upcoming election, inform the school district whether the proposed percentage increase is less than or equal to the Index. If PDE determines that a proposed tax increase will exceed the Index, the school district must reduce the proposed tax increase, seek voter approval for the tax increase at the upcoming election, or seek approval to utilize one of the referendum exceptions authorized under The Taxpayer Relief Act.

With respect to the utilization of any of the Taxpayer Relief Act referendum exceptions for which PDE approval is required (*see* "**The Taxpayer Relief Act**" herein), the school district must publish notice of its intent to seek PDE approval not less than one week before submitting its request for approval to PDE and, if PDE determines to schedule a public hearing on the request, a notice of the date, time and place of such hearing. PDE is required by the Taxpayer Relief Act to rule on the school district's request and inform the school district of its decision no later than 55 days prior to the upcoming election so that, if PDE denies the school district's request, the school district may submit a referendum question to the local election officials at least 50 days before the upcoming election, if it so chooses.

If a school district seeks voter approval to increase taxes at a rate higher than the applicable Index, whether or not it first seeks approval to utilize one of the referendum exceptions available under the Taxpayer Relief Act, and the referendum question is not approved by a majority of the voters voting on the question, the board of school directors may not approve an increase in the tax rate greater than the applicable Index.

**Simplified Procedures in Certain Cases.** The above budgetary procedures will not apply to a school district if the board of school directors adopts a resolution no later than 110 days prior to the election immediately preceding the upcoming fiscal year declaring that it will not increase any tax at a rate that exceeds the Index and that a tax increase at or below the rate of the Index will be sufficient to balance its budget. In that case, the Taxpayer Relief Act requires only that the proposed annual budget be prepared at least 30 days, and made available for public inspection at least 20 days, prior to its adoption, and that at least ten (10) days' public notice be given of the board's intent to adopt the annual budget. No referendum exceptions are available to a school district adopting such a resolution.

## **Summary and Discussion of Financial Results**

A summary of the General Fund balance sheet and changes in fund balances is presented in Tables B-3 and B-4. Table B-5 shows revenues and expenditures for the past 5 years and the budget for 2013-14. The School District's budget for 2013-14, as adopted February 14, 2013, budgeted total revenue of \$91,730,366 and expenditures of \$94,998,544, which includes a budgetary reserve of \$500,000. In order to guarantee a proper maintenance of the School District fund balance, the School District's financial plan calls for tax increases appropriately to insure a balance of budget. The millage rate increased to 143.92 mills.

**TABLE B-3**  
**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**SUMMARY OF COMPARATIVE GENERAL FUND BALANCE SHEET**  
**(Years ending June 30)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>ASSETS</b>					
Cash and Cash Equivalents .....	\$8,255,412	\$11,446,432	\$13,173,563	\$13,871,201	\$10,650,046
Investments .....	0	0	0	0	3,264,000
Taxes Receivable.....	2,032,057	2,654,529	2,607,179	2,188,706	2,152,519
Due from Other Funds.....	139,951	44,437	161,337	0	125,143
Due from Other Governments .....	0	0	0	0	
State Revenue Receivable .....	1,112,399	1,561,946	1,658,280	1,891,121	1,962,076
Federal Revenue Receivable .....	289,964	532,154	584,110	519,941	414,090
Intergovernmental Revenue Receivable ....	0	0	0	0	
Other Receivables .....	333,182	352,173	262,580	335,552	452,722
Prepaid Expenses/Expenditures.....	0	0	104,772	1,005,125	64,875
Inventories.....	0	151,349	131,545	115,799	75,949
<b>TOTAL ASSETS.....</b>	<b>\$12,162,965</b>	<b>\$16,743,020</b>	<b>\$18,683,366</b>	<b>\$19,927,445</b>	<b>\$19,161,420</b>
<b>LIABILITIES</b>					
Accounts Payable .....	\$1,796,004	\$2,369,033	\$1,206,700	\$950,765	\$1,534,922
Accrued Salaries & Benefits .....	314,138	345,566	371,457	343,504	309,508
Payroll Deducts and Withholdings .....	1,467,193	1,509,956	1,654,016	2,105,614	2,113,739
Deferred Revenues .....	1,365,292	1,977,588	1,663,891	1,509,262	1,596,356
<b>TOTAL LIABILITIES .....</b>	<b>\$4,942,627</b>	<b>\$6,202,143</b>	<b>\$4,896,064</b>	<b>\$4,909,145</b>	<b>\$5,554,525</b>
<b>FUND EQUITIES</b>					
Nonspendable Fund Balance .....	\$0	\$0	\$0	\$1,005,125	\$64,875
Committed Fund Balance.....	0	0	1,403,000	2,042,958	\$4,042,958
Unassigned Fund Balance .....	\$7,220,338	\$10,540,877	\$12,384,302	\$11,970,217	\$9,499,062
<b>TOTAL FUND EQUITIES .....</b>	<b>7,220,338</b>	<b>10,540,877</b>	<b>13,787,302</b>	<b>15,018,300</b>	<b>13,606,895</b>
<b>TOTAL LIABILITIES</b>					
<b>AND FUND EQUITIES .....</b>	<b>\$12,162,965</b>	<b>\$16,743,020</b>	<b>\$18,683,366</b>	<b>\$19,927,445</b>	<b>\$19,161,420</b>

Source: School District Annual Financial Reports

**TABLE B-4**  
**QUAKERTOWN COMMUNITY SCHOOL DISTRICT GENERAL FUND**  
**SUMMARY OF CHANGES IN FUND BALANCE\***

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<b>Budgeted <u>2014(1)</u></b>
<b>Beginning Fund Balance</b>	\$6,570,752	\$7,220,337	\$10,540,876	\$13,787,301	\$15,018,300	\$13,606,895
Revenue Over (under) Expenses	649,585	\$3,163,178	\$3,331,198	\$1,244,588	(\$1,411,405)	(\$3,268,188)
Chg. In Inventory Res./Pr.Per.Adj.	<u>0</u>	<u>157,361</u>	<u>(84,773)</u>	<u>(13,589)</u>	<u>0</u>	<u>0</u>
<b>Ending Fund Balance</b>	\$7,220,337	\$10,540,876	\$13,787,301	\$15,018,300	\$13,606,895	\$10,338,707

\*Totals may not add due to rounding.

<sup>(1)</sup>Budget, as adopted February 14, 2013

Source: School District Annual Financial Reports and Budget.

#### Revenue

The School District received \$88,448,128 in revenue in 2012-13 and has budgeted for \$91,730,366 in 2013-14. Local sources increased as a share of total revenue in the past five years from 75.3 percent in 2008-09 to 76.7 percent in 2012-13. Revenue from State sources decreased as a share of the total revenue from 23.8 percent to 22.4 percent over this period. Federal and other revenues increased as a share of total revenue in the past five years from 0.8 percent in 2008-09 to 0.9 percent in 2012-13.

{REMAINDER OF PAGE INTENTIONALLY LEFT BLANK}

**TABLE B-5**  
**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**SUMMARY OF SCHOOL DISTRICT GENERAL FUND**  
**REVENUES AND EXPENDITURES\***  
**(For years ending June 30)**

<b>REVENUES:</b>						<b>Budgeted</b>
<b>Local Sources:</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014<sup>(1)</sup></b>
Real Estate Taxes .....	\$47,706,664	\$49,367,261	\$52,717,435	\$53,685,907	\$54,394,514	\$55,048,100
Interim Real Estate Taxes .....	388,756	554,859	323,430	239,540	162,131	400,000
Payments in Lieu of Current Taxes .....	2,566	2,626	3,397	56,302	56,784	3,400
Public Utility Realty Tax .....	76,242	82,493	84,308	84,232	87,504	87,300
Per Capita Tax (Sec. 679) .....	73,143	73,696	72,546	72,593	71,007	72,900
Total Act 511 Taxes .....	8,792,232	8,516,425	8,702,961	9,145,322	9,319,587	9,422,900
Delinquency on Taxes Levied .....	1,828,092	1,650,242	2,145,756	1,989,657	1,687,719	2,100,000
Earnings from Investments .....	521,617	160,329	110,337	82,114	153,371	180,000
Revenue for Student Activities .....	38,986	48,479	50,129	50,156	126,963	50,000
Federal Rev. Rec'd from PA Schools .....	732,213	737,676	709,062	774,180	778,723	775,000
Federal Rev. Rec'd -Other Intermed.Srcs. ....	10,356	0	0	0	0	0
Receipts from other LEAS .....	510,447	481,200	455,948	586,378	612,144	0
Revenue-Community Service Activities .....	850	0	0	0	0	0
Revenue-Prior Years' Expenditures .....	0	71,960	16,290	0	21,801	0
Rentals .....	102,613	159,263	143,931	203,878	216,461	203,000
Tuition .....	19,450	22,614	32,528	8,985	13,475	615,000
Services Provided Other Funds .....	0	0	48,000	48,000	48,000	128,515
All Other Local Rev. Not Specified .....	184,533	82,513	142,091	154,283	129,042	176,000
<b>Total Local Sources .....</b>	<b>\$60,988,762</b>	<b>\$62,011,636</b>	<b>\$65,758,146</b>	<b>\$67,181,527</b>	<b>\$67,879,225</b>	<b>\$69,262,115</b>
<b>State Sources:</b>						
Basic Instructional Subsidy .....	\$8,837,219	\$7,939,169	\$7,614,476	\$8,841,198	\$8,840,579	\$9,044,787
Charter Schools .....	264,165	271,289	275,957	0	0	0
Private Placement Tuition .....	118,664	112,671	116,717	150,297	162,841	150,000
Homebound Instruction .....	242	0	0	0	0	0
Alternative Ed .....	13,158	0	0	0	0	0
Special Education .....	2,561,497	2,605,685	2,731,772	2,504,595	2,583,566	2,545,162
Transportation .....	1,514,431	1,363,274	1,328,849	1,242,990	1,248,311	1,368,980
Rentals and Sinking Fund Payments .....	547,787	1,063,662	770,076	563,954	545,433	956,000
Health Services .....	108,316	110,030	111,141	111,929	111,230	112,000
State Property Tax Reduction Allocation ....	2,087,117	2,044,746	2,075,891	2,035,596	1,984,997	2,028,830
Dual Grants .....	40,770	47,995	14,851	0	0	0
PA Accountability Grants .....	527,895	527,895	495,028	194,490	194,490	185,250
Classrooms for the Future .....	218,223	25,000	25,000	0	0	0
Revenue for Social Security .....	1,498,389	1,469,191	1,500,519	1,513,603	1,536,871	1,665,907
Revenue for Retirement .....	970,142	959,848	1,154,361	1,766,316	2,567,373	3,703,085
<b>Total State Sources .....</b>	<b>\$19,308,017</b>	<b>\$18,540,453</b>	<b>\$18,214,638</b>	<b>\$18,924,968</b>	<b>\$19,775,691</b>	<b>\$21,760,001</b>
<b>Federal Sources:</b>						
<b>Total Federal Sources .....</b>	<b>\$646,009</b>	<b>\$2,456,430</b>	<b>\$2,767,990</b>	<b>\$598,416</b>	<b>\$762,837</b>	<b>\$698,250</b>
<b>Other Sources:</b>						
<b>Total Other Sources .....</b>	<b>\$23,409</b>	<b>\$16,375</b>	<b>\$1,675</b>	<b>\$320,000</b>	<b>\$30,375</b>	<b>\$10,000</b>
<b>TOTAL REVENUE .....</b>	<b>\$80,966,197</b>	<b>\$83,024,894</b>	<b>\$86,742,449</b>	<b>\$87,024,910</b>	<b>\$88,448,128</b>	<b>\$91,730,366</b>
<b>EXPENDITURES:</b>						
Instruction .....	\$47,716,791	\$49,285,787	\$50,007,445	\$51,874,543	\$54,436,608	\$57,056,511
Pupil Personnel .....	2,254,719	2,300,764	2,534,397	2,724,557	2,925,594	3,143,098
Instructional Staff .....	2,945,553	2,982,108	3,919,663	3,656,233	4,399,723	4,658,105
Administration .....	4,054,583	4,248,348	4,259,719	4,397,572	4,607,360	4,791,396
Pupil Health .....	887,631	841,684	821,621	868,421	907,166	1,011,009
Business .....	892,237	869,171	932,045	960,076	998,487	1,003,514
Operation and Maintenance .....	6,906,282	6,650,034	6,739,120	6,570,129	6,401,505	6,654,290
Student Transportation .....	3,934,584	3,548,015	3,780,037	3,802,356	3,853,324	3,867,630
Central .....	2,982,568	1,888,878	2,431,888	2,430,100	2,338,983	2,595,144
Other Support Services .....	57,300	59,464	62,163	58,452	58,790	58,000
Operation-Non-instructional Services .....	959,890	713,639	809,387	814,839	852,776	917,156
Debt Service .....	6,708,541	6,471,403	7,110,292	7,569,173	8,090,438	8,742,701
Facilities, Acquisition, Construction .....	15,933	0	1,821	0	0	0
Refund of Prior Year Receipts .....	0	2,421	1,653	53,871	-11,221	0
Budgetary Reserve .....	0	0	0	0	0	500,000
<b>TOTAL EXPENDITURES .....</b>	<b>\$80,316,612</b>	<b>\$79,861,716</b>	<b>\$83,411,251</b>	<b>\$85,780,322</b>	<b>\$89,859,533</b>	<b>\$94,998,554</b>
<b>SURPLUS (DEFICIT) OF</b>						
<b>REVENUES OVER EXPENDITURES</b>	<b>\$649,585</b>	<b>\$3,163,178</b>	<b>\$3,331,198</b>	<b>\$1,244,588</b>	<b>(\$1,411,405)</b>	<b>(\$3,268,188)</b>

\*Totals may not add due to rounding.

<sup>(1)</sup>Budget, as adopted February 14, 2013.

Source: School District Annual Financial Reports and Budget.



## TAXING POWERS AND LIMITS

### In General

*Subject to certain limitations imposed by the Taxpayer Relief Act, Act No. 1 of the Special Session of 2006, as amended (see “The Taxpayer Relief Act (Act 1)” herein),* the School District is empowered by the School Code and other statutes to levy the following taxes:

1. A basic annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.
2. An unlimited ad valorem tax on the property taxable for school purposes to provide funds:
  - b. for minimum salaries and increments of the teaching and supervisory staff;
  - b. to pay rentals due any municipality authority or non-profit corporation or due the State Public School Building Authority;
  - c. to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the school district; and
  - d. to pay for the amortization of a bond or note issue which provided a school building prior to the first Monday of July, 1959.
3. An annual per capita tax on each resident or inhabitant over 18 years of age of not more than \$5.00.
4. Additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended (“The Local Tax Enabling Act”). These taxes, which may include, among others, an additional per capita tax, a wage and other earned income tax, a real estate transfer tax, a gross receipts tax, a local services tax and an occupation tax, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth – “STEB”) multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10 those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year. The Local Tax Enabling Act also authorizes, but does not require, taxing authorities to exempt from per capita, occupation, and earned income taxes and any local services tax levied at a rate of \$10 or less per year, any person whose total income from all sources is less than \$12,000 per year.

### The Taxpayer Relief Act (Act 1)

Under Pennsylvania Act No. 1 of the Special Session of 2006, as amended by Act 25 of 2011 (“The Taxpayer Tax Relief Act” or “Act 1”), a school district may not, in fiscal year 2007-2008 or in any subsequent fiscal year, levy any tax for the support of the public schools which was not levied in the 2006-2007 fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act (Act 511), or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions summarized below is applicable and the use of such exception is approved by the Pennsylvania Department of Education (PDE):

1. to pay interest and principal on indebtedness incurred (i) prior to September 4, 2004, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2004, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2004; to pay interest and principal on any indebtedness approved by the voters at referendum (electoral debt); and to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;
2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances; and
3. to make payments into the State Public School Employees’ Retirement System when the increase in the estimated payments between the current year and the upcoming year is greater than the Index, as determined by PDE in accordance with the provisions of Act 1.

Any revenue derived from an increase in the rate of any tax allowed under the exception numbered 1 above may not exceed the anticipated dollar amount of the expenditure, and any revenue derived from an increase in the rate of any tax allowed pursuant to any other exception enumerated above may not exceed the rate increase required, as determined by PDE. If a school

district's petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

The Index (to be determined and reported by PDE by September of each year for application to the following fiscal year) is the average of the percentage increase in the statewide average weekly wage, as determined by the State Department of Labor and Industry for the preceding calendar year, and the employment cost index for elementary and secondary schools, as reported by the federal Bureau of Labor Statistics for the preceding 12-month period beginning July 1 and ending June 30. If and when a school district has a Market Value/Income Aid Ratio greater than 0.40 for the prior school year, however, the Index is adjusted upward by multiplying the unadjusted Index by the sum of 0.75 and such Aid Ratio.

The Act 1 Index applicable to the School District in the current and prior fiscal years are as follows:

<u>Fiscal Year</u>	<u>Index</u>
2009-10	4.1%
2010-11	2.9%
2011-12	1.4%
2012-13	1.7%
2013-14	1.7%

In accordance with Act 1, the School District put a referendum question on the ballot at the May, 15, 2007, primary election seeking voter approval to levy (or increase the rate of) an earned income and net profits tax ("EIT") or a personal income tax ("PIT") and use the proceeds to reduce local real estate taxes by a homestead and farmstead exclusion. The referendum was **NOT** approved by the voters.

A board of school directors may submit, but is not required to submit, a referendum question to the voters at the municipal election in 2009 or any later year seeking approval to levy or increase the rate of an EIT or a PIT for the purpose of funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate that is required to provide the maximum homestead and farmstead exclusions allowable under law.

#### **Status of the Bonds Under Act 1**

The Bonds described in this Official Statement do not represent debt that was approved ("incurred") by the board of school directors prior to the effective date of Act 1, therefore the board of school directors may not apply to the Pennsylvania Department of Education (PDE) to use the Act 1 referendum exception for previously incurred debt if a tax increase greater than the Index is needed to provide for payment of principal or interest on the Bonds. The School District, however, has included sufficient new millage in its current year budget to cover the full amount of the debt service on the Bonds without exceeding the Act 1 Index (although the actual tax increase may have exceeded the Index as a result of the application of other approved exceptions to the Index).

#### **Act 24 of 2001**

Act 24 of 2001 of the Commonwealth (the Optional Occupation Tax Elimination Act) authorizes a board of school directors to schedule a public hearing and conduct a ballot referendum on replacing any existing school district occupation tax with an increase in the local earned income and net profits tax in a revenue neutral manner. Under the Taxpayer Relief Act, a school district may schedule such a referendum at any municipal election except a municipal election at which the school district seeks voter approval to convert its earned income and net profits tax to a personal income tax.

The School District received voter approval to eliminate the occupation tax and increase the earned income tax rate. The School District's occupation tax was eliminated and the School District's earned income tax rate was increased from .5% to 1.0% effective beginning in the School District's 2003-04 fiscal year.

## Act 48 of 2003

Pennsylvania Act No. 2003-48 (enacted December 23, 2003) prohibits a school district from increasing real property taxes for the school year 2005-2006 or any subsequent school year, unless the school district has adopted a budget for such school year that includes an estimated ending unreserved undesignated fund balance which is not more than a specified percentage of the total budgeted expenditures, as set forth below:

<b><u>Total Budgeted Expenditures</u></b>	<b><u>Estimated Ending Unreserved Undesignated Fund Balance as a Percentage of Total Budgeted Expenditures</u></b>
Less than or equal to \$11,999,999	12.0%
Between \$12,000,000 and \$12,999,999	11.5%
Between \$13,000,000 and \$13,999,999	11.0%
Between \$14,000,000 and \$14,999,999	10.5%
Between \$9,945,000 and \$15,999,999	10.0%
Between \$16,000,000 and \$16,999,999	9.5%
Between \$17,000,000 and \$17,999,999	9.0%
Between \$18,000,000 and \$18,999,999	8.5%
Greater than or equal to \$19,000,000	8.0%

“Estimated ending unreserved fund balance” is defined in Act 2003-48 as that portion of the fund balance which is appropriable for expenditure or not legally or otherwise segregated for a specific or tentative future use, projected for the close of the school year for which a school district’s budget was adopted and held in the general fund accounts of the school district.

### Tax Levy Trends

Table B-6 which follows shows the recent trend of tax rates levied by the School District. Table B-7 shows the comparative trend of real property tax rates for the School District, four boroughs and three townships located in the School District, and for Bucks County.

**TABLE B-6  
QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
TAX RATES**

	<b>Real Estate</b>	<b>Real Estate Transfer Tax</b>	<b>Wage and Income Tax<sup>(1)</sup></b>	<b>Per Capita<sup>(2)</sup></b>
	<b>(mills)</b>	<b>(%)</b>	<b>(%)</b>	<b>(\$)</b>
2009-10 .....	129.50	1.00	1.0	10.00
2010-11 .....	138.37	1.00	1.0	10.00
2011-12 .....	140.25	1.00	1.0	10.00
2012-13 .....	141.51	1.00	1.0	10.00
2013-14 .....	143.92	1.00	1.0	10.00

<sup>(1)</sup>The School District collects 1.0% and the municipalities collect .5% providing they levy the tax.

<sup>(2)</sup>\$5.00 under Act 511 and \$5.00 under Section 679 of the School Code.

Source: School District Officials.

**TABLE B-7  
QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
COMPARATIVE REAL PROPERTY TAX RATES  
(Mills on Assessed Value)**

	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
<b>School District.....</b>	129.50000	138.37000	140.25000	141.51000	143.92000
Haycock Township.....	4.00000	5.00000	5.00000	6.00000	6.00000
Milford Township .....	2.00000	2.00000	2.00000	2.00000	2.00000
Quakertown Borough .....	1.62500	1.62500	1.62500	1.62500	1.62500
Richland Township .....	9.50000	9.50000	9.50000	9.50000	11.30000
Richlandtown Borough.....	1.25000	1.25000	1.25000	1.25000	5.00000
Trumbauersville Borough.....	2.50000	2.50000	2.50000	2.50000	2.50000
Bucks County.....	21.94220	21.94220	23.20000	23.20000	23.20000

Source: Local Government officials/website.

## Real Property Tax

The real property tax (excluding delinquent collections) produced \$54,556,645 in 2012-13, approximately 61.7 percent of overall revenues. The tax is levied on July 1 of each year. Taxpayers who remit prior to August 31 receive a 2 percent discount, and those who remit between September 1 and November 1 pay at par. Taxes are considered delinquent as of November 1, and are lienied with the County tax collection bureau as of December 31. Beginning with the 2007-08 fiscal year, eligible taxpayers could opt into the installment method of payment for their school taxes. Installment payments are based upon three (3) one-third payments of the base tax amount. The due date for installment payments is August 15, October 15, and December 15.

The following tables summarize recent trends of assessed and market valuations of real property and real property tax collection data. The last countywide assessment in Bucks County was in 1973. Ratio of Assessed Value to Market Value changed to 100% from 25% beginning with the 2005-06 school year.

**TABLE B-8**  
**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**REAL PROPERTY ASSESSMENT DATA**

<b>Year</b>	<b>Market Value</b>	<b>Assessed Value</b>	<b>Ratio</b>
2008-09 .....	\$3,081,126,668	\$411,799,740	13.37%
2009-10 .....	\$3,120,413,104	\$417,310,375	13.37%
2010-11 .....	\$3,350,060,010	\$415,896,820	12.41%
2011-12 .....	\$3,326,730,625	\$413,367,970	12.43%
2012-13 .....	\$3,388,883,754	\$414,833,360	12.24%
Compound Average Annual Percentage Change.....	1.92%	0.15%	

Source: Pennsylvania State Tax Equalization Board.

**TABLE B-9**  
**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**REAL PROPERTY ASSESSMENT DATA BY MUNICIPALITY**

	<b>2011 Market Value</b>	<b>2011 Assessed Value</b>	<b>2012 Market Value</b>	<b>2012 Assessed Value</b>
Quakertown Community 'School District.....	\$3,326,730,625	\$413,367,970	\$3,388,883,754	\$414,833,360
Haycock Township.....	330,282,002	32,334,540	354,866,981	32,155,860
Milford Township .....	1,060,335,282	129,594,160	1,056,961,389	129,543,820
Quakertown Borough .....	633,594,481	79,471,090	657,189,233	79,639,220
Richland Township .....	1,174,596,430	154,935,620	1,190,402,323	156,437,640
Richlandtown Borough.....	63,384,478	9,029,840	65,894,839	9,044,230
Trumbauersville Borough.....	64,537,952	8,002,720	63,568,987	8,012,590
Bucks County.....	66,174,283,411	8,015,255,795	70,915,719,017	8,427,119,445

Source: Pennsylvania State Tax Equalization Board.

**TABLE B-10**  
**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**ASSESSMENT BY LAND USE**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Residential.....	\$285,173,150	\$288,251,040	\$287,723,020	\$285,927,350	\$286,010,480
Lots .....	4,113,670	3,500,530	2,839,190	3,256,290	3,427,100
Industrial .....	25,218,710	25,080,730	24,188,160	23,841,380	24,376,220
Commercial.....	62,382,740	65,320,460	66,613,340	65,787,260	66,876,750
Agriculture .....	34,816,080	34,295,830	32,630,180	33,638,930	34,086,780
Land .....	95,390	908,340	1,902,930	916,760	56,030
<b>Total.....</b>	<b>\$411,799,740</b>	<b>\$417,356,930</b>	<b>\$415,896,820</b>	<b>\$413,367,970</b>	<b>\$414,833,360</b>

Source: Pennsylvania State Tax Equalization Board.

**TABLE B-11**  
**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**REAL PROPERTY TAX COLLECTION DATA**

<b>Year</b>	<b>Assessed Value</b>	<b>Total Billing<sup>(1)</sup></b>	<b>Current Year Collections (July-June)</b>	<b>Current Year Collections as Percentage of Total Billing</b>	<b>Total Current Plus Delinquent Collections<sup>(2)</sup></b>	<b>Collections as Percent of Current Plus Delinquent Collections</b>
2008-09	\$400,050,702	\$50,206,343	\$47,706,664	95.02%	\$48,585,666	96.77%
2009-10	401,597,886	52,006,934	49,367,261	94.92%	49,963,678	96.07%
2010-11	401,198,336	55,513,811	52,717,436	94.96%	53,533,544	96.43%
2011-12	399,450,798	56,022,990	53,685,907	95.83%	54,651,536	97.55%
2012-13	401,139,569	56,765,263	54,394,514	95.82%	55,035,000	96.95%

<sup>(1)</sup>Flat billing plus penalties, less discounts, rebates and exonerations.

<sup>(2)</sup>Includes delinquent realty taxes collected only; does not include Tax Claim collections.

Source: School District officials.

The ten largest real property taxpayers, together with 2013-14 assessed values, are shown on Table B-12 which follows. The aggregate assessed value of these ten taxpayers totals approximately 6.5 percent of total assessed value.

**TABLE B-12**  
**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**TEN LARGEST REAL PROPERTY TAXPAYERS, 2013-14**

<b>Owner</b>	<b>Property</b>	<b>2013-14 Assessed Value</b>
Highglen-Pineville	Shopping Center/Land/Restaurant/Bank	\$3,862,460
RB Quakertown L	Retail/Shopping/Land	3,773,930
309 (Three) Venture Partnership	Retail/Restaurant/Land	3,468,210
Quakertown PA LLC	Warehouse/Manufacturing	3,263,510
Quakertown Holding Corp.	Shopping Center	2,628,000
Milford Ind. Commons	Business Center/wholesale/mfg./Land	2,487,670
Melody Lakes Prop.	Mobile Home Park	2,143,590
Faulkner Ciocca Management LP	House/land/Office/Showroom/Garage/Parking lot	2,065,700
Quakertown Ind. Prop. LLC	Warehouse/Manufacturing	1,780,560
Quakertown West Inc.	Apartment Complex	1,498,560
<b>Total</b>		<b>\$26,963,190</b>

Source: School District officials.

#### **Other Taxes**

Under Act 511, the School District collected \$9,319,587 in other taxes in 2012-13. Among the taxes authorized by Act 511, the Per Capita Tax, the Earned Income Tax and Real Estate Transfer Tax are levied by the School District. The Act 511 limit, equal to 12 mills on the market value of real property, was \$40,666,605.

*Per Capita Tax.* A tax of \$10.00 (\$5.00 under Act 511 and \$5.00 under the School Code) is levied on each resident over 18 years old. The School District yielded \$142,014 (estimated) in 2012-13, less than one percent of School District revenues.

*Earned Income Tax.* A tax of one percent (subject to sharing) is levied on the earned income of residents. The School District yielded \$8,559,320 in 2012-13, approximately 9.7 percent of School District revenues.

*Real Estate Transfer.* A tax of one-percent (subject to sharing) of the value of real estate transfers yielded \$689,259 in 2012-13, less than one percent of School District revenues.

## State Aid to School Districts

Pennsylvania school districts receive financial assistance from the Commonwealth in a number of forms, all subject to statutory provisions and annual appropriation by the Pennsylvania General Assembly.

The largest subsidy, basic instructional subsidy, is allocated to all school districts based on factors such as: (1) the per pupil market value of assessable real property in the school district; (2) the per pupil earned income in the school district; (3) the school district's tax effort, as compared with the tax effort of other school districts in the Commonwealth; and (4) student count. School districts also receive subsidies for special education, pupil transportation, health service and debt service.

## DEBT AND DEBT LIMITS

### Debt Statement

Table B-13 which follows shows the debt of the School District as of March 20, 2014 including the issuance of the Bonds.

**TABLE B-13**  
**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**DEBT STATEMENT**  
**(As of March 20, 2014)\***

	<b>Gross Outstanding</b>
<b>NONELECTORAL DEBT</b>	
General Obligation Bonds, Series B of 2013.....	\$8,995,000
General Obligation Bonds, Series A of 2013 .....	7,295,000
General Obligation Bonds, Series of 2013 .....	9,480,000
General Obligation Bonds, Series of 2012 .....	8,950,000
General Obligation Bonds, Series of 2011 .....	9,700,000
General Obligation Bonds, Series A of 2010 .....	8,365,000
General Obligation Bonds, Series of 2010 .....	14,985,000
General Obligation Bonds, Series A of 2009 .....	19,215,000
General Obligation Notes, Series A of 2008 .....	8,912,296
General Obligation Notes, Series of 2006 .....	1,769,000
General Obligation Notes, Series A of 2004 .....	8,600,000
General Obligation Notes, Series of 2003 .....	3,403,000
General Obligation Notes, Series C of 2000.....	6,275,000
General Obligation Notes, Series B of 2000.....	2,785,000
General Obligation Notes, Series of 2000 .....	3,850,000
General Obligation Notes, Series B of 1997.....	1,211,000
<b>Subtotal .....</b>	<b>\$123,790,296</b>
<b>Less: Debt Deemed Self-Liquidating .....</b>	<b>(\$8,600,000)</b>
<b>TOTAL NONELECTORAL DEBT .....</b>	<b>\$115,190,296</b>
<b>LEASE RENTAL DEBT</b>	
General Obligation Note, Series of 2014 <sup>(1)</sup> .....	\$7,116,659
General Obligation Note, Series of 2010 <sup>(2)</sup> .....	1,110,000
<b>TOTAL LEASE RENTAL DEBT .....</b>	<b>\$8,226,659</b>
<b>TOTAL PRINCIPAL OF DIRECT DEBT .....</b>	<b>\$123,416,955</b>

\*Includes the Bonds offered through this Official Statement.

<sup>(1)</sup>The School District's pro rata share in relation to the Bonds offered through this Official Statement.

<sup>(2)</sup>The School District's pro rata share in relation to the State Public School Building Authority, Commonwealth of Pennsylvania, (Upper Bucks County Area Vocational Technical School Project), Bucks County, Pennsylvania, School Lease Revenue Bonds, Series of 2010.

## Debt Limit and Remaining Borrowing Capacity

The statutory borrowing limit of the School District under the Act is computed as a percentage of the School District's "Borrowing Base". The "Borrowing Base" is defined as the annual arithmetic average of "Total Revenues" (as defined by the Act), for the three full fiscal years ended next preceding the date of incurring debt. The School District calculates its present borrowing base and borrowing capacity as follows:

Total Revenues for 2010-11 .....	\$85,970,698
Total Revenues for 2011-12 .....	86,140,956
Total Revenues for 2012-13 .....	<u>87,872,320</u>
<b>Total</b> .....	<u>\$259,983,974</u>
Annual Arithmetic average (Borrowing Base) .....	<u>\$86,661,325</u>

Under the Act as presently in effect, no school district shall incur any nonelectoral debt or lease rental debt, if the aggregate net principal amount of such new debt together with any other net nonelectoral debt and lease rental debt then outstanding, would cause the net nonelectoral debt plus net lease rental debt to exceed 225% of the Borrowing Base. The application of the aforesaid percentage to the School District's Borrowing Base produces the following product:

	<b><u>Legal Limit</u></b>	<b><u>Net Debt Outstanding*</u></b>	<b><u>Remaining Borrowing Capacity</u></b>
Net Nonelectoral Debt and Lease Rental Debt Limit:			
225% of Borrowing Base .....	\$194,987,980	\$123,416,955	\$71,571,025

\*Includes the Bonds described herein; does not reflect credits against gross indebtedness that may be claimed for a portion of principal of debt estimated to be reimbursed by Commonwealth aid.

{REMAINDER OF PAGE INTENTIONALLY LEFT BLANK}

## Debt Service Requirements

The School District has never defaulted on the payment of debt service.

## Future Financing

The School District does plan to issue an additional \$30 million in the next 2-3 years for their capital improvement projects.

## LABOR RELATIONS

### School District Employees

There are presently 456 full-time and 166 part-time employees of the School District, including 379 teachers and 23 administrators, (385 are full-time) support personnel, including secretaries, custodial employees, maintenance staff, and teacher aides.

The School District's teachers are represented by the Quakertown Community Education Association, an affiliate of the Pennsylvania State Education Association, under a contract with the School District which expires on June 30, 2016. The support staff is represented by the Quakertown Community Educational Support Personnel, an affiliate of Pennsylvania State Education Association, under a contract which expires on June 30, 2017.

### Pension Program

School Districts in Pennsylvania are required to participate in a statewide pension program administered by the Public School Employees Retirement System (PSERS). All of the School District's full-time employees, part-time employees who work more than 80 days in a school year, and hourly employees who work over 500 hours a year participate in the program. However, please note a Pennsylvania Supreme Court decision has removed the hourly de minimis requirement for current members of PSERS regarding the purchase of credit for their part-time school service rendered prior to their being members of PSERS, for purposes of increasing their pension benefits.

Beginning July 1, 1976, certain revisions were made in the pension program. The Retirement Board, previously under the Department of Education of the Commonwealth, became an independent agency. However, the program is still guaranteed by the Commonwealth. Currently, each party to the program contributes a fixed percentage of the employee's salary. Employees belonging to the Public School Employees Retirement System ("PSERS") prior to July 22, 1983 contribute 5.25% of their salary, and employees who joined the PSERS on or after July 22, 1983 contribute 6.25% of their salary. On February 17, 2002, Governor Ridge signed Act 9 which created a new membership class that sets the employee contribution rate at 7.50% of the employee's salary for those employees hired on or after July 1, 2001. Act 9 also provides an option for those employees hired prior to July 1, 2001 to elect a contribution rate of 6.50%, if they were hired before July 22, 1983, or 7.50% if they were hired on or after July 22, 1983. Act 120 of 2010 was passed by the General Assembly on November 15 and signed by Governor Rendell on November 23, 2010. The benefit reductions contained in this legislation will only impact individuals who become new members of PSERS on or after July 1, 2011. New members will have the option of selecting one of 2 new classes. The members selecting class T-E will contribute a base rate of 7.5% with "shared risk" contribution levels between 7.5% and 9.5% and a pension multiplier of 2.0%. Members selecting class T-F will contribute a base rate of 10.3% with shared risk contribution levels between 10.3% and 12.3% and a pension multiplier of 2.5%. In accordance with Senate Bill 1042 enacted on July 6, 2010, the employer rate was recertified at 5.64% for fiscal year 2010-11, 8.65% for fiscal year 2011-12 and 12.36% for fiscal year 2012-13. The rate for fiscal year 2013-14 has been set at 16.93% of payroll.

The School District and the Commonwealth are responsible for paying a portion of the employer's share. School entities are initially responsible for paying 100% of the employer share of contributions to PSERS. The Commonwealth reimburses the employer for one-half the payment for employees. The School District contributions are made on a quarterly basis and employee contributions are deducted monthly for each paycheck and remitted quarterly. Recent School District payments have been as follows:

2008-09.....	\$969,593
2009-10.....	\$955,597
2010-11.....	\$1,156,480
2011-12.....	\$1,768,241
2012-13.....	\$2,568,044
2013-14 (budgeted).....	\$3,740,354

The School District is current in all payments. The PSERS complete report is available on the PSERS website on the Internet: [www.psers.state.pa.us](http://www.psers.state.pa.us).

Source: PSERS – Financial Highlights.



## Other Post-Employment Benefits

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors assigns the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

### *Funding Policy*

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2013, the District contributed \$603,196 to the plan for current premiums.

### *Annual OPEB Cost and Net OPEB Obligation*

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined 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 costs 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 District's OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

Annual required contribution (ARC).....	\$685,555
Interest on Net OPEB Obligation .....	12,127
Adjustment to ARC .....	(16,545)
Annual OPEB cost (expense) .....	681,137
Contributions made .....	(603,196)
Increase in Net OPEB obligation .....	77,941
Net OPEB Obligation - beginning of year .....	269,495
Net OPEB Obligation - end of year .....	<u>\$347,436</u>

### *Funded Status and Funding Progress*

As of May 1, 2012, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$7,113,065, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$6,411,946. The covered payroll (annual payroll of active employees covered by the plan) was \$40,922,269, and the ratio of the UAAL to the covered payroll was 15.67 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

## CONTINUING DISCLOSURE UNDERTAKING

During the past five (5) years, the School District has been in compliance with respect to all prior written undertakings under the Rule to provide continuing disclosure with respect to its outstanding securities, with the following exception(s): The School District failed to file in a timely manner the required annual financial and operating information for fiscal year ending June 30, 2009 through and including June 30, 2011; however, the School District has submitted such information to the MSRB for June 30, 2009 and June 30, 2010 on October 18, 2011 and for fiscal year ending June 30, 2011 on September 20, 2012 and the same is now available through the MSRB's EMMA System. The School District has implemented procedures to ensure that all future filings required by its continuing disclosure undertakings will be made in a timely manner. The School District submitted the required annual financial and operating information for fiscal year ending June 30, 2012 and June 30, 2013 in a timely manner.

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**APPENDIX C**  
**BUCKS COUNTY, PENNSYLVANIA**  
**Descriptive, Financial and Economic Information**

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

## Population

Table C-1 which follows shows recent population trends for Bucks County and the Commonwealth of Pennsylvania. Table C-2 shows 2000 age composition and average number of persons per household in Bucks County and for the Commonwealth.

**TABLE C-1**  
**RECENT POPULATION TRENDS**

	<u>2000</u>	<u>2010</u>	<b>Compound Average Annual Percentage Change <u>2000-2010</u></b>
Bucks County .....	597,635	625,249	0.45%
Pennsylvania .....	12,281,054	12,702,379	0.34%

Source: U.S. Bureau of the Census, Decennial Census and Pennsylvania State Data Center, 2000 & 2010 General Population and Housing Characteristics: Pennsylvania.

**TABLE C-2**  
**AGE COMPOSITION**

	<u>0-17</u> <u>Years</u>	<u>18-64</u> <u>Years</u>	<u>65+</u> <u>Years</u>	<b>Persons Per <u>Household</u></b>
Bucks County .....	25.7	61.9	12.4	2.80
Pennsylvania .....	23.7	60.7	15.6	2.57

Source: Pennsylvania State Data Center, 2000 General Population and Housing Characteristics: Pennsylvania.

## Employment

Listed below are the major employers in the County:

<u>Name</u>	<u>Industry Sector</u>
Giant Food Stores LLC	Retail Trade
Central Bucks School District	Educational Services
St. Mary Medical Center	Health Care and Social Assistance
Northtec LLC	Manufacturing
Bucks County	Public Administration
Doylestown Hospital	Health Care and Social Assistance
Woods Services	Health Care and Social Assistance
Wal-Mart Associates Inc.	Retail Trade
Pennsbury School District	Educational Services
Council Rock School District	Educational Services

Source: Center for Workforce Information & Analysis – 2<sup>nd</sup> Quarter 2013

Overall employment data are not compiled for the Technical School, but such data are compiled for the Philadelphia, PA-NJ-DE-MD Metropolitan Statistical Area (the "PMSA"), (an area which includes the School District) as shown on Table C-3.

**TABLE C-3**

**DISTRIBUTION OF EMPLOYMENT BY INDUSTRY**  
**(Philadelphia Metropolitan Statistical Area)**  
**(Bucks, Chester, Delaware, Montgomery and Philadelphia – PA Counties)**  
**(New Castle – DE County, Cecil – MD County)**  
**(Burlington, Camden, Gloucester and Salem -NJ counties)**

**July 2013**  
**NONFARM JOBS**

<i>ESTABLISHMENT DATA</i>	<u>Industry Employment</u>				<u>Net Change From:</u>	
	<b>Jul 2013</b>	<b>Jun 2013</b>	<b>May 2013</b>	<b>Jul 2012</b>	<b>Jun 2013</b>	<b>Jul 2012</b>
<b>Total Nonfarm</b>	<b>2,735,500</b>	2,779,300	2,765,900	2,703,800	-43,800	31,700
<b>Total Private</b>	<b>2,434,000</b>	2,444,500	2,427,900	2,395,400	-10,500	38,600
<b>Goods Producing</b>	<b>286,100</b>	284,600	282,800	285,600	1,500	500
Mining, Logging, and Construction	<b>104,500</b>	102,500	101,300	102,200	2,000	2,300
<b>Manufacturing</b>	<b>181,600</b>	182,100	181,500	183,400	-500	-1,800
Durable Goods	<b>96,400</b>	97,000	96,700	96,800	-600	-400
Non-Durable Goods	<b>85,200</b>	85,100	84,800	86,600	100	-1,400
<b>SERVICE-PROVIDING</b>	<b>2,449,400</b>	2,494,700	2,483,100	2,418,200	-45,300	31,200
<b>PRIVATE SERVICE-PROVIDING</b>	<b>2,147,900</b>	2,159,900	2,145,100	2,109,800	-12,000	38,100
<b>Trade, Transportation and Utilities</b>	<b>500,800</b>	506,800	504,000	500,500	-6,000	300
Wholesale trade	<b>119,000</b>	120,200	119,900	122,900	-1,200	-3,900
Retail trade	<b>292,700</b>	293,000	291,000	290,500	-300	2,200
General merchandise stores	<b>46,600</b>	46,600	45,900	47,100	0	-500
Transportation, Warehousing and Utilities	<b>89,100</b>	93,600	93,100	87,100	-4,500	2,000
<b>Information</b>	<b>47,600</b>	47,900	48,000	48,600	-300	-1,000
<b>Financial Activities</b>	<b>203,800</b>	203,100	201,200	202,600	700	1,200
Finance and Insurance	<b>167,700</b>	167,300	166,000	167,000	400	700
Credit intermediation and related activities	<b>66,600</b>	66,600	66,400	67,200	0	-600
Depository credit intermediation	<b>33,800</b>	34,000	33,900	34,800	-200	-1,000
Real estate and rental and leasing	<b>36,100</b>	35,800	35,200	35,600	300	500
<b>Professional and Business Services</b>	<b>437,000</b>	439,400	432,100	426,500	-2,400	10,500
Professional and technical services	<b>209,400</b>	207,100	204,600	210,400	2,300	-1,000
Administrative and waste services	<b>170,000</b>	174,600	170,800	158,000	-4,600	12,000
<b>EDUCATION AND HEALTH SERVICES</b>	<b>580,100</b>	583,800	591,500	560,800	-3,700	19,300
Health care and social assistance	<b>456,000</b>	459,000	457,800	446,000	-3,000	10,000
Ambulatory health care services	<b>138,600</b>	140,400	140,500	135,900	-1,800	2,700
Hospitals	<b>140,800</b>	141,100	140,800	139,400	-300	1,400
<b>Leisure and Hospitality</b>	<b>254,600</b>	253,400	244,600	247,700	1,200	6,900
Accommodation and food services	<b>197,800</b>	201,400	197,700	193,900	-3,600	3,900
<b>Other Services</b>	<b>124,000</b>	125,500	123,700	123,100	-1,500	900
<b>Government</b>	<b>301,500</b>	334,800	338,000	308,400	-33,300	-6,900
Federal Government	<b>51,300</b>	52,100	52,100	53,500	-800	-2,200
State Government	<b>50,900</b>	51,500	54,200	50,800	-600	100
Local Government	<b>199,300</b>	231,200	231,700	204,100	-31,900	-4,800
Data benchmarked to March 2012	***Data changes of 100 may be due to rounding***					

Source: Pennsylvania State Employment Service: [www.paworkstats.state.pa.us](http://www.paworkstats.state.pa.us).

Table C-4 shows recent trends in labor force, employment and unemployment for Bucks County and the Commonwealth. The unemployment rate for Bucks County has been lower than for the Commonwealth during this period.

**TABLE C-4**  
**RECENT TRENDS IN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT\***  
**(Bucks County)**

							<b>Compound Average Annual Percentage Rate</b>
<b>Bucks County</b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013(1)</u></b>	
Civilian Labor Force (000)	350.7	351.0	339.0	339.4	345.0	347.3	-0.19%
Employment (000)	33.9	325.7	312.4	314.6	319.6	324.2	57.08%
Unemployment (000)	16.8	25.4	26.6	24.8	25.4	23.1	6.58%
Unemployment Rate	4.8	7.2	7.9	7.3	7.4	6.6	
<b>Pennsylvania</b>							
Civilian Labor Force (000)	6,395.0	6,414.0	6,340.00	6,386.00	6,487.00	6,529.00	0.42%
Employment (000)	6,051.0	5,895.0	5,791.00	5,879.00	5,973.00	6,037.00	-0.05%
Unemployment (000)	344.0	519.0	549	507	513	492	7.42%
Unemployment Rate	5.4	8.1	8.7	7.9	7.9	7.5	

\*Residence data.

<sup>(1)</sup>As of July 2013.

Source: Pennsylvania State Employment Service.

## Income

The data on Table C-5 shows trends in per capita income for the County and the Commonwealth over the 2000-2009 period.

**TABLE C-5**  
**RECENT TRENDS IN PER CAPITA INCOME\***

	<b><u>2000</u></b>	<b><u>2010</u></b>	<b>Compound Average Annual Percentage Change <u>2000-2010</u></b>
Bucks County .....	\$27,430	\$35,687	2.67%
Pennsylvania .....	20,880	27,049	2.62%

\*Income is defined by the Bureau of the Census as the sum of wage and salary income, non-farm self-employment income, net self-employment income, Social Security and Railroad retirement income, public assistance income, interest, dividends, pensions, etc. before deductions for personal income taxes, Social Security, etc. School District income is the population-weighted average for political subdivisions.

Source: 2010 & 2000: U.S. Census Bureau, Summary File 1 (SF 1) .

## Commercial Activity

Table C-6 shows retail sales over a recent five-year period for the County and the Commonwealth.

**TABLE C-6**  
**TOTAL RETAIL SALES**  
**(000)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Bucks County .....	\$13,971,381	\$12,212,330	\$11,419,978	\$12,203,284	\$12,198,149
MSA .....	107,108,443	94,687,876	89,183,335	94,935,061	94,890,513
Pennsylvania .....	N/R	180,948,327	174,483,292	188,193,104	188,149,727

NR: Not reported.

Source: Sales and Marketing Management Magazine.

## Educational Institutions

There are 80 public and private colleges, universities, and other institutions in the Philadelphia region. Combined, these schools confer nearly 55,000 degrees each year. Beyond Bucks County, the Philadelphia region is home to many well-known colleges and universities, including: Drexel University, Penn State University, Princeton University, Rutgers University, Temple University, University of Pennsylvania, and Villanova University.

## Medical Facilities

Within the County, and within the surrounding metropolitan region, County residents have access to some of the best medical resources in the United States. There are seven major hospitals operating within Bucks County: Frankford Hospital, located in Langhorne, Pennsylvania; Lower Bucks Hospital, located in Bristol, Pennsylvania; St. Mary Medical Center, located in Langhorne, Pennsylvania; Doylestown Hospital, located in Doylestown, Pennsylvania; Warminster Hospital, Grandview Hospital, Sellersville, Pennsylvania; St. Lukes Hospital, Quakertown, Pennsylvania

Additionally, the following list represents only a few of the hospitals and healthcare facilities that are located nearby, and are nationally and internationally known: University of Pennsylvania Hospital, Temple University Hospital, Fox Chase Cancer Center, Childrens Hospital of Philadelphia, Thomas Jefferson University Hospital and Hahnemann University Hospital.

Source: Bucks County Economic Development website.

## Transportation

Interstates 95 and 78, the Pennsylvania Turnpike and its Northeast Extension and southbound "Blue Route" connect Bucks County to 25 percent of the total U.S. population in less than a day's drive. U.S. Highway 1 and state routes 309, 313, 611, and 202 traverse the County.

The Philadelphia International Airport lies to the immediate south of Bucks County. Board one of 26 national and international carriers to reach more than 100 domestic and overseas destinations. The Lehigh Valley International Airport to the north in Allentown delivers daily, nonstop departures to all major East Coast and Midwest destinations. These flights connect to virtually every domestic and international destination. Several smaller local airports - three in Bucks County - offer air taxis, charter and private planes. The Bucks County Airport Authority owns and operates the Doylestown Airport and the Quakertown Airport.

Philadelphia serves as a hub in Amtrak's Northeast Corridor. Commuters take SEPTA - South East Pennsylvania Transit Authority - trains from central and southern Bucks County stations to link with Philadelphia, the corridor and beyond. Conrail hauls freight over an expansive rail network shared by CSX and Norfolk Southern. Local "short-haul" freight rail service is provided by SMS/Penn-Jersey Rail Lines and the New Hope-Ivyland Railroad

SEPTA bus routes traverse the region, including southern and central Bucks County.

Source: Bucks County Economic Development website.



## **Utilities**

### **Electric**

Bucks County is served by three high-powered electric service providers and under Pennsylvania's electricity deregulation program, consumers may choose from more than a dozen electricity providers nationwide. The three electric service providers in Bucks County include PPL, Inc., PECO Energy, and Metropolitan-Edison.

Electricity rates are competitive with other regions, but vary between service providers. It is best to contact the service provider directly for rate estimates or special programs which may be available.

Natural gas service is available in many areas of Bucks County, provided by PPL, Inc. and PECO Energy Company.

Service providers have installed state-of-the-art fiberoptic, broadband, and cellular technologies throughout the region. Local telephone service is provided by Verizon Communications and Cavalier Telephone. All major long-distance and cellular service providers are available in Bucks County.

### **Water**

Public water service is provided through the Bucks County Water & Sewer Authority, Philadelphia Suburban Water Company, and several local water authorities. Major ground water withdrawals by private wells fall under the jurisdiction of the Delaware River Basin Commission.

### **Sewer**

Public water service is provided through the Bucks County Water & Sewer Authority and local authorities.

Source: Bucks County Economic Development website.

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**APPENDIX D**  
**FORM OF BOND COUNSEL OPINION**

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**[DRAFT]**  
***King, Spry, Herman, Freund & Faul, LLC***  
***One West Broad Street, Suite 700***  
***Bethlehem, Pennsylvania 18018-5716***

April 24, 2014

RE: \$17,765,000 State Public School Building Authority  
Upper Bucks County Technical School  
School Lease Revenue Bonds, Series of 2014

The Upper Bucks County Technical School (the "Technical School") and its supporting component public school districts, being Quakertown Community School District, Palisades School District, and Pennridge School District (the "Participating School Districts") have determined to fund certain capital projects (the "Capital Projects"). The Technical School and Quakertown Community School District and Pennridge School District have requested the State Public School Building Authority (the "SPSBA") to provide the financing for the Capital Projects, and the SPSBA has agreed to undertake such financing by the issuance of its School Lease Revenue Bonds, Series of 2014 ("Bonds"). Palisades School District has determined to make a cash contribution for its proportionate share of the Capital Projects and as such will participate in the Capital Project but not the financing.

We have acted as Bond Counsel in connection with the issuance and sale by SPSBA of \$17,765,000 aggregate principal amount of the SPSBA's Upper Bucks County Technical School, School Lease Revenue Bonds, Series of 2014 (the "Bonds"), being issued under the provisions of the State Public School Building Authority Act of 1947, P.L. 1217, as supplemented and amended (the "Act"), and pursuant to a Second Supplemental Trust Indenture, dated as of May 1, 2014 (the "Second Supplemental Indenture"), by and between the SPSBA and Manufacturers and Traders Trust

Company, as trustee (the "Trustee"). The Second Supplemental Indenture supplements the original indenture by and between SPSBA and Trustee dated April 15, 2005 and the First Supplemental Indenture dated July 1, 2010 (the First Supplemental Indenture and Second Supplemental Indenture, together with the original indenture, the "Indenture").

The Bonds are dated April 24, 2014, are issuable in the denominations of \$5,000 or any integral multiple thereof, without coupons, in the aggregate principal amount for each maturity set forth in the Second Supplemental Indenture, and mature on the dates, in the principal amounts, and bear interest, payable on the dates at the respective rates per annum, as set forth in the Second Supplemental Indenture.

The Bonds are being issued for the purpose of (i) providing the funds required for the funding of the Capital Projects of Technical School; (ii) payment of the costs and expenses of issuing the Bonds, as defined in the Indenture.

The proceeds of the Bonds are being made available by the SPSBA to Technical School pursuant to a Second Supplemental Sublease, dated as of May 1, 2014, between the SPSBA and Technical School and the Participating School Districts (the "Second Supplemental Sublease"), under which the Quakertown Community School District and Pennridge School District (collectively referred to as the "Obligated School Districts") are required to make rental payments in the amounts and on the dates required for the payment of principal of and interest on the Bonds. Palisades School District will be making a cash contribution for its pro rata share of the costs of the Capital Project. Under the Second Supplemental Indenture, the SPSBA has pledged and assigned to the Trustee as security for the payment of the Bonds all revenues and all right, title and interest of the SPSBA under the Second Supplemental Sublease

(except certain rights to indemnification thereunder). The Second Supplemental Sublease supplements the original sublease between the SPSBA, the Technical School and the Participating School Districts dated April 15, 2005 and the First Supplemental Sublease dated July 1, 2010 (the Second Supplemental Sublease, together with the First Supplemental Sublease and original sublease, the “Sublease”).

The Obligated School Districts have made application to the Department of Community and Economic Development of the Commonwealth (the “Department”) for approval to become bound by the lease rental debt amortizing the Bonds and the guarantee, as required by the Local Government Unit Debt Act (“Debt Act”) of the Commonwealth, and approval of the Department has been received.

The Participating School Districts have approved the Second Supplemental Sublease and the Obligated School Districts have further undertaken in each case to guarantee the full payment of their proportionate shares, determined pursuant to the Second Supplemental Sublease, of the principal of and interest on the Bonds (the “Guarantee”), for purposes of which Guarantee they have each pledged their full faith, credit, and available taxing power pursuant to resolutions. The Debt Act provides that the foregoing covenant of Obligated School Districts shall be enforceable specifically. The Bonds are additionally secured by the “State Aid” Intercept Provisions of Section 785 of the Public School Code of 1999, as amended by Act 150 of 1975. The proportionate share of Second Supplemental Sublease rental payment due from the Obligated School Districts will be adjusted periodically in accordance with certain articles of agreement pursuant to which the Participating School Districts created the Technical School (the “Articles of Agreement”).

As Bond Counsel to the SPSBA, we have examined certified copies of the proceedings of the SPSBA relative to the issuance of the Bonds, together with such statutes and other materials as we have deemed necessary and appropriate to render the opinion set forth herein. In rendering such opinion, we have examined and relied upon (i) the opinion of counsel to the SPSBA with respect to the due organization and existence of the SPSBA, the authorization, execution and delivery of the documents to which the SPSBA is a party; and (ii) the opinion of counsel to Technical School with respect to the due execution and delivery by Technical School of the Second Supplemental Sublease and the valid and binding effect of the Second Supplemental Sublease on Technical School.

We have further relied upon covenants of the SPSBA, Technical School and Participating School Districts set forth in the Second Supplemental Indenture and the Second Supplemental Sublease, respectively, wherein the SPSBA, Technical School, and the Obligated School Districts agree to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations in effect thereunder in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Based upon the foregoing, we are of the opinion that:

1. The SPSBA is a body corporate and politic, is validly existing under the laws of the Commonwealth of Pennsylvania and has the corporate power and lawful authority (a) to execute and deliver the Second Supplemental Indenture, and (b) to issue and deliver the Bonds.



2. Each of the Second Supplemental Indenture and the Second Supplemental Sublease has been duly executed, acknowledged and delivered by the SPSBA, Technical School and the Participating School Districts, as applicable, and, assuming due authorization, execution, acknowledgment and delivery of the Second Supplemental Indenture by the Trustee, each is a legal, valid and binding obligation of the SPSBA enforceable against it in accordance with its respective terms.

3. All conditions precedent and concurrent to the issuance and sale of the Bonds have been complied with and the issuance and sale of the Bonds have been duly authorized by the SPSBA. The Bonds have been duly executed and delivered by the SPSBA and, assuming their due authentication by the Trustee, the Bonds are valid, binding and enforceable obligations of the SPSBA and are entitled to the benefit and security of the Indenture, to the extent indicated therein.

4. The Second Supplemental Indenture creates the valid pledge it purports to create in respect of the revenues of the SPSBA payable by Technical School and the Obligated School Districts under the Second Supplemental Sublease.

5. Under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof, the Bonds are exempt from personal property taxes in Pennsylvania, and the interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

6. Assuming compliance by the SPSBA and Technical School and the Obligated School Districts with certain covenants contained in the Second Supplemental Indenture and the Second Supplemental Sublease pertaining to tax matters, interest on the Bonds is excluded from gross income for purposes of federal

income tax under existing statutes, regulations, rulings and court decisions; except that no opinion is expressed with respect to application of a minimum tax on the interest on the Bonds as part of the "adjusted current earnings" of corporations, with respect to the branch profits tax on the adjusted effectively connected earnings and profits of certain foreign corporations doing business in the United States, or with respect to the environmental tax imposed under Section 59A of the Internal Revenue Code of 1986, as amended. Interest on the Bonds will not be an item of tax preference for purposes of the alternative minimum tax with respect to individuals or corporations. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

In rendering the foregoing opinions, we advise you as follows:

(a) It may be determined in the future that interest on the Bonds, retroactive to the date of issuance thereof or prospectively, is not exempt from federal income tax if certain requirements of the Code are not met. The SPSBA, Technical School and the Obligated School Districts have covenanted in the Second Supplemental Indenture and the Second Supplemental Sublease to comply with these requirements.

(b) The enforceability (but not the validity) of the documents mentioned herein, may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter enacted by any state or federal government and affecting the enforcement of creditors' rights generally, and "enforceable obligation of the SPSBA" shall not mean that specific performance would necessarily be available in every situation.

(c) The Bonds do not pledge the credit of the SPSBA nor the credit or taxing power of the Commonwealth of Pennsylvania, or of any political subdivision thereof (other than the pledge of the Obligated School Districts to pay their respective shares of the sublease rental payments due under the Second Supplemental Sublease and the Guarantee of payment of the principal and interest on the Bonds contained in the Obligated School Districts resolutions, as described herein), nor will the Commonwealth of Pennsylvania, or any political subdivision thereof, be liable for payment of the principal of, premium, if any, or interest on the Bonds, nor shall the Bonds be deemed obligations of the Commonwealth of Pennsylvania or of any political subdivision thereof.

This opinion is expressly limited to the matters stated herein and no opinion is implied or may be inferred beyond the matters expressly stated herein. This opinion is given as of the date hereof and we assume no obligation to update this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur. This opinion is expressly limited to the present internal laws of the Commonwealth and present federal law.

KING, SPRY, HERMAN, FREUND & FAUL, LLC

---

Kevin C. Reid, Esquire

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**APPENDIX E**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

**[THIS PAGE INTENTIONALLY LEFT BLANK]**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_

Member Surplus Contribution: \$ \_\_\_\_\_

Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer



**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**APPENDIX F**

**AUDITED FINANCIAL STATEMENTS OF THE TECHNICAL SCHOOL  
AND THE OBLIGATED SCHOOL DISTRICTS  
FOR FISCAL YEAR ENDED JUNE 30, 2013**

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**FINANCIAL STATEMENTS**  
**Year Ended June 30, 2013**

## TABLE OF CONTENTS

### Page Number

1 – 2	Table of Contents
3 – 5	Independent Auditor's Report
	Required Supplementary Information
6 – 13	Management's Discussion and Analysis
	Entity-wide Financial Statements
14	Statement of Net Position
15	Statement of Activities
	Fund Financial Statements
16	Balance Sheet – Governmental Funds
17	Reconciliation of Balance Sheet – Governmental Funds to Statement of Net Position
18	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
19	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
20	Budgetary Comparison Statement – General Fund
21	Statement of Net Position – Proprietary Funds
22	Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds
23	Statement of Cash Flows – Proprietary Funds
24	Statement of Net Position – Fiduciary Funds
25	Statement of Changes in Net Position – Fiduciary Funds
26 – 41	Notes to the Basic Financial Statements

## TABLE OF CONTENTS (CONTINUED)

### Page Number

42 – 43	Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>
	Other Supplementary Information
44	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund – All Divisions
45 – 46	Budgetary Comparison Schedule – General Program
47	Budgetary Comparison Schedule – Adult Evening School Program
48	Statement of Revenues, Expenses, and Changes in Net Position – Food Service Fund
49	Statement of Revenues and Expenses – Production Fund

# DRESLIN

## AND COMPANY, INC.

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

PAUL E. FARRELL, CPA  
LOUIS J. PEDANTE, CPA  
RONALD L. MINNINGER, CPA

190 W. GERMANTOWN PIKE, SUITE 150 • EAST NORRITON, PA 19401-1386  
PHONE: (610) 272-3571 • FAX: (610) 272-3616

THE BAXTER BUILDING, SUITE 102 • 1234 WEST CHESTER PIKE • WEST CHESTER, PA 19382  
PHONE: (610) 696-3064 • FAX: (610) 692-3108

### INDEPENDENT AUDITOR'S REPORT

To the Members of the Joint Operating Committee  
Upper Bucks County Technical School  
Perkasie, 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 Upper Bucks County Technical School as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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



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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Upper Bucks County Technical School, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 13 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 Upper Bucks County Technical School's basic financial statements. The other supplementary information on pages 44 through 49 is presented for purposes of additional analysis and are not a required part of the financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2013, on our consideration of Upper Bucks County Technical School'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 Upper Bucks County Technical School's internal control over financial reporting and compliance.

*Dreslin and Company, Inc.*

December 3, 2013

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Perkasie, Pennsylvania**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Required Supplementary Information (RSI)**  
**For the Year Ended June 30, 2013**

---

The discussion and analysis of the Upper Bucks County Technical School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School'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's financial performance.

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

*Joint Venture*

The Upper Bucks County Technical School (the "School") is a joint venture of three public school districts in Bucks County, Pennsylvania organized under the Public School Code of Pennsylvania. The School provides Career and Technical Education programs for high school students who are residents of the participating school districts, and for out-of-school adults. Each district is responsible for a share of the operating budget based on student enrollment using a formula described within the Articles of Agreement. The participating districts include: Palisades School District, Penridge School District, and Quakertown Community School District. Continuing education for out-of-school adults receives no school district funding and operates on student-paid tuition, and federal and state grants that become available.

**FINANCIAL HIGHLIGHTS**

*District Contributions*

The participating School Districts provide the largest sum of revenue, which supports the secondary education program and totaled \$6,444,088 for 2012-13. This amount is based on a funding formula that is agreed upon by all districts as part of the Articles of Agreement.

Total contributions from participating school districts was 85.78% of the secondary program's revenue for 2012–13.

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Perkasie, Pennsylvania**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Required Supplementary Information (RSI)**  
**For the Year Ended June 30, 2013**

---

**FINANCIAL STATEMENTS**

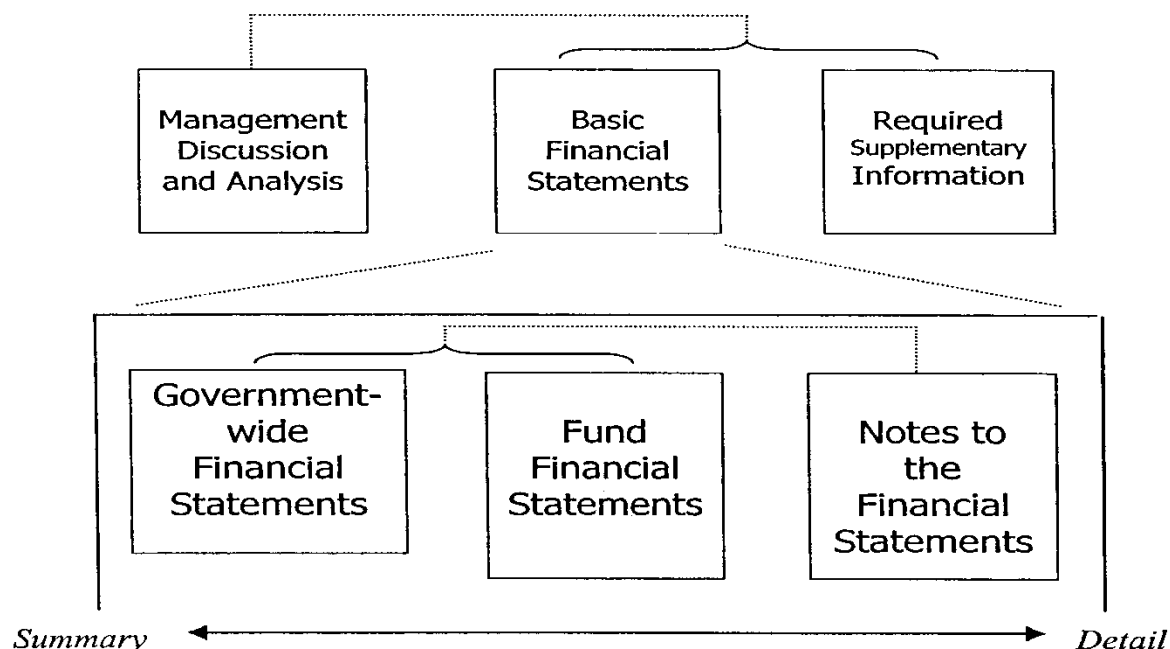
The financial statements consist of three parts: Management's Discussion and Analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School. The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the School's overall financial status.

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

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

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

**Figure A- 1 - Required components of Upper Bucks County Tech School's Financial Report**



**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
Perkasie, Pennsylvania

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Required Supplementary Information (RSI)**  
**For the Year Ended June 30, 2013**

Figure A-2 summarizes the major features of the financial statements, including the portion of the Program they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

**Figure 2 - Major Features of Upper Bucks County Tech School's Government-Wide and Fund Financial Statements**

	<b>Government -wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire School (except fiduciary funds)	All School activities that are not proprietary or fiduciary, such as education, administration, and community services	Activities the School operates similar to private business – Food Service Fund and Production Fund	Activities the School operates on behalf of others
<b>Required financial statements</b>	Statement of net position, Statement of activities	Balance sheet, Statement of revenues, expenditures and changes in fund balances	Statement of net position; Statement of revenues, expenses, and changes in net position; Statement of cash flows	Statement of fiduciary net position; Statement of changes in fiduciary net position
<b>Accounting basis and measurement of focus</b>	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resource focus	Accrual accounting and economic resource focus
<b>Type of asset / liability information</b>	All assets and liabilities, both financial and capital, long-term and short-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; excluding capital assets and long-term liabilities	All assets and liabilities, both financial and capital, long-term and short-term	All assets and liabilities, both financial and capital, long-term and short-term
<b>Type of inflow / outflow information</b>	All revenues and expense during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expense during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Perkasie, Pennsylvania**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Required Supplementary Information (RSI)**  
**For the Year Ended June 30, 2013**

---

**OVERVIEW OF FINANCIAL STATEMENTS**

*Government-Wide Statements*

The government-wide statements report information about the School 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's net position and how it has changed. Net position, the difference between the School's assets and liabilities, are one way to measure the School's financial health or position.

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

To assess the overall health of the School, one needs to consider additional factors, such as changes in the member school district contributions and the projected enrollment of the students.

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

- Governmental activities – All of the School's basic services are included here, such as instruction, administration, and community services. Participating school district contributions, state and federal subsidies and grants finance most of these activities.
- Business-type activities – The School operates programs which charge fees to the staff, students and the public to help them cover the costs of the operation. Our business-type programs are Food Service and the Production activities of the shops.

*Fund Financial Statements*

The School's financial statements provide detailed information about the most significant funds – not the School as a whole. Some funds are required by state law.

- Governmental funds – Most of the School'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 fund statements provide a detailed short-term view of the School operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- Proprietary funds – These funds are used to account for the School's 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 charges customers for services it provides – whether to outside

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
Perkasie, Pennsylvania

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Required Supplementary Information (RSI)**  
**For the Year Ended June 30, 2013**

customers or to other units in the School – these services are generally reported in proprietary funds. The Food Service Fund and Production Fund are the School's proprietary funds and are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows.

- Fiduciary funds – The School is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds or student activity funds. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School excludes these activities from the School-wide financial statements because it cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

The School's total net position was \$9,695,832 at June 30, 2013.

**Table 1 - Net Position - Fiscal Years Ended June 30, 2013 and 2012**

	2013			2012		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Current Assets (1)	4,806,148	60,273	4,866,421	4,270,103	81,468	4,351,571
Non-Current Assets	5,515,618	158,719	5,674,337	5,685,305	183,009	5,868,314
<b>Total Assets</b>	<b>\$10,321,766</b>	<b>\$218,992</b>	<b>\$10,540,758</b>	<b>\$9,955,408</b>	<b>\$264,477</b>	<b>\$10,219,885</b>
Current Liabilities (1)	613,623	9,756	623,379	585,013	18,569	603,582
Long-term Liabilities	215,016	6,531	221,547	234,763	6,416	241,179
<b>Total Liabilities</b>	<b>\$828,639</b>	<b>\$16,287</b>	<b>\$844,926</b>	<b>\$819,776</b>	<b>\$24,985</b>	<b>\$844,761</b>
Net Position Invested in Capital Assets	5,515,618	158,719	5,674,337	5,685,305	183,009	5,868,314
Restricted	336,769		336,769	255,300	-	255,300
Unrestricted	3,640,740	43,986	3,684,726	3,195,027	56,483	3,251,510
<b>Total Net Position</b>	<b>\$9,493,127</b>	<b>\$202,705</b>	<b>\$9,695,832</b>	<b>\$9,135,632</b>	<b>\$239,492</b>	<b>\$9,375,124</b>

(1) Includes internal balances, which represent the amount owed to or from the two types of activities within the Primary Government. These balances have been eliminated in the total column.

Most of the School's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is a combination of designated and undesignated amounts. The designated balances are amounts set aside to fund future equipment purchases or capital projects as may be planned by the School.

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Perkasie, Pennsylvania**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Required Supplementary Information (RSI)**  
**For the Year Ended June 30, 2013**

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School's activities that are supported by other general revenues. The largest general revenue category is the contributions from the participating school districts.

Table 2 takes the information from that Statement and rearranges it slightly so one can see the total revenues for the year.

**Table 2 - Changes in Net Position – Fiscal Years Ended June 30, 2013 and 2012**

	2013			2012		
	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
<b>REVENUES</b>						
Program Revenues						
Charges for Services	643,623	211,746	855,369	546,629	268,310	814,939
Operating Grants & Contrib	508,227	102,345	610,572	423,826	95,802	519,628
Capital Grants & Contrib	-	-	-	-	-	-
General Revenues	7,201,854	852	7,202,706	6,508,096	543	6,508,639
<b>Total Revenues</b>	<b>\$8,353,704</b>	<b>\$314,943</b>	<b>\$8,668,647</b>	<b>\$7,478,551</b>	<b>\$364,655</b>	<b>\$7,843,206</b>
<b>EXPENSES</b>						
Instruction	4,276,809		4,276,809	4,216,646	-	4,216,646
Instructional Student Support	897,600		897,600	924,962	-	924,962
Administrative & Financial Support	607,013		607,013	693,625	-	693,625
Operation & Maintenance of Plant	1,973,020		1,973,020	1,347,372	-	1,347,372
Operation of Noninstructional Svcs	19,785		19,785	31,573	-	31,573
Unallocated Depreciation Expense	221,982		221,982	242,864	-	242,864
Food Services	-	276,313	276,313	-	295,549	295,549
Production	-	75,417	75,417	-	104,955	104,955
<b>Total Expenses</b>	<b>\$7,996,209</b>	<b>\$351,730</b>	<b>\$8,347,939</b>	<b>\$7,457,042</b>	<b>\$400,504</b>	<b>\$7,857,546</b>
<b>Increase (Decrease) in Net Position</b>	<b>\$ 357,495</b>	<b>\$ (36,787)</b>	<b>\$ 320,708</b>	<b>\$ 21,509</b>	<b>\$ (35,849)</b>	<b>\$ (14,340)</b>

The tables below present the expenses of both the Governmental Activities and the Business-Type Activities of the School.

Table 3 shows the School's largest functions – instructional programs, instructional student support, administrative, and operation and maintenance of plant, among others, with each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local revenue and other miscellaneous revenues.



**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
Perkasie, Pennsylvania

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Required Supplementary Information (RSI)**  
**For the Year Ended June 30, 2013**

**Table 3 - Governmental Activities – Fiscal Years Ended June 30, 2013 and 2012**

<b><u>Functions/Programs</u></b>	2013		2012	
	<b>Total Cost of Services</b>	<b>Net cost of Services</b>	<b>Total Cost of Services</b>	<b>Net cost of Services</b>
Instruction	4,276,809	3,212,242	4,216,646	3,322,003
Instructional Student Support	897,600	851,140	924,962	885,458
Administrative & Financial Support	607,013	571,856	693,625	663,329
Operation & Maintenance of Plant	1,973,020	1,973,020	1,347,372	1,347,372
Operation of Non-instructional Svcs	19,785	14,119	31,573	25,561
Unallocated Depreciation Expense	221,982	221,982	242,864	242,864
<b>Total Governmental Activities</b>	<b>\$7,996,209</b>	<b>\$6,844,359</b>	<b>\$7,457,042</b>	<b>\$6,486,587</b>

Table 4 reflects the activities of the Business-Type Activities of the School.

**Table 4 - Business-Type Activities - Fiscal Years Ended June 30, 2013 and 2012**

<b><u>Functions/Programs</u></b>	2013		2012	
	<b>Total Cost of Services</b>	<b>Net cost of Services</b>	<b>Total Cost of Services</b>	<b>Net cost of Services</b>
Food Services	276,313	35,760	295,549	36,384
Production	75,417	1,879	104,955	8
<b>Total Business-Type Activities</b>	<b>\$351,730</b>	<b>\$37,639</b>	<b>\$400,504</b>	<b>\$36,392</b>

The Statement of Revenues, Expenses, and Changes in Fund Net Position for these proprietary funds will further detail the actual results of operations.

*Fund Balances*

At June 30, 2013, the School's governmental funds reported a combined fund balance of \$3,915,974 which is an increase of \$525,493 from June 30, 2012.

*Capital Project Fund*

This fund is used to hold the proceeds from the borrowing which was undertaken to complete certain capital projects; the debt associated with this borrowing is the obligation of the sending school districts, but is paid via this School's funds as a pass-through expense.

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
Perkasie, Pennsylvania

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Required Supplementary Information (RSI)**  
**For the Year Ended June 30, 2013**

*General Fund Budget*

A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

At June 30, 2013, the School had \$5,674,337 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$193,977 from June 30, 2012.

**Table 5 - Capital Assets Net of Depreciation – Governmental Activities**

	2013			2012		
	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
Land	41,250	-	41,250	41,250	-	41,250
Site Improvements	376,654	-	376,654	397,266	-	397,266
Building & Bldg Improvements	4,061,490	-	4,061,490	4,253,960	-	4,253,960
Furniture & Equipment	1,036,224	158,719	1,194,943	992,829	183,009	1,175,838
<b>Total</b>	<b>\$5,515,618</b>	<b>\$158,719</b>	<b>\$5,674,337</b>	<b>\$5,685,305</b>	<b>\$183,009</b>	<b>\$5,868,314</b>

**Debt Administration**

Debt obligations include accrued vacation pay and sick leave for certain employees of the School.

**FACTORS BEARING ON UPPER BUCKS COUNTY TECHNICAL SCHOOL'S FUTURE**

PA Act 72 Legislation continues to affect the revenues and operations of our sending school districts, which then limits the funding these member districts will be able to provide our School, and will impact decisions about borrowing funds to complete our planned building renovation. In the near future, an expected large increase in employer pension contribution share will require redistributing budgeted funds to cover these expenditures. We also continue to have concerns about the unknown factors of health care reform and the resultant effect on the cost of employee health benefits.

**CONTACTING THE SCHOOL FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the School's finances and to show the Joint Operating Committee's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office, Upper Bucks County Technical School, 3115 Ridge Road, Perkasie, PA 18944, 215.795.2911.

# UPPER BUCKS COUNTY TECHNICAL SCHOOL

## Statement of Net Position

June 30, 2013

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 4,064,633	\$ 78,522	\$ 4,143,155
Internal Balances	56,934	(56,934)	-
Due from Other Funds	96	-	96
Due from Other Governments	384,995	19,642	404,637
Other Receivables	22,714	682	23,396
Inventories	276,551	18,361	294,912
Prepaid Expenses	225	-	225
	<hr/>	<hr/>	<hr/>
Total Current Assets	4,806,148	60,273	4,866,421
	<hr/>	<hr/>	<hr/>
Capital Assets:			
Land	41,250	-	41,250
Site Improvements	376,654	-	376,654
Building and Building Improvements (Net)	4,061,490	-	4,061,490
Furniture and Equipment (Net)	1,036,224	158,719	1,194,943
	<hr/>	<hr/>	<hr/>
Total Capital Assets	5,515,618	158,719	5,674,337
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 10,321,766</u>	<u>\$ 218,992</u>	<u>\$ 10,540,758</u>
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 227,313	\$ 4,735	\$ 232,048
Accrued Salaries and Benefits	358,014	5,021	363,035
Payroll Withholding Liabilities	564	-	564
Current Portion of Long-term Liabilities	25,616	-	25,616
Deferred Revenues	1,700	-	1,700
Other Current Liabilities	416	-	416
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	613,623	9,756	623,379
	<hr/>	<hr/>	<hr/>
Long-term Liabilities:			
Compensated Absences	215,016	6,531	221,547
	<hr/>	<hr/>	<hr/>
Total Long-term Liabilities	215,016	6,531	221,547
	<hr/>	<hr/>	<hr/>
Total Liabilities	828,639	16,287	844,926
	<hr/>	<hr/>	<hr/>
<b>NET POSITION</b>			
Net Investment in Capital Assets	5,515,618	158,719	5,674,337
Restricted	336,769	-	336,769
Unrestricted	3,640,740	43,986	3,684,726
	<hr/>	<hr/>	<hr/>
Total Net Position	9,493,127	202,705	9,695,832
	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Position	<u>\$ 10,321,766</u>	<u>\$ 218,992</u>	<u>\$ 10,540,758</u>
	<hr/>	<hr/>	<hr/>

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Statement of Activities**  
**For the Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>							
Instruction	\$ 4,276,809	\$ 637,957	\$ 426,610	\$ -	\$(3,212,242)	\$ -	\$(3,212,242)
Instructional Student Support	897,600	-	46,460	-	(851,140)	-	(851,140)
Administrative and Financial Support Services	607,013	-	35,157	-	(571,856)	-	(571,856)
Operation and Maintenance of Plant Services	1,973,020	-	-	-	(1,973,020)	-	(1,973,020)
Operation of Noninstructional Services	19,785	5,666	-	-	(14,119)	-	(14,119)
Unallocated Depreciation	221,982	-	-	-	(221,982)	-	(221,982)
Total Governmental Activities	\$ 7,996,209	\$ 643,623	\$ 508,227	\$ -	(6,844,359)	-	(6,844,359)
<b>BUSINESS-TYPE ACTIVITIES</b>							
Food Service	276,313	138,208	102,345	-	-	(35,760)	(35,760)
Other	75,417	73,538	-	-	-	(1,879)	(1,879)
Total Business-type Activities	351,730	211,746	102,345	-	-	(37,639)	(37,639)
<b>TOTAL</b>	<u>\$ 8,347,939</u>	<u>\$ 855,369</u>	<u>\$ 610,572</u>	<u>\$ -</u>	<u>\$(6,844,359)</u>	<u>\$ (37,639)</u>	<u>\$(6,881,998)</u>
<b>GENERAL REVENUES:</b>							
Receipts from Member Districts					7,185,548	-	7,185,548
Investment Earnings					4,983	852	5,835
(Loss) on Disposal of Equipment					(9,006)	-	(9,006)
Miscellaneous					20,329	-	20,329
Total General Revenues					7,201,854	852	7,202,706
Change in Net Position					357,495	(36,787)	320,708
<b>NET POSITION - BEGINNING OF YEAR</b>					9,135,632	239,492	9,375,124
<b>NET POSITION - END OF YEAR</b>					\$ 9,493,127	\$ 202,705	\$ 9,695,832

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**

**Balance Sheet - Governmental Funds**

**June 30, 2013**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,739,058	\$ 325,575	\$ 4,064,633
Due from Other Funds	297,143	-	297,143
Due from Other Governments	151,064	233,931	384,995
Other Receivables	22,714	-	22,714
Prepaid Expenditures	<u>225</u>	<u>-</u>	<u>225</u>
Total Assets	<u><u>\$ 4,210,204</u></u>	<u><u>\$ 559,506</u></u>	<u><u>\$ 4,769,710</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 227,313	\$ -	\$ 227,313
Due to Other Funds	-	240,113	240,113
Accrued Salaries and Benefits	358,014	-	358,014
Accrued Liability for Compensated Absences	25,616	-	25,616
Payroll Withholding Liabilities	564	-	564
Deferred Revenues	1,700	-	1,700
Other Current Liabilities	<u>416</u>	<u>-</u>	<u>416</u>
Total Liabilities	<u>613,623</u>	<u>240,113</u>	<u>853,736</u>
<b>FUND BALANCES</b>			
Non-spendable	225	-	225
Restricted	17,376	319,393	336,769
Assigned	600,000	-	600,000
Unassigned	<u>2,978,980</u>	<u>-</u>	<u>2,978,980</u>
Total Fund Balances	<u>3,596,581</u>	<u>319,393</u>	<u>3,915,974</u>
Total Liabilities and Fund Balances	<u><u>\$ 4,210,204</u></u>	<u><u>\$ 559,506</u></u>	<u><u>\$ 4,769,710</u></u>

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Reconciliation of Balance Sheet - Governmental Funds to**  
**Statement of Net Position**  
**June 30, 2013**

<b>TOTAL GOVERNMENTAL FUND BALANCES</b>	<b>\$ 3,915,974</b>
---	---------------------

Amounts reported for governmental activities in the Statement of  
Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$11,901,125 and the accumulated depreciation is \$6,215,820.	5,515,618
--	-----------

The governmental funds follow the purchase method of inventory, therefore no inventory is reflected on the Balance Sheet. However, the Statement of Net Position reflects the consumption method of inventory.	276,551
--	---------

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.  
Long-term liabilities consist of the following:

Accumulated Compensated Absences	<u>(215,016)</u>
----------------------------------	------------------

<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 9,493,127</u></u></b>
--	-----------------------------------

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2013**

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Total Governmental <u>Funds</u>
<b>REVENUES AND OTHER FINANCING SOURCES</b>			
Local Sources	\$ 6,646,280	\$ 741,548	\$ 7,387,828
State Sources	884,748	-	884,748
Federal Sources	132,185	-	132,185
Other Financing Sources	4,592	-	4,592
	<u>7,667,805</u>	<u>741,548</u>	<u>8,409,353</u>
Total Revenues and Other Financing Sources			
	<u>7,667,805</u>	<u>741,548</u>	<u>8,409,353</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>			
Instruction	4,340,145	-	4,340,145
Support Services	2,869,866	-	2,869,866
Operation of Noninstructional Services	3,000	-	3,000
Facilities Acquisition, Construction, and Improvement	3,672	666,851	670,523
Refund of Prior-year Receipts	326	-	326
	<u>7,217,009</u>	<u>666,851</u>	<u>7,883,860</u>
Total Expenditures and Other Financing Uses			
	<u>7,217,009</u>	<u>666,851</u>	<u>7,883,860</u>
Net Change in Fund Balances	450,796	74,697	525,493
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>3,145,785</u>	<u>244,696</u>	<u>3,390,481</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 3,596,581</u></u>	<u><u>\$ 319,393</u></u>	<u><u>\$ 3,915,974</u></u>

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Reconciliation of Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Governmental Funds to Statement of Activities**  
**For the Year Ended June 30, 2013**

**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ 525,493

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

Capital outlays are reported in governmental funds as expenditures.  
However, in the Statement of Activities, the cost of those assets is  
allocated over their estimated useful lives as depreciation expense.  
This is the amount by which depreciation and losses on disposal  
of capital assets exceeded capital outlays during the period. (169,687)

In the Statement of Activities, certain operating expenses - compensated  
absences (vacations) 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. This amount represents the difference between  
the amount earned versus the amount used. 19,747

The governmental funds use the purchase method of inventory, where all  
items purchased are charged to expenditures. The Statement of Activities  
reflects the consumption method of recording inventory. This adjustment  
reflects the difference. (18,058)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 357,495

*The accompanying notes are an integral part of these financial statements.*



**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Budgetary Comparison Statement - General Fund**  
**For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Local Sources	\$ 6,900,859	\$ 6,900,859	\$ 6,646,280	\$ (254,579)
State Sources	737,538	737,538	884,748	147,210
Federal Sources	100,000	100,000	132,185	32,185
Other Financing Sources	-	-	4,592	4,592
Total Revenues and Other Financing Sources	<u>7,738,397</u>	<u>7,738,397</u>	<u>7,667,805</u>	<u>(70,592)</u>
<b>EXPENDITURES</b>				
Instruction:				
Regular Programs	72,250	72,250	60,538	11,712
Vocational Education Programs	4,725,930	4,725,930	4,145,359	580,571
Adult Education Programs	<u>145,372</u>	<u>145,372</u>	<u>134,248</u>	<u>11,124</u>
Total Instruction	<u>4,943,552</u>	<u>4,943,552</u>	<u>4,340,145</u>	<u>603,407</u>
Support Services:				
Pupil Personnel Services	554,300	554,300	477,376	76,924
Instructional Staff Services	396,427	396,427	322,560	73,867
Administrative Services	415,835	415,835	332,497	83,338
Pupil Health	90,097	90,097	82,058	8,039
Business Services	300,150	300,150	281,918	18,232
Operation and Maintenance of Plant Services	<u>1,423,070</u>	<u>1,423,070</u>	<u>1,373,457</u>	<u>49,613</u>
Total Support Services	<u>3,179,879</u>	<u>3,179,879</u>	<u>2,869,866</u>	<u>310,013</u>
Operation of Non-instructional Services:				
Student Activities	<u>3,601</u>	<u>3,601</u>	<u>3,000</u>	<u>601</u>
Total Operation of Non-instructional Services	<u>3,601</u>	<u>3,601</u>	<u>3,000</u>	<u>601</u>
Facilities Acquisition, Construction, and Improvement	5,000	5,000	3,672	1,328
Debt Service	310,775	310,775	-	310,775
Refund of Prior-year Receipts	<u>-</u>	<u>-</u>	<u>326</u>	<u>(326)</u>
Total Expenditures	<u>8,442,807</u>	<u>8,442,807</u>	<u>7,217,009</u>	<u>1,225,798</u>
Net Change in Fund Balance	(704,410)	(704,410)	450,796	1,155,206
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>2,804,410</u>	<u>2,804,410</u>	<u>3,145,785</u>	<u>341,375</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 2,100,000</u>	<u>\$ 2,100,000</u>	<u>\$ 3,596,581</u>	<u>\$ 1,496,581</u>

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2013**

	Food Service <u>Fund</u>	Non-major Fund - Production <u>Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 66,824	\$ 11,698	\$ 78,522
Due from Other Governments	12,644	6,998	19,642
Other Receivables	-	682	682
Inventories	<u>18,361</u>	<u>-</u>	<u>18,361</u>
Total Current Assets	97,829	19,378	117,207
Capital Assets:			
Furniture and Equipment (Net)	<u>158,719</u>	<u>-</u>	<u>158,719</u>
Total Assets	<u><u>\$256,548</u></u>	<u><u>\$ 19,378</u></u>	<u><u>\$275,926</u></u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 3,321	\$ 1,414	\$ 4,735
Due to Other Funds	40,834	16,100	56,934
Accrued Salaries and Benefits	<u>5,021</u>	<u>-</u>	<u>5,021</u>
Total Current Liabilities	49,176	17,514	66,690
Long-term Liabilities:			
Accrued Liability for Compensated Absences	<u>6,531</u>	<u>-</u>	<u>6,531</u>
Total Liabilities	<u>55,707</u>	<u>17,514</u>	<u>73,221</u>
<b>NET POSITION</b>			
Invested in Capital Assets	158,719	-	158,719
Unrestricted	<u>42,122</u>	<u>1,864</u>	<u>43,986</u>
Total Net Position	<u>200,841</u>	<u>1,864</u>	<u>202,705</u>
Total Liabilities and Net Position	<u><u>\$256,548</u></u>	<u><u>\$ 19,378</u></u>	<u><u>\$275,926</u></u>

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds**  
**For the Year Ended June 30, 2013**

	Food Service <u>Fund</u>	Non-major Fund - Production <u>Fund</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 138,208	\$ 73,538	\$ 211,746
<b>OPERATING EXPENSES</b>			
Salaries	107,247	3,242	110,489
Employee Benefits	54,303	545	54,848
Other Purchased Services	2,534	-	2,534
Supplies	87,939	71,630	159,569
Depreciation	24,290	-	24,290
Total Operating Expenses	276,313	75,417	351,730
Operating (Loss)	(138,105)	(1,879)	(139,984)
<b>NON-OPERATING REVENUES</b>			
Earnings on Investments	807	45	852
State Sources	13,219	-	13,219
Federal Sources	89,126	-	89,126
Total Non-operating Revenues	103,152	45	103,197
Change in Net Position	(34,953)	(1,834)	(36,787)
<b>NET POSITION - BEGINNING OF YEAR</b>	235,794	3,698	239,492
<b>NET POSITION - END OF YEAR</b>	\$ 200,841	\$ 1,864	\$ 202,705

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Year Ended June 30, 2013**

	Food Service <u>Fund</u>	Non-major Fund - Production <u>Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Users	\$ 138,208	\$ 72,856	\$ 211,064
Cash Payments to Employees	(160,486)	(3,787)	(164,273)
Cash Payments to Suppliers	<u>(50,754)</u>	<u>(64,263)</u>	<u>(115,017)</u>
Net Cash Provided (Used) by Operating Activities	<u>(73,032)</u>	<u>4,806</u>	<u>(68,226)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
State Sources	12,528	-	12,528
Federal Sources	<u>60,470</u>	<u>-</u>	<u>60,470</u>
Net Cash Provided by Non-capital Financing Activities	<u>72,998</u>	<u>-</u>	<u>72,998</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Earnings on Investments	<u>807</u>	<u>45</u>	<u>852</u>
Net Cash Provided by Investing Activities	<u>807</u>	<u>45</u>	<u>852</u>
Net Increase in Cash and Cash Equivalents	773	4,851	5,624
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>66,051</u>	<u>6,847</u>	<u>72,898</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 66,824</u></u>	<u><u>\$ 11,698</u></u>	<u><u>\$ 78,522</u></u>
<b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating (Loss)	\$ (138,105)	\$ (1,879)	\$ (139,984)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	24,290	-	24,290
Value of Donated Commodities Consumed	16,703	-	16,703
Change in Assets and Liabilities:			
Other Receivables	-	(682)	(682)
Advances to Other Funds	42,163	-	42,163
Inventories	(7,971)	-	(7,971)
Prepaid Expenses	-	964	964
Accounts Payable	(11,176)	(9,526)	(20,702)
Accrued Salaries and Benefits	949	-	949
Advances from Other Funds	-	15,929	15,929
Accrued Liability for Compensated Absences	<u>115</u>	<u>-</u>	<u>115</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (73,032)</u></u>	<u><u>\$ 4,806</u></u>	<u><u>\$ (68,226)</u></u>
<b>SCHEDULE OF NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>			
Value of Donated Commodities Received from Federal Government	\$ 16,703	\$ -	\$ 16,703

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Statement of Net Position - Fiduciary Funds**  
**June 30, 2013**

	Private Purpose <u>Trust</u>	Agency <u>Funds</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	<u>\$ 7,303</u>	<u>\$ 56,148</u>
Total Assets	<u><u>\$ 7,303</u></u>	<u><u>\$ 56,148</u></u>
<b>LIABILITIES</b>		
Due to Other Funds	\$ -	\$ 96
Accounts Payable	-	614
Due to Student Clubs	<u>-</u>	<u>55,438</u>
Total Liabilities	<u><u>-</u></u>	<u><u>\$ 56,148</u></u>
<b>NET POSITION</b>		
Restricted	<u>7,303</u>	
Total Net Position	<u><u>\$ 7,303</u></u>	

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Statement of Changes in Net Position - Fiduciary Funds**  
**For the Year Ended June 30, 2013**

	Private Purpose <u>Trust</u>
<b>ADDITIONS</b>	
Contributions	\$ 7,819
Investment Earnings	<u>3</u>
Total Additions	<u>7,822</u>
<b>DEDUCTIONS</b>	
Awards	4,788
Other Deductions	<u>41</u>
Total Deductions	<u>4,829</u>
Change in Net Position	2,993
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>4,310</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 7,303</u></u>

*The accompanying notes are an integral part of these financial statements.*

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Notes to the Basic Financial Statements**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Technical School

Upper Bucks County Technical School (the "School") is located in Perkasie, Pennsylvania. The School operates under Articles of Agreement, dated August 1, 1962, and last amended on April 26, 2000, by the following participating school districts: Palisades, Pennridge, and Quakertown.

The School is a municipal corporation operated by a Joint Operating Committee comprised of school directors elected by the participating school districts. The Joint Operating Committee is given the power and authority and has the duty to operate, administer, and manage the School, and shall conduct the affairs of the School within the limits of the budget. The budget is adopted by the Joint Operating Committee and approved by two-thirds of the participating school districts, and a majority vote of all the school directors of all participating school districts.

Administration

The Joint Operating Committee appoints a Commissioned Chief School Officer from one of its participating school districts to serve as the Superintendent of Record for a term of two years. The Superintendent of Record serves as Chief Administrative Officer in matters requiring official action of the Commissioned School Official, serves as an ex-officio non-voting member of the Joint Operating Committee, represents the Administrative Advisory Committee, and advises and assists the Director in the administration of the School.

The Business Administrator, recommended by the Director and appointed by the Joint Operating Committee, shall supervise and coordinate all business aspects of the School. In this capacity, he or she shall be responsible to insure that all work accomplished by him/her, or by persons under his/her supervision, is in the best interests of the School. The Business Administrator is directly responsible to the Director.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School. For Upper Bucks County Technical School, this includes general operations, and student-related activities of the School.

Upper Bucks County Technical School is a joint venture governed by a Joint Operating Committee appointed by the participating districts. As required by generally accepted accounting principles, these financial statements present Upper Bucks County Technical School (the primary government) and organizations for which the primary government is financially accountable. The School is financially accountable for an organization if the School appoints a voting majority of the organization's governing board and (1) the School is able to significantly influence the programs or services performed or provided by the organization; or (2) the School is legally entitled to, or can

otherwise access, the organization's resources; the School is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the School in that the School approved the budget. Upper Bucks County Technical School has no component units.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its business-type activities and to its proprietary funds, provided they do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

### **Basis of Presentation**

The School's basic financial statements consist of entity-wide statements (including a statement of net position and a statement of activities), and fund financial statements that provide a more detailed level of financial information.

#### ***Entity-wide Financial Statements***

The statement of net position and the statement of activities display information about the School 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 that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the School at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School's governmental activities and for two business-type activities of the School. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental function is self-financing or draws from the general revenues of the School.



## *Fund Financial Statements*

During the year, the School segregates transactions related to certain School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

### Fund Accounting

The School uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

### *Governmental Funds*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School's major governmental funds:

- General Fund – The General Fund is the general operating fund of the School. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Capital Projects Fund – The participating school districts issued \$1,500,000 in General Obligation Notes – Series of 2002, to provide funds to make renovations, additions, and improvements to the School's facilities and grounds. The net proceeds of \$1,443,705 were remitted to the School to fund these improvements. The refunding of the Series of 2002 General Obligation Notes with School Lease Revenue Bonds of \$4,305,000, guaranteed by the participating school districts, generated \$2,985,106 in additional contributions from the participating school districts.

### *Proprietary Funds*

Proprietary funds focus on the determination of changes in net position, financial position, and cash flows and are classified as enterprise funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School's major enterprise fund is the Food Service Fund.

The Food Service Fund is used to account for food service operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the staff, student body, and the general public on a continuing basis are financed or recovered primarily through user charges.

## *Fiduciary Funds*

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School's own programs. The School's only trust fund is a private-purpose trust fund, the Student Award Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School has one agency fund, the Student Activities Fund.

## Measurement Focus

### *Entity-wide Financial Statements*

The entity-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School are included on the statement of net position.

### *Fund Financial Statements*

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the entity-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the entity-wide statements and the statements for governmental funds.

Like the government-wide statements, all enterprise funds are accounted for on a flow of economic resources 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 fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

## Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Entity-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

## *Revenues – Exchange and Non-Exchange Transactions*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The School considers revenues from exchange transactions to be available if collected within sixty days of the end of the fiscal year.

Non-exchange transactions are those in which the School receives value without directly giving equal value in return, which include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

## Budgetary Process

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

The Pennsylvania School Code dictates specific procedures relative to adoption of the School's budget and reporting of its financial statements.

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts reported to the Pennsylvania Department of Education when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2012-13 budget transfers.

## *Encumbrances*

Any encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities, but instead represent budgetary accounting controls. The General Fund Budget is maintained on the modified accrual basis of accounting, except that budgetary basis expenditures include any encumbrances issued for goods or services not received at year-end and not terminated.

The actual results of operations are presented in accordance with GAAP and the School's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred.

#### Use of Estimates

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

#### Assets, Liabilities, Net Position and Fund Balances

##### *Cash and Cash Equivalents*

For purposes of the Statement of Cash Flows, the Proprietary Fund type considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

##### *Investments*

In accordance with GASB Statement 31, investments are stated at fair value, except:

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

##### *Receivables and Payables*

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances".

##### *Inventories*

On entity-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used. A physical inventory taken at June 30, 2013, shows \$276,551 as an asset in the governmental activities column of the entity-wide statement of net position, and \$18,361 as an asset in the business-type activities column of the government-wide statement of net position.

Inventory-type items in governmental funds utilize the purchase method; that is, they are charged to expenditures when purchased. Inventory-type items in proprietary funds use the consumption method, in which items are purchased for inventory and charged to expenses when used.

### *Prepaid Expenses*

In both the entity-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

### *Capital Assets*

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the entity-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the entity-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of five thousand (\$5,000) dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets utilized by the proprietary funds is also capitalized.

All reported capital assets except land, certain land improvements, and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Buildings and Improvements	15 – 40 years	15 years
Land Improvements	20 – 50 years	N/A
Furniture and Equipment	5 – 20 years	5 – 20 years

### *Compensated Absences*

The School reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In enterprise funds, the entire amount of compensated absences is reported as a fund liability.

### *Long-Term Obligations*

In the entity-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 or proprietary fund-type statement of net position.

### *Net Position*

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

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

### *Fund Balance Classifications*

GASB Statement No. 54, effective for financial statements for periods beginning after June 14, 2010, established accounting and financial reporting standards for all governments that report governmental funds. The statement established criteria for classifying fund balances into the following specifically defined classifications:

- Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance includes amounts that are restricted externally by creditors (such as through debt covenants), grantors, contributors, laws, or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. The School's highest level of decision making is the Joint Operating Committee.
- Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

### *Contributions of Capital*

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. During this past year, there were no capital contributions.

## **3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### Compliance with Finance-Related Legal and Contractual Provisions

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

### Deficit Fund Balance or Net Position of Individual Funds

No individual fund contains a deficit fund balance or net position at June 30, 2013.

### Excess of Expenditures over Appropriations in Individual Funds

No individual fund, which had a legally-adopted budget, had an excess of expenditures over appropriations.

### Budgetary Compliance

The School's only legally-adopted budget is for the General Fund. There were no budgetary transfers made during the fiscal year. The School cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances as of June 30, 2013. In addition, the School includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

## **4. CASH AND CASH EQUIVALENTS**

### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The School's investment policy does not address custodial credit risk. The School is required by statute to deposit funds in depositories that are either banks, banking institutions, or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit.

As of June 30, 2013, the carrying amount of the School's deposits was \$4,206,606 and the bank balance was \$4,347,426. Of the bank balance, \$500,000 was covered by federal depository insurance and \$1,373,818 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the School's name. As of June 30, 2013, deposits totaling \$2,473,608 were held in the Pennsylvania Local Government Investment Trust ("PLGIT"). Although not registered with the Securities and Exchange Commission and not subject to regulatory

oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized rating organization, and is subject to an independent annual audit.

## 5. OTHER CURRENT ASSETS

### Due from Other Governments

Amounts due from other governments as of June 30, 2013 were as follows:

	General <u>Fund</u>	Food Service <u>Fund</u>	Production <u>Fund</u>
State Subsidies Receivable	\$ 103,076	\$ 691	\$ -
Federal Subsidies Receivable	17,376	11,953	-
Tuition Receivable	<u>30,612</u>	<u>-</u>	<u>6,998</u>
Totals	<u>\$ 151,064</u>	<u>\$ 12,644</u>	<u>\$ 6,998</u>

## 6. INTERFUND BALANCES

Accounts payable for all funds are processed and paid through the General Fund; subsequently, the General Fund is reimbursed from the School's other funds for these payments. Interfund receivables and payables arising from these transactions, as of June 30, 2013, consisted of the following balances:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
Capital Projects Fund	General Fund	\$ 240,113
Food Service Fund	General Fund	40,834
Production Fund	General Fund	16,100
Activities Fund	General Fund	96

### Presentation in Government-wide Financial Statements

The interfund balance between governmental and business-type activities is reflected in the Statement of Net Position as Internal Balances within the current assets section. The interfund balance between governmental activities and the agency funds is reflected as Due To and Due from Other Funds.

### Presentation in Fund Financial Statements

All interfund balances are reflected as due to or due from other funds.



## 7. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2013, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES:				
Capital Assets Not Being Depreciated:				
Land	\$ 41,250	\$ -	\$ -	\$ 41,250
Capital Assets Being Depreciated:				
Site Improvements	673,020	-	-	673,020
Buildings and Building Improvements	8,716,275	8,900	-	8,725,175
Furniture and Equipment	2,470,580	187,239	(74,543)	2,583,276
Total Capital Assets Being Depreciated	11,859,875	196,139	(74,543)	11,981,471
<u>Less: Accumulated Depreciation:</u>				
Site Improvements	(275,754)	(20,612)		(296,366)
Buildings and Building Improvements	(4,462,315)	(201,370)		(4,663,685)
Furniture and Equipment	(1,477,751)	(134,838)	65,537	(1,547,052)
Total Accumulated Depreciation	(6,215,820)	(356,820)	65,537	(6,507,103)
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	5,644,055	(160,681)	(9,006)	5,474,368
Governmental Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 5,685,305</u>	<u>\$ (160,681)</u>	<u>\$ (9,006)</u>	<u>\$ 5,515,618</u>
BUSINESS-TYPE ACTIVITIES:				
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 440,175	\$ -	\$ -	\$ 440,175
<u>Less: Accumulated Depreciation</u>	<u>(257,166)</u>	<u>(24,290)</u>	<u>-</u>	<u>(281,456)</u>
Business-type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 183,009</u>	<u>\$ (24,290)</u>	<u>\$ -</u>	<u>\$ 158,719</u>

Depreciation was charged to governmental activity functions as follows:

Instruction	\$ 106,308
Instructional Student Support	15,876
Administrative and Financial Support Services	104
Operation and Maintenance of Plant Services	12,550
Depreciation - Unallocated	<u>221,982</u>
Total	<u>\$ 356,820</u>

## 8. COMPENSATED ABSENCES

### Sick Pay

Under the School's administrative regulations, professional, administrators, and eligible support personnel accumulate unused sick days from year to year based on their classification. These accumulated sick days are non-vesting during the employee's tenure. Upon retirement, these employees are eligible for remuneration for unused sick days as follows:

- a) A professional member of the Education Association who retires shall be paid for accumulated unused sick leave at the rate of \$30 per day.
- b) Members of the Upper Bucks County Technical School Educational Support Personnel Association/ESPA/PSEA/NEA who retire are entitled to be paid for accumulated sick leave at \$25 per day for each accumulated unused sick day to a maximum of \$6,000.
- c) Administrators who retire are entitled to be paid for accumulated sick leave at \$30 per day for each accumulated sick day to a maximum of \$6,000.

### Vacation Leave

Unused vacation leave is paid upon an employee's termination. Sick leave not taken during the employees' tenure is paid only to terminating employees who meet eligibility requirements of retirement. The School has ascertained and recorded the liability that exists on those employees meeting the eligibility requirements.

### Summary

The liability for compensated absences as of and for the year ended June 30, 2013 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities	\$ 234,763	\$ 5,869	\$ -	\$ 240,632	\$ 25,616
Business-type Activities	<u>6,416</u>	<u>115</u>	<u>-</u>	<u>6,531</u>	<u>-</u>
Total	<u>\$ 241,179</u>	<u>\$ 5,984</u>	<u>\$ -</u>	<u>\$ 247,163</u>	<u>\$ 25,616</u>

## 9. LEASES

### Authority Lease Rentals

On April 15, 2005, the member districts entered into a lease agreement with the State Building Authority's issuance of \$4,305,000 in School Lease Revenue Bonds – Series of 2005. The purposes of this Lease Rental are (1) to acquire and/or construct alterations, renovations, additions and improvements to the School's facilities; (2) to provide fixtures, equipment, and furnishings for said facilities; (3) to otherwise improve the school grounds relating to said facilities; (4) to currently refund the General Obligation Notes – Series of 2002; and (5) to pay the financing costs.

In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from November 15, 2005 to November 15, 2025. Interest rates range from 3.00% to 4.60%.

On July 9, 2010, the School and the member districts entered into an agreement with the State Public School Building Authority for the issuance of the School Lease Revenue Bonds – Series of 2010. The issuance is evidenced by a lease between the School and the member districts and the Authority and a sublease between the Authority and the School and the member districts. The purpose of this issue was to provide funds necessary to currently refund the remaining outstanding 2005 bonds in order to take advantage of lower interest rates.

In accordance with the Local Government Unit Debt Act, a sinking fund was established with the paying agent. Interest rates range from 3.00% to 4.00%. The future Authority Lease Rental requirements are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 205,000	\$ 104,700	\$ 309,700
2015	210,000	98,475	308,475
2016	215,000	92,100	307,100
2017	225,000	85,500	310,500
2018	235,000	78,600	313,600
2019 - 2023	1,265,000	276,831	1,541,831
2024 - 2026	875,000	51,669	926,669
Totals	<u>\$3,230,000</u>	<u>\$ 787,875</u>	<u>\$4,017,875</u>

These School Lease Revenue Bonds are not considered debt of the School and are only disclosed for additional information. The Authority Lease Rental is guaranteed by the member districts and is considered general obligation debt of each District.

#### Operating Lease

The School leases certain office equipment. The terms vary according to the various leases. Lease payments for the leased office equipment totaled \$13,200 for the year ended June 30, 2013. The remaining payments on these leases as of June 30, 2013 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u>
2014	\$ 27,360
2015	27,360
2016	27,360
2017	14,160
2018	14,160
2019	1,180
Total	<u>\$ 111,580</u>

## 10. DEFINED BENEFIT PENSION PLAN

In compliance with the State Employees' Retirement Act, the School participates in the Public School Employees' Retirement System (the Plan). Details of the Plan are described below.

### Plan Description

*Name of plan:* The Public School Employees Retirement System (the System).

*Type of plan:* Governmental cost-sharing multiple-employer 401(a) 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* (CAFR) 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 N 5<sup>th</sup> Street, Harrisburg, PA 17101-1905. The CAFR is also available on the Publications page of the PSERS website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

### Funding Policy

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.

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

contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

### *Employer Contributions*

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013, the rate of employer contribution was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution of 11.5% for pension benefits and 0.86% for healthcare insurance premium assistance. The employer's current-year covered payroll was \$3,848,783 and total payroll was \$3,997,792. Retirement expenditures for the current year and the preceding two years were as follows:

<u>Year Ended June 30</u>	<u>Amount</u>	<u>Percentage Contributed</u>
2013	\$ 475,710	100%
2012	342,561	100%
2011	280,611	100%

## **11. RISK MANANAGEMENT**

The School is subject to risk of loss from employee acts, property damage, personal injury, auto accidents, theft, etc. The School covers those risks through the purchase of commercial insurance.

The School is a participating member of a Workers Compensation Consortium. The Consortium is comprised of 80 member schools, which jointly self-assume their workers' contributions to the Consortium based on formula set forth in the contract. Each member school district individually retains sole liability up to a retention level, which is fixed annually by multiplying its Experience Modification factor times the last audited fiscal year payroll of each member. The result is then multiplied by a contribution rate which is the same for all members (except that new members are assessed an additional .00012 x modified payroll). Even though the member school districts contribute to the central fund they remain individually liable for any workers' compensation claims above the level of retention. The Consortium pays claims up to the level of coverage of \$500,000 for the year ended June 30, 2013, provided by an excess insurance policy. Claims above the maximum coverage of excess insurance are paid by the members of the Consortium through additional assessments against members.

## **12. GOVERNMENTAL FUND BALANCES**

The School's highest level of decision making is the Joint Operating Committee. A resolution of the Joint Operating Committee is required to establish modify or rescind a fund balance commitment. The Business Manager or designee may assign fund balance. Detailed information about aggregated fund balances is as follows:

### Nonspendable Fund Balance

The Nonspendable Fund Balance includes prepaid expenditures totaling \$225 as of June 30, 2013.

### Restricted Fund Balances

The restricted fund balance represents contributions that are externally restricted for specific purposes, as follows:

Capital Projects	\$319,393
Federal Grants	17,376

### Assigned Fund Balance

A portion of the fund balance of the General Fund, totaling \$600,000 as of June 30, 2013, has been assigned for future pension fund obligations.

## **13. NET POSITION – ENTITY-WIDE FINANCIAL STATEMENTS**

### Invested in Capital Assets, Net of Related Debt

A portion of the net position of the governmental activities net position, totaling \$5,515,618 as of June 30, 2013, is invested in total capital assets (net of depreciation), with no related debt. A portion of the net position of the business-type activities net position, totaling \$158,719 as of June 30, 2013, is invested in total capital assets (net of depreciation), with no related debt.

### Restrictions

The School has restricted \$319,393 for capital projects and \$17,376 for federal grants.

## **14. CONTINGENCIES**

### Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund, or other applicable funds. However, in the opinion of management any such disallowed claims will not have a material adverse effect on the overall financial position of the School as of June 30, 2013.

## **15. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through December 3, 2013, which is the date the financial statements were available to be issued.

# DRESLIN

## AND COMPANY, INC.

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

PAUL E. FARRELL, CPA  
LOUIS J. PEDANTE, CPA  
RONALD L. MINNINGER, CPA

190 W. GERMANTOWN PIKE, SUITE 150 • EAST NORRITON, PA 19401-1386  
PHONE: (610) 272-3571 • FAX: (610) 272-3616

THE BAXTER BUILDING, SUITE 102 • 1234 WEST CHESTER PIKE • WEST CHESTER, PA 19382  
PHONE: (610) 696-3064 • FAX: (610) 692-3108

### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Joint Operating Committee  
Upper Bucks County Technical School  
Willow Grove, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Upper Bucks County Technical School, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Upper Bucks County Technical School's basic financial statements, and have issued our report thereon dated December 3, 2013.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Upper Bucks County Technical School'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 Upper Bucks County Technical School's internal control. Accordingly, we do not express an opinion on the effectiveness of Upper Bucks County Technical School's internal control.

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Bucks County Technical School'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.

*Dreslin and Company, Inc.*

December 3, 2013



**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Combining Statement of Revenues and Other Financing Sources,**  
**Expenditures and Other Financing Uses, and Changes in Fund Balances -**  
**General Fund - All Divisions**  
**For the Year Ended June 30, 2013**

	<u>General Program</u>	<u>Adult Evening School Program</u>	<u>Total General Fund</u>
<b>REVENUES AND OTHER FINANCING SOURCES</b>			
Local Sources:			
Receipts from Member Districts	\$ 6,444,088	\$ -	\$ 6,444,088
Other Local Sources	58,041	144,151	202,192
State Sources	873,471	11,277	884,748
Federal Sources	132,185	-	132,185
Other Financing Sources:			
Refund of Prior-year Expenditures	2,842	-	2,842
Sale of Capital Assets	1,750	-	1,750
Intrafund Transfers In	-	7,010	7,010
	<u>7,512,377</u>	<u>162,438</u>	<u>7,674,815</u>
Total Revenues and Other Financing Sources	<u>7,512,377</u>	<u>162,438</u>	<u>7,674,815</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>			
Instruction:			
Regular Programs	60,538	-	60,538
Vocational Education Programs	4,145,359	-	4,145,359
Adult Education Programs	-	134,248	134,248
	<u>4,205,897</u>	<u>134,248</u>	<u>4,340,145</u>
Total Instruction	<u>4,205,897</u>	<u>134,248</u>	<u>4,340,145</u>
Support Services:			
Pupil Personnel Services	477,376	-	477,376
Instructional Staff Services	322,560	-	322,560
Administrative Services	332,497	-	332,497
Pupil Health	82,058	-	82,058
Business Services	281,918	-	281,918
Operation and Maintenance of Plant Services	<u>1,373,457</u>	<u>-</u>	<u>1,373,457</u>
Total Support Services	<u>2,869,866</u>	<u>-</u>	<u>2,869,866</u>
Operation of Non-instructional Services:			
Student Activities	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total Operation of Non-instructional Services	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Facilities Acquisition, Construction, and Improvement	3,672	-	3,672
Other Financing Uses:			
Refund of Prior-year Receipts	326	-	326
Intrafund Transfers Out	<u>7,010</u>	<u>-</u>	<u>7,010</u>
Total Expenditures and Other Financing Uses	<u>7,089,771</u>	<u>134,248</u>	<u>7,224,019</u>
Net Change in Fund Balance	422,606	28,190	450,796
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>2,902,558</u>	<u>243,227</u>	<u>3,145,785</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 3,325,164</u>	<u>\$ 271,417</u>	<u>\$ 3,596,581</u>

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Budgetary Comparison Schedule - General Program**  
**For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		Actual Amounts (GAAP Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Local Sources:				
Receipts from Member Districts	\$ 6,754,859	\$ 6,754,859	\$ 6,444,088	\$ (310,771)
Interest Earnings	8,000	8,000	4,799	(3,201)
Student Activities	10,000	10,000	5,666	(4,334)
Rentals	1,000	1,000	2,600	1,600
Contributions and Donations	-	-	6,750	6,750
Regular Day Tuition	1,000	1,000	31,512	30,512
Other Local Sources	1,200	1,200	6,714	5,514
State Sources:				
Vocational Education	325,000	325,000	501,894	176,894
Social Security	152,533	152,533	140,895	(11,638)
Retirement	246,443	246,443	230,682	(15,761)
Federal Sources:				
Perkins Grant	100,000	100,000	132,185	32,185
Other Financing Sources:				
Refund of Prior-year Expenditures	-	-	2,842	2,842
Sale of Capital Assets	-	-	1,750	1,750
	<u>7,600,035</u>	<u>7,600,035</u>	<u>7,512,377</u>	<u>(87,658)</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Instruction:				
Regular Programs	72,250	72,250	60,538	11,712
Vocational Education Programs	4,725,930	4,725,930	4,145,359	580,571
	<u>4,798,180</u>	<u>4,798,180</u>	<u>4,205,897</u>	<u>592,283</u>
Support Services:				
Pupil Personnel Services	554,300	554,300	477,376	76,924
Instructional Staff Services	396,427	396,427	322,560	73,867
Administrative Services	415,835	415,835	332,497	83,338
Pupil Health	90,097	90,097	82,058	8,039
Business Services	300,150	300,150	281,918	18,232
Operation and Maintenance of Plant Services	1,423,070	1,423,070	1,373,457	49,613
	<u>3,179,879</u>	<u>3,179,879</u>	<u>2,869,866</u>	<u>310,013</u>

(Continued)

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Budgetary Comparison Schedule - General Program (Continued)**  
**For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u> <u>(GAAP</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Operation of Non-instructional Services:				
Student Activities	<u>3,601</u>	<u>3,601</u>	<u>3,000</u>	<u>601</u>
Total Operation of Non-instructional Services	<u>3,601</u>	<u>3,601</u>	<u>3,000</u>	<u>601</u>
Facilities Acquisition, Construction, and Improvement	5,000	5,000	3,672	1,328
Debt Service	310,775	310,775	-	310,775
Other Financing Uses:				
Intrafund Transfers Out	7,010	7,010	7,010	-
Refund of Prior-year Receipts	<u>-</u>	<u>-</u>	<u>326</u>	<u>(326)</u>
Total Expenditures and Other Financing Uses	<u>8,304,445</u>	<u>8,304,445</u>	<u>7,089,771</u>	<u>1,214,674</u>
Net Change in Fund Balance	(704,410)	(704,410)	422,606	1,127,016
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>2,804,410</u>	<u>2,804,410</u>	<u>2,902,558</u>	<u>98,148</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 2,100,000</u></u>	<u><u>\$ 2,100,000</u></u>	<u><u>\$ 3,325,164</u></u>	<u><u>\$ 1,225,164</u></u>

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Budgetary Comparison Schedule - Adult Evening School Program**  
**For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u> <u>(GAAP</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Local Sources:				
Interest Earnings	\$ 50	\$ 50	\$ 96	\$ 46
Tuition	85,000	85,000	91,569	6,569
Books	4,500	4,500	5,703	1,203
Testing Fees	6,000	6,000	6,900	900
Adult Evening School Reimbursement -				
Pennridge School District	29,000	29,000	39,505	10,505
Miscellaneous	250	250	378	128
State Sources:				
Vocational Education	7,000	7,000	8,307	1,307
Social Security	2,509	2,509	1,363	(1,146)
Retirement	4,053	4,053	1,607	(2,446)
Other Financing Uses:				
Intrafund Transfers In	7,010	7,010	7,010	-
Total Revenues	<u>145,372</u>	<u>145,372</u>	<u>162,438</u>	<u>17,066</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Instruction:				
Adult Instruction	<u>145,372</u>	<u>145,372</u>	<u>134,248</u>	<u>11,124</u>
Total Expenditures	<u>145,372</u>	<u>145,372</u>	<u>134,248</u>	<u>11,124</u>
Net Change in Fund Balance	-	-	28,190	28,190
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>243,227</u>	<u>243,227</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 271,417</u></u>	<u><u>\$ 271,417</u></u>

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Statement of Revenues, Expenses, and Changes in Net Position - Food Service Fund**  
**For the Year Ended June 30, 2013**

**REVENUES**

Daily Sales to Pupils	\$ 138,208
State Lunch Subsidy	4,307
State Social Security Subsidy	4,090
State Retirement Subsidy	4,822
Federal Lunch Subsidy	72,423
Donated Commodities	16,703
Interest Income	<u>807</u>

Total Revenues		\$ 241,360
----------------	--	------------

**COST OF GOODS SOLD**

Beginning Inventory - July 1, 2012	10,390
Purchased - Food	75,976
Receipts - Donated Commodities	14,742
Ending Inventory - June 30, 2013	<u>(18,361)</u>

Total Cost of Goods Sold		<u>82,747</u>
--------------------------	--	---------------

Gross Profit		158,613
--------------	--	---------

**OTHER EXPENSES**

Salaries	107,247
Employee Benefits	54,303
Other Purchased Services	2,534
Supplies	5,192
Depreciation	<u>24,290</u>

193,566

Change in Net Position		(34,953)
------------------------	--	----------

**NET POSITION - BEGINNING OF YEAR**

235,794

**NET POSITION - END OF YEAR**

\$ 200,841

**UPPER BUCKS COUNTY TECHNICAL SCHOOL**  
**Statement of Revenues and Expenses - Production Fund**  
**For the Year Ended June 30, 2013**

	Net Position <u>7/1/12</u>	<u>Revenues</u>	<u>Expenses</u>	Net Position <u>6/30/13</u>
<b>PRODUCTION ACCOUNT</b>				
Interest	\$ 3,160	\$ 45	\$ -	\$ 3,205
Animal Tech	10,346	3,505	2,167	11,684
Auto Collision	2,804	564	-	3,368
Auto Tech	668	95	-	763
Baking	7,196	5,676	5,253	7,619
Cabinetmaking	8,148	2,437	1,153	9,432
Carpentry	1,469	57	-	1,526
Cosmetology	34,959	6,454	1,864	39,549
Dental	(5,266)	8,883	8,883	(5,266)
Diesel	256	42	-	298
Graphic Occ.	19,968	8,628	7,286	21,310
Horticulture	2,151	8,673	9,865	959
Plumbing	1,150	-	-	1,150
Restaurant	(80,642)	28,161	38,531	(91,012)
Sectional Home	(3,036)	-	415	(3,451)
Welding	367	363	-	730
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	<u>\$ 3,698</u>	<u>\$ 73,583</u>	<u>\$ 75,417</u>	<u>\$ 1,864</u>
Cash and Cash Equivalents				\$ 11,698
Due from Other Governments				6,998
Other Receivables				682
Due to Other Funds				(16,100)
Accounts Payable				<u>(1,414)</u>
Total Net Position as of June 30, 2013				<u><u>\$ 1,864</u></u>

# **PENNRIDGE SCHOOL DISTRICT**

## **ANNUAL FINANCIAL REPORT**

***Year Ended June 30, 2013***



*Certified Public Accountants and Business Consultants*

## **INTRODUCTORY SECTION**



## TABLE OF CONTENTS

	<u>Page No.</u>
INTRODUCTORY SECTION	
Table of Contents .....	1
FINANCIAL SECTION	
Independent Auditors' Report .....	3
Management's Discussion and Analysis (Unaudited).....	6
Basic Financial Statements	
<b><i>Government-Wide Financial Statements</i></b>	
Statement of Net Position .....	16
Statement of Activities .....	17
<b><i>Fund Financial Statements</i></b>	
<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 .....	21
<i>Proprietary Funds</i>	
Statement of Net Position .....	23
Statement of Revenues, Expenses and Changes in Net Position .....	24
Statement of Cash Flows.....	25

## TABLE OF CONTENTS

	<u>Page No.</u>
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Position .....	27
<b>Notes to the Basic Financial Statements</b> .....	28
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>Fiduciary Funds</i>	
Combining Schedule of Fiduciary Net Position .....	54
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 .....	55
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	57
SUPPLEMENTARY INFORMATION - MAJOR FEDERAL AWARD PROGRAMS AUDIT	
Schedule of Expenditures of Federal and Certain State Awards .....	59
Notes to the Schedule of Expenditures of Federal and Certain State Awards .....	61
Schedule of Findings and Questioned Costs .....	62
Schedule of Prior Audit Findings .....	63

## **FINANCIAL SECTION**

## ***Independent Auditors' Report***

To the Board of School Directors  
Pennridge School District  
Perkasie, 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 Pennridge School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Pennridge 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.

### ***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 Pennridge School District as of June 30, 2013, 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 S to the financial statements, for the year ended June 30, 2013, the Pennridge School District adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 15, budgetary comparison information on pages 51 and 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 Pennridge 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  
Pennridge School District  
Perkasie, 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 December 4, 2013, on our consideration of the Pennridge 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 Pennridge School District's internal control over financial reporting and compliance.

*Maullie LLP*

Oaks, Pennsylvania  
December 4, 2013

**PENNRIDGE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2013*

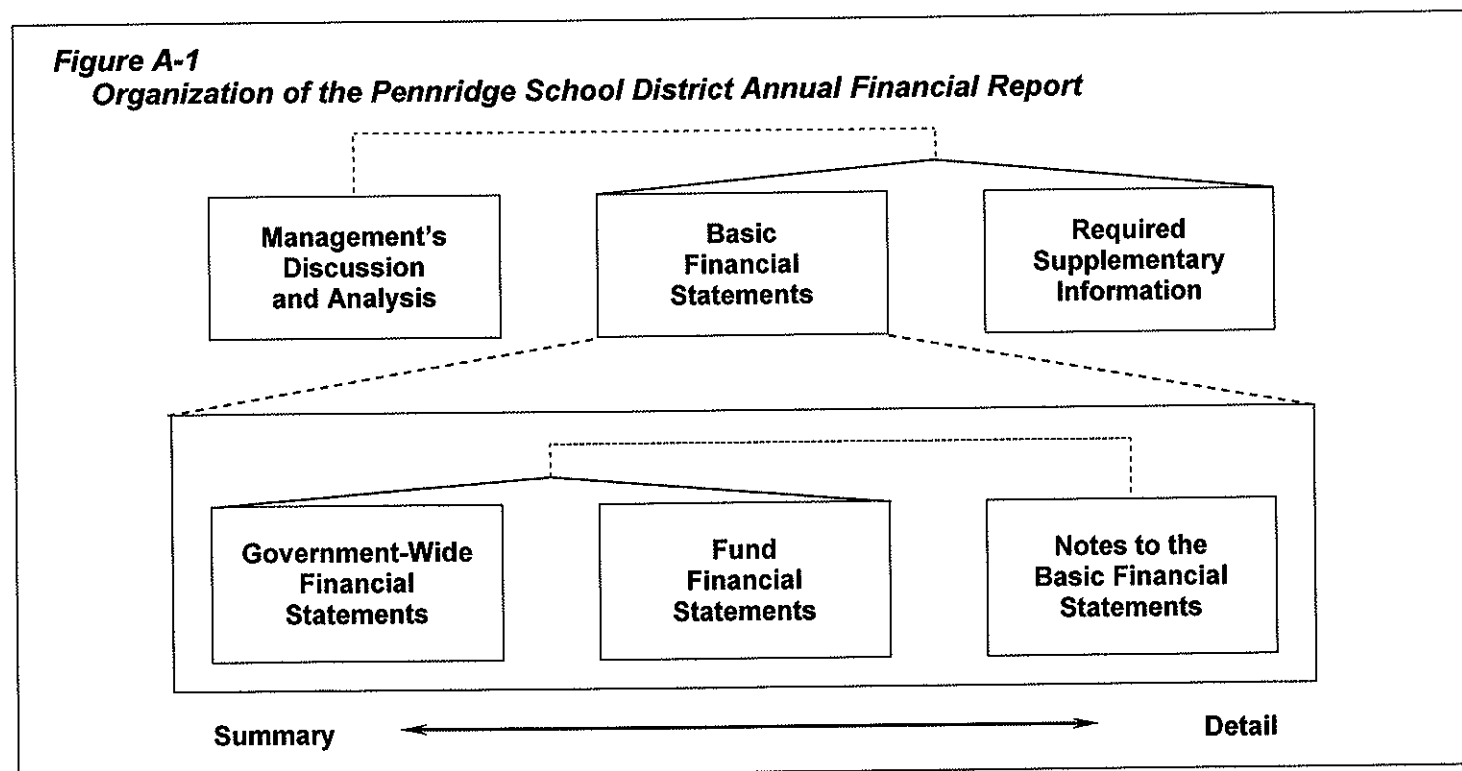
This section of the Pennridge School District's annual financial report presents its discussion and analysis of the School District's financial performance during the fiscal year ending June 30, 2013. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of resources of the Pennridge School District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$75,261,460 (net position).
- The School District's total net position decreased by \$(486,796).
- As of the close of the current fiscal year, the Pennridge School District's Governmental Funds reported combined ending fund balances of \$25,866,705, a decrease of \$3,208,873 in comparison with the prior year. Most of this fund balance is restricted or committed for specific capital projects and expenditures.
- The unassigned fund balance of the General Fund is \$5,467,058 or 5% of total General Fund expenditures.
- The Pennridge School District's general obligation debt decreased by \$6,620,000.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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



**PENNRIDGE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2013*

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

**Government-Wide Financial Statements**

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

The Statement of Net Position presents information on all of the Pennridge School District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the net difference between the four reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Pennridge School District is improving or deteriorating.

The Statement of Activities presents information showing how the School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Pennridge School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Pennridge School District include Instruction, Support Services, Operation of Non-Instructional Services, Depreciation Expense, Unallocated and Interest on Long-Term Debt. The business-type activity of the Pennridge School District is Food Services.

**Fund Financial Statements**

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

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

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



**PENNRIDGE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2013*

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

The Pennridge School District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund for your review.

***Proprietary Funds*** - The Pennridge School District maintains two different types of Proprietary Funds. The Enterprise Fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses the Enterprise Fund for student food services and uses the Internal Service Fund to account for health insurance, self-insurance activities. Because the self-insurance activities benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

The information reported on the fund statements for the Proprietary Funds provides the same type of information as the government-wide financial statements, only in more detail.

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

**Notes to the Basic Financial Statements**

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

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Pennridge School District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$75,261,460 at the close of the fiscal year.

**PENNRIDGE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2013*

**Table A-1**  
**Net Position**  
**June 30, 2013 and 2012**

	Governmental Activities	
	2013	2012
<b>ASSETS</b>		
Current and other assets	\$ 50,230,504	\$ 55,172,624
Capital assets	164,693,520	165,623,535
<b>TOTAL ASSETS</b>	<u>214,924,024</u>	<u>220,796,159</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>2,267,858</u>	<u>3,269,392</u>
<b>LIABILITIES</b>		
Current and other liabilities	14,552,923	14,036,670
Long-term liabilities	127,040,016	132,189,125
<b>TOTAL LIABILITIES</b>	<u>141,592,939</u>	<u>146,225,795</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>1,691,565</u>	<u>3,269,392</u>
<b>NET POSITION</b>		
Net investment in capital assets	43,794,558	40,068,677
Restricted	1,005,480	5,519,835
Unrestricted	29,107,340	28,981,852
<b>TOTAL NET POSITION</b>	<u>\$ 73,907,378</u>	<u>\$ 74,570,364</u>

**Changes in Net Position**

The results of this year's operations as a whole are reported in the Statement of Activities on page 17. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the Commonwealth of Pennsylvania and the local taxes assessed to community taxpayers.

Business-Type Activities		Totals	
2013	2012	2013	2012
\$ 1,204,700	\$ 1,053,871	\$ 51,435,204	\$ 56,226,495
204,432	200,767	164,897,952	165,824,302
<u>1,409,132</u>	<u>1,254,638</u>	<u>216,333,156</u>	<u>222,050,797</u>
-	-	2,267,858	3,269,392
31,131	45,640	14,584,054	14,082,310
23,919	31,106	127,063,935	132,220,231
<u>55,050</u>	<u>76,746</u>	<u>141,647,989</u>	<u>146,302,541</u>
-	-	1,691,565	3,269,392
204,432	200,767	43,998,990	40,269,444
-	-	1,005,480	5,519,835
<u>1,149,650</u>	<u>977,125</u>	<u>30,256,990</u>	<u>29,958,977</u>
\$ <u><u>1,354,082</u></u>	\$ <u><u>1,177,892</u></u>	\$ <u><u>75,261,460</u></u>	\$ <u><u>75,748,256</u></u>

**PENNRIDGE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2013*

Table A-2 takes the information from that statement and rearranges it slightly so you can see our total revenues for the year.

**Table A-2**  
***Changes in Net Position***  
***June 30, 2013 and 2012***

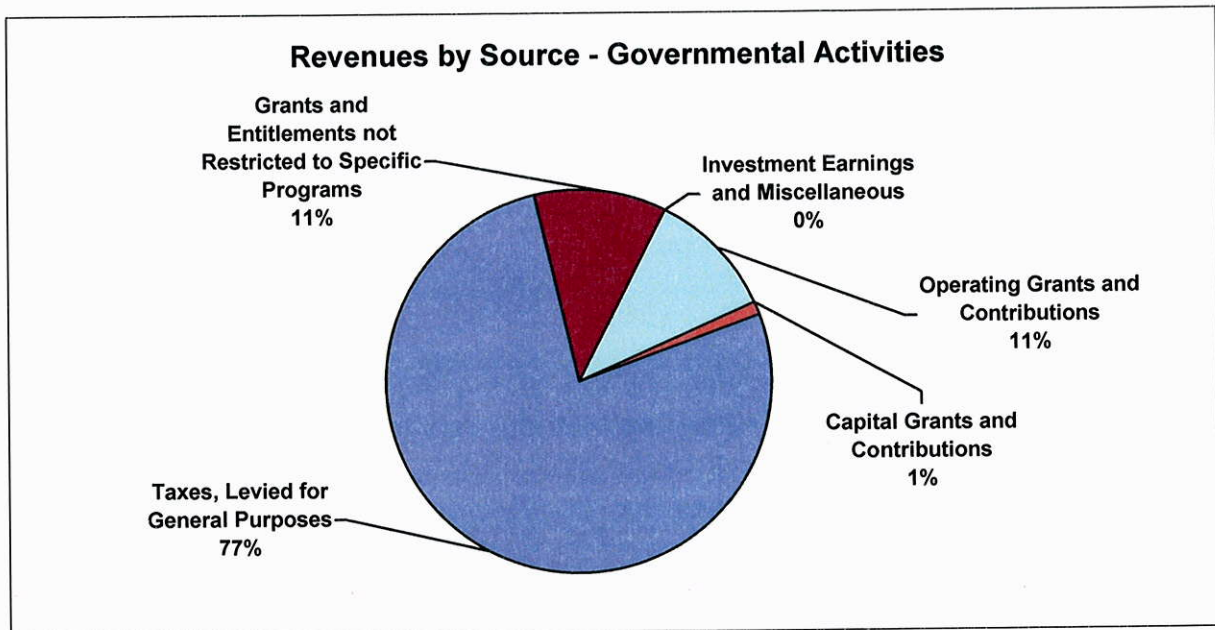
	Governmental Activities	
	2013	2012
<b>REVENUES</b>		
Program revenues		
Charges for services	\$ 571,934	\$ 550,618
Operating grants and contributions	12,903,812	11,136,382
Capital grants and contributions	654,705	851,505
General revenues		
Taxes, levied for general purposes	86,724,890	85,886,795
Grants and entitlements not restricted to specific programs	12,150,738	11,749,092
Miscellaneous	236,155	191,914
Gain on sale of capital assets	36,800	-
Investment earnings	95,609	95,440
<b>TOTAL REVENUES</b>	<b>113,374,643</b>	<b>110,461,746</b>
<b>EXPENSES</b>		
Instruction	69,198,445	62,298,241
Operation and maintenance of plant services	8,344,031	8,762,838
Pupil transportation	4,807,723	4,363,472
Other support services	16,617,458	16,033,660
Student activities	1,159,657	1,230,456
Community services	75,964	24,716
Depreciation expense, unallocated	8,235,221	7,075,281
Interest on long-term debt	5,599,130	5,655,514
Food services	-	-
<b>TOTAL EXPENSES</b>	<b>114,037,629</b>	<b>105,444,178</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ (662,986)</b>	<b>\$ 5,017,568</b>

Business-Type Activities		Totals	
2013	2012	2013	2012
\$ 1,742,279	\$ 1,764,366	\$ 2,314,213	\$ 2,314,984
855,110	785,369	13,758,922	11,921,751
-	-	654,705	851,505
-	-	86,724,890	85,886,795
-	-	12,150,738	11,749,092
-	-	236,155	191,914
-	-	36,800	-
3,940	4,829	99,549	100,269
<u>2,601,329</u>	<u>2,554,564</u>	<u>115,975,972</u>	<u>113,016,310</u>
-	-	69,198,445	62,298,241
-	-	8,344,031	8,762,838
-	-	4,807,723	4,363,472
-	-	16,617,458	16,033,660
-	-	1,159,657	1,230,456
-	-	75,964	24,716
-	-	8,235,221	7,075,281
-	-	5,599,130	5,655,514
2,425,139	2,462,022	2,425,139	2,462,022
<u>2,425,139</u>	<u>2,462,022</u>	<u>116,462,768</u>	<u>107,906,200</u>
\$ <u>176,190</u>	\$ <u>92,542</u>	\$ <u>(486,796)</u>	\$ <u>5,110,110</u>

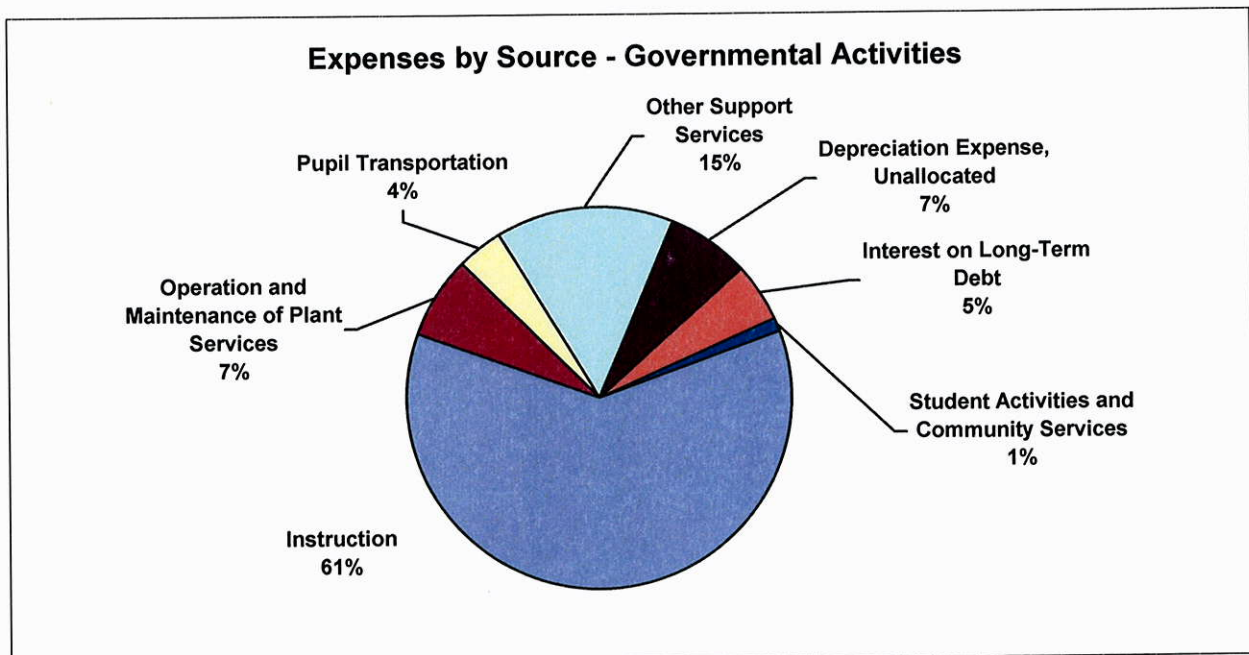
**PENNRIDGE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2013*

**Governmental Activities**

Governmental activities decreased Pennridge School District's net position by \$662,986. Table A-2 identifies the key revenues and expenses of the governmental activities. The following graph illustrates the key revenues of the District. As you will notice, local taxes support 77% of the total revenues, while operating grants and contributions are 11%. Investment earnings, miscellaneous revenues, capital grants and other unrestricted grants and subsidies account for 12%.



The following graph illustrates the functional distribution of the District's governmental activities expenses. The largest category of District expenses is the Instructional area that accounts for 61% of all governmental activities.



**PENNRIDGE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2013*

**Business-Type Activities**

Business-type activities increased the Pennridge School District's net position by \$176,190. The District food service operation has reversed the downward progression and shows a net income increase for seven sequential years. The department has had its net position increase (decrease) as follows:

	<u>Net Income</u> <u>(Loss)</u>	<u>Ending</u> <u>Net Position</u>
2012 to 2013	\$ 176,190	\$ 1,354,082
2011 to 2012	92,542	1,177,892
2010 to 2011	200,295	1,085,350
2009 to 2010	182,141	885,055
2008 to 2009	78,129	702,914
2007 to 2008	15,783	624,785
2006 to 2007	45,945	609,002
2005 to 2006	40,525	563,057
2004 to 2005	(95,944)	522,532
2003 to 2004	(123,726)	618,476
2002 to 2003*	(157,845)	742,202

\*There was a prior period adjustment that increased net position by \$499,208 for the year ended June 30, 2003, to properly reflect the estimated cost basis of food service equipment.

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

**Governmental Funds**

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

As of the end of the current fiscal year, the Pennridge School District's Governmental Funds reported combined ending fund balances of \$25,866,705, a decrease of \$3,208,873 in comparison with the prior year. A large portion of ending fund balance is in our Capital Projects Fund (\$10,271,614). The fund balance in the Capital Projects Fund is restricted and committed funding for building renovations and equipment purchases identified in the District's Five-Year Capital Plan.

**PENNRIDGE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2013*

The General Fund is the chief operating fund of the Pennridge School District. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$5,467,058, while the total fund balance was \$15,595,091. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures. The General Fund's unassigned fund balance represents 5% of General Fund expenditures, while total General Fund fund balance represents 14% of General Fund expenditures. The fund balance of the Pennridge School District's General Fund increased by \$174,080 during the current fiscal year.

The District uses the Capital Projects Fund to account for the inflow and outflow of financial resources relating to the issuance of long-term debt and transfers from the General Fund used to fund large capital projects and equipment purchases. The ending fund balance in the Capital Projects Fund for the fiscal year ended June 30, 2013, was \$10,271,614.

**Proprietary Funds**

The Pennridge School District's Proprietary Funds provide the same type of information found in the government-wide financial statements but in more detail.

Total net position of the Food Service Fund at the end of the year amounted to \$1,354,082. The District has been proactive in evaluating the operation of the nutritional services offered to the students. The Food Service Fund continued to operate with a profit of \$176,190.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Pennridge School District's actual revenues exceeded the budget amounts by \$2,929,622. Actual revenues exceeded estimated revenues because real estate collection rates exceeded the 96% rate used to prepare the budget. The following table identifies the specific revenue sources that reflect this situation:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Current real estate taxes	\$ <u>69,969,015</u>	\$ <u>70,372,107</u>	\$ <u>403,092</u>

The decreasing short-term interest rate market has caused the District to realize less than the amount budgeted for investment earnings. The actual interest earnings amounted to \$95,609 or \$4,391 less than the amount budgeted.

The actual expenditures were more than the budgeted expenditures by \$356,100 or 0.32% of the final budget. Reasons for this variance relate to the expenditures for technology infrastructure that was approved after the 2012-2013 budget was approved.



**PENNRIDGE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2013*

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Pennridge School District's investment in capital assets for its governmental and business-type activities for the current fiscal year amounts to \$164,897,952 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, construction in progress and furniture, equipment and vehicles. Major capital asset events during the current fiscal year included the following:

- Currently, there is \$3,924,982 of construction in progress.

**Long-Term Debt**

At the end of the current fiscal year, the Pennridge School District had total bonded debt outstanding of \$120,221,848. Of this debt, \$54,571,848 is variable rate; the remaining debt includes a fixed interest rate. All of the debt is general obligation debt and is backed by the full faith and credit of the School District. The District's debt decreased by \$6,620,000 from \$126,841,848.

State law prohibits the School District from issuing general obligation bonds in excess of 250% of the annual arithmetic average of total revenues for the three fiscal years ended preceding the date of incurring the debt. The current borrowing limit is \$246,824,661.

Additional analysis of the District's debt is included in the accompanying notes to the basic financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

- For the 2011/2012 fiscal year, Pennridge School District experienced a slight decrease in residential growth, but for the 2012/2013 fiscal year the District experienced an increase in residential growth.
- The District continued to receive and monitor assessment appeals by homeowners that resulted in the reduction of real estate assessed values. The District expects this trend to continue for the 2013/2014 fiscal year.
- Short-term interest rates continue to be at historically low levels. This has had an adverse effect on the District's investment earnings.
- Healthcare costs have increased over the past four fiscal years. We expect this to continue into the next fiscal year.
- The District's contribution to the Pennsylvania Schools Employee Retirement System is projected to increase at a very high rate over the next several years. The current economic condition suggests that the contribution rate will continue to increase for the foreseeable future.
- The contract with the Pennridge Education Support Professional Association will expire on June 30, 2013.

**PENNRIDGE SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2013*

All of these factors have been considered in preparing the Pennridge School District's budget in the 2013-2014 fiscal year.

In 2005, the District, concerned with the rise in short-term interest rates because of our high value of variable rate debt, entered into a nine-year swap agreement that effectively fixes our variable rate debt at approximately 4.10%.

**REQUESTS FOR INFORMATION**

The financial report is designed to provide a general overview of the Pennridge School District's finances for all those with interest in the District's finances. Questions concerning any of the information provided in this report should be addressed to the Business Administrator, Pennridge School District, Pennridge District Education Center, 1200 North Fifth Street, Perkasie, PA 18944-2295.

**PENNRIDGE SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
*June 30, 2013*

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 42,437,908	\$ 950,525	\$ 43,388,433
Investments	2,940,000	207,838	3,147,838
Taxes receivable, net	1,711,915	-	1,711,915
Internal balances	101,655	(101,655)	-
Due from Fiduciary Funds	4,959	-	4,959
Due from other governments	827,237	53,088	880,325
Other receivables, net	593,993	14,728	608,721
Inventories	476,144	80,176	556,320
Prepaid expenses	133,087	-	133,087
Unamortized bond discount	632,573	-	632,573
Other assets	371,033	-	371,033
Capital assets			
Land and land improvements	950,176	-	950,176
Buildings and building improvements	214,154,048	-	214,154,048
Furniture, equipment and vehicles	24,972,813	2,140,087	27,112,900
Construction in progress	3,924,982	-	3,924,982
Accumulated depreciation	(79,308,499)	(1,935,655)	(81,244,154)
<b>TOTAL ASSETS</b>	<b>214,924,024</b>	<b>1,409,132</b>	<b>216,333,156</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Accumulated decrease in fair value of hedging derivatives	1,691,565	-	1,691,565
Deferred charge on refunding	576,293	-	576,293
<b>TOTAL DEFERRED OUTFLOWS         OF RESOURCES</b>	<b>2,267,858</b>	<b>-</b>	<b>2,267,858</b>
<b>LIABILITIES</b>			
Accounts payable	4,023,543	13	4,023,556
Accrued salaries and benefits	8,796,695	-	8,796,695
Accrued interest	772,088	-	772,088
Unearned revenue	960,597	31,118	991,715
Long-term liabilities			
Portion due or payable within one year			
Bonds/notes payable	7,997,092	-	7,997,092
Portion due or payable after one year			
Unamortized bond premium	880,500	-	880,500
Bonds/notes payable	112,224,756	-	112,224,756
Compensated absences	2,561,909	23,919	2,585,828
Net OPEB obligation	3,375,759	-	3,375,759
<b>TOTAL LIABILITIES</b>	<b>141,592,939</b>	<b>55,050</b>	<b>141,647,989</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Accumulated increase in fair value of hedging derivatives	1,691,565	-	1,691,565
<b>NET POSITION</b>			
Net investment in capital assets	43,794,558	204,432	43,998,990
Restricted	1,005,480	-	1,005,480
Unrestricted	29,107,340	1,149,650	30,256,990
<b>TOTAL NET POSITION</b>	<b>\$ 73,907,378</b>	<b>\$ 1,354,082</b>	<b>\$ 75,261,460</b>

*See accompanying notes to the basic financial statements.*

# PENNRIDGE SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction				
Regular programs	\$ 49,721,426	\$ 192,203	\$ 5,489,941	\$ -
Special programs	15,903,404	-	5,344,787	-
Vocational education	3,044,095	-	-	-
Other instructional programs	448,539	23,152	-	-
Adult education programs	80,981	46,567	-	-
Support services				
Pupil personnel services	3,882,122	-	-	-
Instructional staff services	2,808,444	-	-	-
Administration services	6,286,677	-	-	-
Pupil health services	1,124,233	-	707,913	-
Business services	654,916	-	-	-
Operation and maintenance of plant services	8,344,031	225,257	-	-
Student transportation services	4,807,723	485	1,361,171	-
Central services	1,489,662	-	-	-
Other services	371,404	-	-	-
Operation of non-instructional services				
Student activities	1,159,657	84,270	-	-
Community services	75,964	-	-	-
Depreciation expense, unallocated	8,235,221	-	-	-
Interest on long-term debt	5,599,130	-	-	654,705
TOTAL GOVERNMENTAL ACTIVITIES	114,037,629	571,934	12,903,812	654,705
BUSINESS-TYPE ACTIVITIES				
Food service	2,425,139	1,742,279	855,110	-
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 116,462,768	\$ 2,314,213	\$ 13,758,922	\$ 654,705

### GENERAL REVENUES

#### Taxes

Property taxes, levied for general purposes

Public utility taxes

Earned income taxes

Real estate transfer taxes

Other taxes

Grants and contributions not restricted to specific programs

Investment earnings

Gain on sale of capital assets

Miscellaneous

#### TOTAL GENERAL REVENUES

#### 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
\$ (44,039,282)	\$ -	\$ (44,039,282)
(10,558,617)	-	(10,558,617)
(3,044,095)	-	(3,044,095)
(425,387)	-	(425,387)
(34,414)	-	(34,414)
(3,882,122)	-	(3,882,122)
(2,808,444)	-	(2,808,444)
(6,286,677)	-	(6,286,677)
(416,320)	-	(416,320)
(654,916)	-	(654,916)
(8,118,774)	-	(8,118,774)
(3,446,067)	-	(3,446,067)
(1,489,662)	-	(1,489,662)
(371,404)	-	(371,404)
(1,075,387)	-	(1,075,387)
(75,964)	-	(75,964)
(8,235,221)	-	(8,235,221)
(4,944,425)	-	(4,944,425)
(99,907,178)	-	(99,907,178)
-	172,250	172,250
(99,907,178)	172,250	(99,734,928)
72,393,798	-	72,393,798
101,875	-	101,875
13,095,857	-	13,095,857
1,001,055	-	1,001,055
132,305	-	132,305
12,150,738	-	12,150,738
95,609	3,940	99,549
36,800	-	36,800
236,155	-	236,155
99,244,192	3,940	99,248,132
(662,986)	176,190	(486,796)
74,570,364	1,177,892	75,748,256
\$ 73,907,378	\$ 1,354,082	\$ 75,261,460

**PENNRIDGE SCHOOL DISTRICT****BALANCE SHEET****GOVERNMENTAL FUNDS***June 30, 2013*

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 23,340,702	\$ 9,166,188	\$ 32,506,890
Investments	2,940,000	-	2,940,000
Taxes receivable, net	1,711,915	-	1,711,915
Due from other funds	106,614	1,650,000	1,756,614
Due from other governments	827,237	-	827,237
Other receivables	416,452	-	416,452
Inventories	476,144	-	476,144
Prepaid items	26,271	-	26,271
<b>TOTAL ASSETS</b>	<b>\$ 29,845,335</b>	<b>\$ 10,816,188</b>	<b>\$ 40,661,523</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,667,363	\$ 544,574	\$ 2,211,937
Due to other funds	1,650,000	-	1,650,000
Unearned revenue	966,333	-	966,333
Accrued salaries and benefits	8,796,695	-	8,796,695
<b>TOTAL LIABILITIES</b>	<b>13,080,391</b>	<b>544,574</b>	<b>13,624,965</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue, property taxes	1,169,853	-	1,169,853
<b>FUND BALANCES</b>			
Nonspendable			
Inventories	476,144	-	476,144
Prepaid expenses	26,271	-	26,271
Restricted for capital projects	-	1,005,480	1,005,480
Committed to			
Capital projects	1,000,000	9,266,134	10,266,134
Financial software	15,986	-	15,986
Future retirement rate increase	8,609,632	-	8,609,632
Unassigned	5,467,058	-	5,467,058
<b>TOTAL FUND BALANCES</b>	<b>15,595,091</b>	<b>10,271,614</b>	<b>25,866,705</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 29,845,335</b>	<b>\$ 10,816,188</b>	<b>\$ 40,661,523</b>

*See accompanying notes to the basic financial statements.*

# **PENNRIDGE SCHOOL DISTRICT**

## **RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

*June 30, 2013*

<b>TOTAL GOVERNMENTAL FUNDS BALANCES</b>	<b>\$ 25,866,705</b>
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:	
Land and land improvements	950,176
Buildings and building improvements	214,154,048
Furniture, equipment and vehicles	24,972,813
Construction in progress	3,924,982
Accumulated depreciation	(79,308,499)
Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Deferred charges	596,947
Accumulated amortization on deferred charges	(20,654)
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements but are reported in the governmental activities on the statement of net position.	
Unamortized bond discount	632,573
The assets and liabilities of the Internal Service Fund are not included in the fund financial statements but are included in the governmental activities on the statement of net position.	
	8,774,802
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	(772,088)
Bonds/notes payable	(120,221,848)
Unamortized bond premium	(880,500)
Compensated absences	(2,561,909)
Other postemployment benefits	(3,375,759)
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 unavailable in the funds.	
	<u>1,175,589</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>73,907,378</u></b>

*See accompanying notes to the basic financial statements.*

**PENNRIDGE SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
*Year Ended June 30, 2013*

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Local sources	\$ 88,978,430	\$ 19,850	\$ 88,998,280
State sources	23,274,765	-	23,274,765
Federal sources	<u>1,270,464</u>	<u>-</u>	<u>1,270,464</u>
<b>TOTAL REVENUES</b>	<u>113,523,659</u>	<u>19,850</u>	<u>113,543,509</u>
<b>EXPENDITURES</b>			
Instruction	66,842,228	739	66,842,967
Support services	29,455,034	528	29,455,562
Operation of non-instructional services	1,349,012	-	1,349,012
Facilities acquisition, construction and improvement services	1,391,090	5,401,536	6,792,626
Debt service	12,375,881	-	12,375,881
Refund of prior year receipts	<u>711,180</u>	<u>-</u>	<u>711,180</u>
<b>TOTAL EXPENDITURES</b>	<u>112,124,425</u>	<u>5,402,803</u>	<u>117,527,228</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>1,399,234</u>	<u>(5,382,953)</u>	<u>(3,983,719)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from refunding bonds	43,190,000	-	43,190,000
Payments to refund bond escrow agent	(43,319,342)	-	(43,319,342)
Bond premium	867,388	-	867,388
Transfers in	-	2,000,000	2,000,000
Transfers out	(2,000,000)	-	(2,000,000)
Proceeds from sale of fixed assets	<u>36,800</u>	<u>-</u>	<u>36,800</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(1,225,154)</u>	<u>2,000,000</u>	<u>774,846</u>
<b>NET CHANGE IN FUND BALANCES</b>	174,080	(3,382,953)	(3,208,873)
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<u>15,421,011</u>	<u>13,654,567</u>	<u>29,075,578</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 15,595,091</u>	<u>\$ 10,271,614</u>	<u>\$ 25,866,705</u>

*See accompanying notes to the basic financial statements.*



# **PENNRIDGE 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, 2013*

### **NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARD**

**\$ (3,208,873)**

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 (\$8,235,221) exceeds capital outlays (\$7,305,206) in the current period.

**(930,015)**

Deferred charges are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the term lives of debt instruments as amortization expense.

**(20,654)**

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. Unearned tax revenues decreased by this amount this year.

**(143,360)**

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

**49,810,000**

New borrowings increase Governmental Funds balances; however, this is an increase to liabilities in the statement of net position.

**(43,190,000)**

Bond premiums are reported in Governmental Funds as revenues; however, in the statement of activities, the revenues from bond premiums are allocated over the term lives of debt instruments as an offset to interest expense.

**(825,165)**

Bond discounts are reported in Governmental Funds as expenses; however, in the statement of activities, the expenses from bond discounts are allocated over the term lives of debt instruments as an increase to interest expense.

**(112,805)**

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the Governmental Funds:

Accrued interest not reflected in Governmental Funds

**377,329**

### **SUBTOTAL ADJUSTMENTS FORWARD**

**\$ 4,965,330**

**PENNRIDGE 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, 2013*

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARDED	\$ (3,208,873)
SUBTOTAL ADJUSTMENTS FORWARDED	4,965,330
In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave)--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.	(420,874)
The Internal Service Fund is used by management to charge the costs of certain activities, such as health insurance, to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities.	(1,382,777)
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>(615,792)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(662,986)</u></u>

*See accompanying notes to the basic financial statements.*

**PENNRIDGE SCHOOL DISTRICT****STATEMENT OF NET POSITION****PROPRIETARY FUNDS***June 30, 2013*

	<u>Enterprise Fund</u> <u>Food Service Fund</u>	<u>Internal Service Fund</u> <u>Self- Insurance Fund</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 950,525	\$ 9,931,018
Investments	207,838	-
Due from other governments	53,088	-
Other receivables	14,728	177,541
Inventories	80,176	-
Prepaid expenses	-	106,816
Other assets	-	371,033
	<u>1,306,355</u>	<u>10,586,408</u>
<b>TOTAL CURRENT ASSETS</b>		
<b>CAPITAL ASSETS</b>		
Machinery and equipment	2,140,087	-
Accumulated depreciation	<u>(1,935,655)</u>	<u>-</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>204,432</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,510,787</u>	<u>\$ 10,586,408</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Due to other funds	\$ 101,655	\$ -
Accounts payable	13	1,811,606
Unearned revenue	<u>31,118</u>	<u>-</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>132,786</u>	<u>1,811,606</u>
<b>COMPENSATED ABSENCES, long-term</b>	<u>23,919</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	204,432	-
Unrestricted	<u>1,149,650</u>	<u>8,774,802</u>
<b>TOTAL NET POSITION</b>	<u>1,354,082</u>	<u>8,774,802</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 1,510,787</u>	<u>\$ 10,586,408</u>

*See accompanying notes to the basic financial statements.*

**PENNRIDGE SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
*Year Ended June 30, 2013*

	Enterprise Fund <u>Food Service Fund</u>	Internal Service Fund <u>Self- Insurance Fund</u>
<b>OPERATING REVENUES</b>		
Premiums transferred from General Fund	\$ -	\$ 11,177,936
Stop-loss reimbursements	-	132,184
Charges for services	<u>1,742,279</u>	<u>-</u>
<b>TOTAL OPERATING REVENUES</b>	<u>1,742,279</u>	<u>11,310,120</u>
<b>OPERATING EXPENSES</b>		
Salaries	921,476	-
Employee benefits	256,107	12,692,897
Purchased property service	44,201	-
Other purchased service	8,894	-
Supplies	1,148,832	-
Depreciation	44,180	-
Other operating expenses	<u>1,449</u>	<u>-</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>2,425,139</u>	<u>12,692,897</u>
<b>OPERATING LOSS</b>	<u>(682,860)</u>	<u>(1,382,777)</u>
<b>NONOPERATING REVENUES</b>		
Earnings on investments	3,940	-
State sources	96,780	-
Federal sources	<u>758,330</u>	<u>-</u>
<b>TOTAL NONOPERATING REVENUES</b>	<u>859,050</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	176,190	(1,382,777)
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>1,177,892</u>	<u>10,157,579</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 1,354,082</u>	<u>\$ 8,774,802</u>

*See accompanying notes to the basic financial statements.*

**PENNRIDGE SCHOOL DISTRICT****STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS***Year Ended June 30, 2013*

	<u>Enterprise Fund Food Service Fund</u>	<u>Internal Service Fund Self- Insurance Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,735,043	\$ -
Cash transferred from General Fund for insurance premiums	-	11,069,342
Payments to employees	(835,170)	-
Payments to suppliers	<u>(1,299,470)</u>	<u>(13,115,819)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(399,597)</u>	<u>(2,046,477)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Federal sources	647,465	-
State sources	<u>101,589</u>	<u>-</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>749,054</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition, construction and improvements of capital assets	<u>(47,845)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(1,600)	-
Earnings on investments	<u>3,940</u>	<u>-</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,340</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	303,952	(2,046,477)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>646,573</u>	<u>11,977,495</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 950,525</u>	<u>\$ 9,931,018</u>

**PENNRIDGE SCHOOL DISTRICT****STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS***Year Ended June 30, 2013*

	<u>Enterprise Fund Food Service Fund</u>	<u>Internal Service Fund Self- Insurance Fund</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (682,860)	\$ (1,382,777)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	44,180	-
Donated foods	147,908	-
(Increase) decrease in		
Accounts receivable	(7,236)	-
Other receivables	-	(151,349)
Inventories	16,198	-
Prepaid expenses	-	(13,146)
Increase (decrease) in		
Interfund balances	93,493	-
Accounts payable	(4,093)	(422,922)
Compensated absences	(7,187)	-
Deferred insurance premiums	<u>-</u>	<u>(76,283)</u>
NET CASH USED BY OPERATING ACTIVITIES	\$ <u>(399,597)</u>	\$ <u>(2,046,477)</u>
SUPPLEMENTAL DISCLOSURES		
Noncash activities		
Donated foods	\$ 147,908	\$ -

*See accompanying notes to the basic financial statements.*

**PENNRIDGE SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
*June 30, 2013*

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 191,292
Investments	49,924
Other receivables	<u>24,175</u>
<b>        TOTAL ASSETS</b>	<b>\$ <u>265,391</u></b>
<b>LIABILITIES</b>	
Due to other funds	\$ 4,959
Due to students	74,099
Due to student organizations	<u>186,333</u>
<b>        TOTAL LIABILITIES</b>	<b>\$ <u>265,391</u></b>

*See accompanying notes to the basic financial statements.*

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

**NOTE A      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Pennridge School Board is the basic level of government which has oversight responsibility and control over all activities related to public school education in the Pennridge School District (the "School District"). The School District encompasses an area of approximately 94 square miles in Upper Bucks County and operates under and pursuant to the Pennsylvania School Code and is classified as a School District of the Second Class under the code. The School District receives funding from local, state and federal government sources and must comply with the requirements of these funding sources. The School District is not included in any other governmental "reporting entity," as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, since Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and the primary accountability for fiscal matters.

The basic financial statements of 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 GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Reporting Entity**

The School District, for financial reporting purposes, includes all of the funds and account groups relevant to operations of the seven elementary schools, two middle schools and two high schools comprising the School District. The accompanying basic financial statements comply with the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, 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. This report presents the activities of the Pennridge School District. The School District is not a component unit of another reporting entity nor does it have any component units.

**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.



**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

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. 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.

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 the Proprietary Funds' principal ongoing operations. The principal operating revenues of the School District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund 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. All funds reported in the current fiscal year are major funds.

### ***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 Projects Fund** - The Capital Projects Fund is 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.

### ***Proprietary Funds***

**Enterprise Fund** - The Enterprise Fund is 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.

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

*Food Service Fund* - The Food Service Fund is used to account for all financial transactions related to the food service operation.

**Internal Service Fund** - The Internal Service Fund is used to account for the financing of goods or services provided by an activity to other departments, funds, or component units of the School District on a cost-reimbursement basis. Because the principal users of the internal services are the School District's governmental activities, the financial statements of the Internal Service Fund are consolidated into the governmental activities column when presented in the government-wide financial statements.

*Self-Insurance Fund* - The Self-Insurance Fund is used to account for all financial transactions related to the administration of the School District's self-insured health plans.

***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. The School District's Agency Funds include the Student Activities Fund and the Student Loan Fund.

**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**

Statutes authorize the School District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation, or in certificates of deposit when they are secured by proper bond or collateral. Investments must be of a temporary nature. At June 30, 2013, the School District had investments in various certificates of deposit, Federal Agency securities, U.S. Treasury notes and trust accounts with the Pennsylvania Local Government Investment Trust and the Pennsylvania School District Liquid Asset Fund.

Pennsylvania Local Government Investment Trust Funds are invested in accordance with Section 440.1 of the School Code. Each school district owns a pro rata share of each investment or deposit which is held in the name of the fund.

Under Act No. 72, enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the various banks are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit. These may be bonds of the United States, any state of the United States, or bonds of any political subdivision of Pennsylvania or the general state authority or their authorities created by the General Assembly of the Commonwealth of Pennsylvania, or insured with the Federal Deposit Insurance Corporation. The market value of such bonds pledged must equal 120% of the funds deposited. The security pledged by the various depositories utilized during the year and at June 30, 2013, was in excess of the minimum requirements just described.

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

The School District has adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under GASB Statement No. 31, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values.

**Short-Term Interfund Receivables/Payables**

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues. Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in the Governmental Funds and as nonoperating revenues/expenses in the Proprietary Funds.

On the fund financial statements, short-term interfund loans are classified as "due from/to other funds." 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.

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. These advances are considered "available spendable resources."

**Inventories and Prepaid Items**

Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased.

Inventory of food and milk in the Food Service Fund consists of supplies purchased and donated foods received from the federal government. Donated foods are valued at their 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.

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 \$5,000 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.

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

General capital assets are those assets not specifically related to activities reported in the Proprietary Funds. These assets are reported in the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the Proprietary Funds are reported on both statement types.

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>
Buildings and building improvements	50
Furniture, equipment and vehicles	5-20

**Unearned Revenue**

Unearned revenue arises when assets are recognized before the revenue recognition criteria have been satisfied. Such is the case when revenue arises when resources are received by the School District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria are met or when the School District has a legal claim to the resources, the liability for unearned revenue is removed from the Governmental Funds balance sheet and revenue is recognized.

**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 Types statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, Governmental Funds recognize bond premiums and discounts 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.

**Compensated Absences**

It is the School District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The benefits are accrued when incurred in the government-wide, Proprietary and Fiduciary Funds financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The criteria for determining vacation and sick leave liability is derived from Board policy, negotiated agreements and state laws and is in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

**GASB Statement No. 53**

The School District adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, for the year ended June 30, 2010. Upon implementation of this statement, the School District was required to record derivative instruments in the government-wide financial statements.

In order to implement this statement, the School District had to evaluate its derivatives to determine if the financial instruments effectively hedge risks utilizing the methods defined under GASB Statement No. 53. The accounting for recording these derivative instruments is different for derivative instruments that are determined to be effective versus those that are determined to be ineffective. For those derivative instruments that are determined to be effective, the derivative asset or liability is recorded in the statement of net position, and a corresponding deferred inflow or outflow will be recorded in the statement of net position as well. For those derivative instruments that are determined to be ineffective, the derivative asset or liability is recorded in the statement of net position; however, the change in fair value of the instrument will be reported in the investment revenue (expense) classification in the statement of activities.

Hedge accounting under GASB Statement No. 53 terminates if the hedge is no longer effective based on the qualitative and quantitative methods. If the hedged asset or liability is sold or retired or if the government entity is re-exposed to the hedged financial risk, hedge accounting will no longer apply. Once the hedge no longer qualifies for hedge accounting, the fair value changes are recorded as investment gain or loss.

**Net Position**

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted on the government-wide statements when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net 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's deferred outflows on the statement on net position consist of deferred charges on debt refundings, net of accumulated amortization.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The 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.

**Fund Balance and GASB Statement No. 54**

Beginning with the year ended June 30, 2011, the School District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the School District's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** - Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- ***Restricted Fund Balance*** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation.
- ***Committed Fund Balance*** - Amounts constrained to specific purposes by the School District itself, using its highest level of decision-making authority (the Board of School Directors). To be reported as committed, amounts cannot be used for any other purpose unless the School District takes the same highest level action to remove or change the constraint.
- ***Assigned Fund Balance*** - Amounts the School District intends to use for a specific purpose. Intent can be expressed by the Board of School Directors or by an official or body to which the Board of School Directors delegates the authority.
- ***Unassigned Fund Balance*** - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

The Board of School Directors establishes (and modifies or rescinds) fund balance commitments and assignments by passage of a resolution. Assigned fund balance is intended to be used by the School District for specific purposes but does not meet the criteria to be classified as restricted or committed.

The School District will typically use restricted fund balances first, followed by committed resources and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

In the General Fund, the School District has committed funds for the purchase of software, capital projects and future retirement rate increases. The details of the fund balances are included in the Governmental Funds balance sheet (page 18).

**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.

**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. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2013, the carrying amount of the School District's deposits was \$43,578,355 and the bank balance was \$44,853,573. Of the bank balance, \$250,000 was covered by federal depository insurance and \$4,006,217 was uninsured. The remaining cash deposits totaling \$40,597,356 of the School District are in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit.



**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

**Investments**

As of June 30, 2013, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less Than One Year</u>	<u>Investment Maturities One to Five Years</u>
State investment pools	\$ 2,940,000	\$ 2,940,000	\$ -
Certificates of deposit	<u>257,762</u>	<u>49,924</u>	<u>207,838</u>
	<u>\$ 3,197,762</u>	<u>\$ 2,989,924</u>	<u>\$ 207,838</u>

Statutes authorize the School District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools, or mutual funds.

A portion of the School District's cash investments is in the PSDLAF of which are funds very similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a state treasurer's investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities.

Therefore, the PSDLAF cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at June 30, 2013, is \$2,940,000. The fair value of the position in this investment is the same as the value of the pool shares, i.e., it maintains a stable net asset value of \$1 per share. PSDLAF is not SEC-registered. All investments are monitored weekly by Standard & Poors and are subject to an independent audit on an annual basis.

**Interest Rate Risk**

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Custodial Credit Risk, Investments**

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

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

**Credit Risk**

The School District has no investment policy that would limit its investment choices to those with certain credit ratings. As of June 30, 2013, PSDLAF was rated as AAAM by a nationally recognized statistical rating organization.

**Concentration of Credit Risk**

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

Certificate of deposit with Pennsylvania School District Liquid Asset Fund	\$ 2,940,000
Certificate of deposit with QNB Bank	\$ 207,838

**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, as determined by Bucks County.

Tax rates for the School District for the year ended June 30, 2013, were as follows:

Real estate taxes.....	123.0169 mills
Real estate transfer taxes.....	1%
Earned income tax.....	1%

In addition to the above taxes, the School District levies a \$52 local services tax.

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

Discount period.....	July 1 to August 30 - 2% of gross levy
Face period.....	August 31 to October 31
Penalty period.....	November 1 to December 31 - 10% of gross levy
Lien date.....	January 1

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

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

**NOTE D ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2013, consisted of taxes, other receivables and intergovernmental grants and entitlements. 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	Self- Insurance Fund	Agency Funds
Real estate taxes	\$ 1,516,797	\$ -	\$ -	\$ -
Earned income taxes	69,616	-	-	-
Real estate transfer taxes	122,028	-	-	-
Local service taxes	3,474	-	-	-
Due from other governments	827,237	53,088	-	-
Other receivables	416,452	14,728	177,541	24,175
	<u>\$ 2,955,604</u>	<u>\$ 67,816</u>	<u>\$ 177,541</u>	<u>\$ 24,175</u>

**NOTE E INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**Due to/from Other Funds**

The composition of interfund balances as of June 30, 2013, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects Fund	General Fund	\$ 1,650,000
General Fund	Food Service Fund	101,655
General Fund	Agency Funds	4,959
		<u>\$ 1,756,614</u>

The amounts between the General Fund and Food Service Fund are for payroll reimbursements.

**Interfund Transfers**

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Projects Fund	General Fund	\$ <u>2,000,000</u>

The Board approves transfers from the General Fund to the Capital Projects Fund to provide funding for current and future capital improvement needs of the School District.

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

**NOTE F CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land and land improvements	\$ 950,176	\$ -	\$ -	\$ 950,176
Construction in progress	2,169,625	3,924,982	(2,169,625)	3,924,982
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>3,119,801</b>	<b>3,924,982</b>	<b>(2,169,625)</b>	<b>4,875,158</b>
Capital assets being depreciated				
Buildings and building improvements	210,802,042	3,352,006	-	214,154,048
Furniture, equipment and vehicles	22,774,970	2,197,843	-	24,972,813
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>233,577,012</b>	<b>5,549,849</b>	<b>-</b>	<b>239,126,861</b>
Accumulated depreciation				
Buildings and building improvements	(52,817,744)	(5,294,242)	-	(58,111,986)
Furniture, equipment and vehicles	(18,255,534)	(2,940,979)	-	(21,196,513)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(71,073,278)</b>	<b>(8,235,221)</b>	<b>-</b>	<b>(79,308,499)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<b>162,503,734</b>	<b>(2,685,372)</b>	<b>-</b>	<b>159,818,362</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net</b>	<b>165,623,535</b>	<b>1,239,610</b>	<b>(2,169,625)</b>	<b>164,693,520</b>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets being depreciated				
Furniture and equipment	2,092,242	47,845	-	2,140,087
Accumulated depreciation	(1,891,475)	(44,180)	-	(1,935,655)
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net</b>	<b>200,767</b>	<b>3,665</b>	<b>-</b>	<b>204,432</b>
<b>CAPITAL ASSETS, net</b>	<b>\$ 165,824,302</b>	<b>\$ 1,243,275</b>	<b>\$ (2,169,625)</b>	<b>\$ 164,897,952</b>

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

**NOTE G      LEASES**

The School District leased various photocopy machines and accessories under a lease that operated on a month-to-month basis through June 30, 2013, whereby the School District pays a set cost per copy made. Total costs for such leases were \$242,037 for the year ended June 30, 2013.

**NOTE H      LONG-TERM DEBT**

**General Obligation Bonds and Notes**

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year.

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 7,997,092	\$ 2,349,038
2015	9,154,603	2,167,926
2016	10,276,975	2,039,398
2017	10,991,718	1,872,334
2018	11,306,461	1,728,330
2019 to 2023	48,149,991	4,705,547
2024 to 2028	19,075,008	1,315,352
2029	<u>3,270,000</u>	<u>45,450</u>
	<u>\$ 120,221,848</u>	<u>\$ 16,223,375</u>

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

**NOTE I      CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2013, was as follows:

	<u>Maturity Date</u>	<u>Interest Rate</u>
<b>GOVERNMENTAL ACTIVITIES</b>		
General obligation bonds		
Series A of 2003	February 15, 2027	Variable, currently 1.7%
Series of 2003	February 15, 2026	3.05% to 5.25%
Series of 2006	February 15, 2029	3.75% to 4.20%
Series of 2007	February 15, 2027	3.70% to 4.15%
Series of 2008	February 15, 2029	3.50% to 4.13%
Series of 2009	February 15, 2021	2.50% to 4.00%
Series of 2010	February 15, 2024	2.25% to 3.50%
Series of 2012	February 15, 2026	2.00% to 2.50%
Series A of 2012	February 15, 2029	1.00% to 2.50%
Series AA of 2012	March 15, 2027	1.75% to 2.00%
Series of 2013	February 15, 2029	2.00% to 3.00%
Series A of 2013	April 15, 2026	2.00% to 2.25%
General obligation notes		
Series of 1999	February 1, 2018	Variable, currently 3.8%
Series of 2000	February 1, 2021	Variable, currently 0.6%
Series A of 2004	August 1, 2020	Variable, currently 0.7%
Series C of 2004	August 1, 2023	Variable, currently 1.8%
Series of 2010	November 15, 2025	Variable, currently 0.5%
TOTAL GENERAL OBLIGATION		
BONDS AND NOTES		
Compensated absences (Note M)		
Net OPEB obligation (Note Q)		
Unamortized bond premium		
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES		
<b>BUSINESS-TYPE ACTIVITIES</b>		
Compensated absences (Note M)		

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ 25,300,000	\$ -	\$ (4,100,000)	\$ 21,200,000	\$ 4,300,000
15,550,000	-	(15,550,000)	-	-
9,920,000	-	(9,920,000)	-	-
9,770,000	-	(9,770,000)	-	-
7,240,000	-	(7,240,000)	-	-
15,485,000	-	(75,000)	15,410,000	80,000
7,605,000	-	(550,000)	7,055,000	565,000
-	7,920,000	(5,000)	7,915,000	100,000
-	9,955,000	-	9,955,000	5,000
-	9,780,000	-	9,780,000	5,000
-	8,930,000	-	8,930,000	5,000
-	6,605,000	-	6,605,000	5,000
2,440,000	-	(365,000)	2,075,000	380,000
5,905,000	-	(535,000)	5,370,000	560,000
16,000,000	-	(1,700,000)	14,300,000	1,800,000
10,000,000	-	-	10,000,000	-
1,626,848	-	-	1,626,848	192,092
126,841,848	43,190,000	(49,810,000)	120,221,848	7,997,092
2,141,035	420,874	-	2,561,909	-
2,759,967	615,792	-	3,375,759	-
446,275	867,388	(433,163)	880,500	-
<u>\$ 132,189,125</u>	<u>\$ 45,094,054</u>	<u>\$ (50,243,163)</u>	<u>\$ 127,040,016</u>	<u>\$ 7,997,092</u>
<u>\$ 31,106</u>	<u>\$ -</u>	<u>\$ (7,187)</u>	<u>\$ 23,919</u>	<u>\$ -</u>

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

**NOTE J      INTEREST RATE SWAP**

**Objective**

As a means to assist the School District in managing interest costs when compared against the School District's fixed-rate debt, the School District entered into an interest rate swap agreement (the "Swap") to take advantage of historically low interest rates without completing a refunding of any of its long-term debt.

**Terms**

The School District entered into the Swap Agreement with Deutsch Bank on October 15, 2005, that matures on August 14, 2014. The executed transaction is a nine-year amortizing fixed-to-floating interest rate swap. The notional amount of the swap is \$74,370,000. The School District pays the counterparty a fixed rate of 3.25%. The counterparty pays the School District a computed rate of 67% of the one-month London Interbank Offered Rate (LIBOR). The LIBOR was 1.93% as of June 30, 2013.

**Fair Value**

As of June 30, 2013, the Swap had a negative fair value of \$1,691,565. The change in fair value for the fiscal period ending June 30, 2013, was an increase of \$1,577,827. An interest rate swap is a financial instrument whose economic value will change over time. The economic value may be positive or negative, depending on interest rate movements after the initial trade date. The Swap's fair value was estimated by comparing the fixed rate set at the inception of the transaction and the "swap replacement rate," which represents the market rate for an offsetting interest rate swap with the same notional amount and final maturity date. The market value was then determined by calculating the present value interest differential between the contractual swap and the replacement swap.

**Credit Risk**

As of June 30, 2013, the School District was not exposed to credit risk because the Swap had a negative fair value. However, should interest rates change and the fair value of the Swap become positive, the School District would be exposed to credit risk in the amount of the derivative's fair value. The counterparty was rated A2 by Moody's, A+ by Fitch and A+ by Standard & Poor's.

**Termination Risk**

The School District or the counterparty may terminate the Swap if the other party fails to perform under the terms of the agreement. If, at the time of termination, the Swap has a negative fair value, the School District would be liable to the counterparty for a payment equal to the Swap's negative fair value of \$1,691,565.



**NOTE K      UNEARNED REVENUE**

**General Fund**

Program grants received prior to the incurrence of qualifying expenditures are recorded as unearned revenue. At June 30, 2013, General Fund unearned revenue consisted of unearned grant revenues of \$749,947 and other unearned fees of \$216,386.

**NOTE L      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.

The state matches the School District's contribution. The School District's contribution is made on a quarterly basis, and employee contributions are made on a monthly basis. The School District has no responsibility for operation and administration of the pension program. The employer and employee obligations to contribute are established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended).

A participant may retire with a normal retirement allowance at the age of 62 with one full year of service, age 60 with 30 or more years of service, or with 35 years of service regardless of age. The normal retirement allowance, paid monthly for life and then to beneficiaries if certain options are exercised, equals 2% of the average of the highest three years' earnings multiplied by the number of years of credited service.

Early retirement is permitted at age 55 or older with 25 years or more of credited service with a reduction of 3% per year of normal retirement benefits.

**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 17108-0125, or by emailing Beth at [bgirman@pa.gov](mailto:bgirman@pa.gov). This CAFR is also available on the publications page of the PSERS website at [www.psers.state.pa.us](http://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.
- 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, 2013, the rate of employer's contribution was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and .86% for healthcare insurance premium assistance.

The School District's contribution to PSERS for the years ended June 30, 2013, 2012 and 2011, was \$6,859,577, \$4,897,829 and \$3,076,889, respectively, equal to the required contribution for each year.

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

**NOTE M COMPENSATED ABSENCES**

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. Vacation compensation payable in future years, which was \$712,391 at June 30, 2013, is recorded in compensated absences on the statement of net position.

Most School District employees are credited with a minimum of ten days of sick leave annually to an unlimited maximum and two personal leave days annually to a limit up to five days. Upon retirement or termination and after ten years of service to the School District, such employees are compensated for each day of accumulated sick leave. Rates of compensation and limits on accumulations are dependent on job classification. Sick leave compensation payable in future years, which was \$1,873,437 at June 30, 2013, is recorded in compensated absences on the statement of net position.

**NOTE N COMMITMENTS AND CONTINGENCIES**

There are a number of tax assessment appeals in the Court of Common Pleas of Bucks 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.

As of June 30, 2013, several suits and claims were in progress dealing with various subject matters. In these actions, indicated amounts are either not material or management is of the opinion that insurance coverage is adequate to cover the applicable claim. Management believes no adverse financial decisions of a material amount against the School District would result from these legal proceedings.

The School District receives federal, state and local funding under a number of programs. Payments made by those sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. The School District officials do not expect any significant adjustment as a result of these examinations. The School District is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of grant program expenditures.

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

**NOTE O 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The School District is currently using the system of reimbursement financing to pay Pennsylvania unemployment compensation claims. Under this method, a liability occurs only when a former employee collects unemployment benefits. The School District must then reimburse the Commonwealth for these claims paid.

**NOTE P SELF-INSURANCE**

The School District is self-insured for its medical, dental and hospitalization benefits and prescription drug benefits. The monthly premium is revised annually in April for the upcoming fiscal year beginning July 1 and is based upon actual cost plus basis per third-party administrator. The School District has recorded a liability in the Internal Service Fund for claims incurred through June 30, 2013. The claims liability has historically been satisfied within 120 days after June 30, and is classified as a portion of accounts payable.

**Change in Aggregate Claim Liabilities**

	<u>2013</u>	<u>2012</u>
CLAIMS LIABILITIES AT BEGINNING OF YEAR	\$ 2,234,528	\$ 2,178,816
Current year claims and changes in estimates	12,269,975	10,870,846
Claim payments by School District	<u>(12,692,897)</u>	<u>(10,815,134)</u>
CLAIMS LIABILITIES AT END OF YEAR	<u>\$ 1,811,606</u>	<u>\$ 2,234,528</u>

**NOTE Q OTHER POSTEMPLOYMENT BENEFITS**

**Plan Description**

The School District provides medical, prescription drug, dental and vision 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 board members 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.

**Funding Policy**

The School District negotiates the contribution percentage between the School District and employees through union contracts and its personnel policy. The required contribution rates of the employer and the members vary depending on the applicable agreement. The School District currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the School District.

**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 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 are as follows:

Normal cost	\$ 403,099
Amortization of unfunded actuarial accrued liability	936,794
Interest	18,139
ANNUAL REQUIRED CONTRIBUTION (ARC)	<u>1,358,032</u>
Interest on net OPEB obligation	124,199
Adjustment to ARC	<u>(418,437)</u>
ANNUAL OPEB EXPENSE	<u>1,063,794</u>
Net OPEB contributions during the year	<u>(448,002)</u>
INCREASE IN NET OPEB OBLIGATION	<u>615,792</u>
Net OPEB obligation at beginning of year	<u>2,759,967</u>
NET OPEB OBLIGATION AT END OF YEAR	<u><u>\$ 3,375,759</u></u>

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 912,274	40%	\$ 2,340,050
2012	853,527	51%	2,759,967
2013	1,063,794	42%	3,375,759

**Funded Status and Funding Progress**

As of July 1, 2012, the actuarial accrued liability for benefits was \$6,179,002 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 \$52,821,696, and the ratio of the unfunded actuarial accrued liability (UAAL) to covered payroll was 11.70%.

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 on page 53, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**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.

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2013*

In the July 1, 2012 actuarial valuation, the entry age normal 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% initially, reduced by decrements of .5% per year to an ultimate rate of 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. Both rates included a 3.0% inflation assumption. 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 July 1, 2012, was 26 years.

**NOTE R      DONATED FOODS**

The Food Service Fund contains inventories which consist of both food commodities donated by the federal government and other food and supply inventories. Donated foods represent \$710 of the Proprietary Funds' inventory balance at June 30, 2013. These inventories are valued at last unit cost in accordance with the recommendations of the Food and Nutrition Service of the Department of Agriculture and are expensed as used.

**NOTE S      CHANGE IN ACCOUNTING PRINCIPLES**

For the year ended June 30, 2013, the School District has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Note A), and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Note A), which state that debt issuance costs should be recognized as an outflow of resources in the period incurred rather than recognized over the life of the debt incurred. Therefore, the School District is treating debt issuance costs of \$1,054,033 previously incurred and being amortized over the life of the related debt as having been recognized in the period incurred. The School District has adjusted beginning net position for governmental activities by \$1,054,033 for the debt issuance costs. The effect on the June 30, 2012 change in net position results in an increase in governmental activities net position by \$75,471.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**PENNRIDGE SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
*Year Ended June 30, 2013*

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 86,092,892	\$ 86,092,892	\$ 88,978,430	\$ 2,885,538
State sources	23,366,466	23,366,466	23,274,765	(91,701)
Federal sources	1,134,679	1,134,679	1,270,464	135,785
<b>TOTAL REVENUES</b>	<u>110,594,037</u>	<u>110,594,037</u>	<u>113,523,659</u>	<u>2,929,622</u>
<b>EXPENDITURES</b>				
Instruction	62,239,150	65,210,625	66,842,228	1,631,603
Support services	30,691,336	31,199,820	29,455,034	(1,744,786)
Operation of non-instructional services	1,327,760	1,331,518	1,349,012	17,494
Facilities acquisition, construction and improvement services	180,000	74,083	1,391,090	1,317,007
Debt service	17,330,079	13,952,279	12,375,881	(1,576,398)
Refund of prior year receipts	-	-	711,180	711,180
<b>TOTAL EXPENDITURES</b>	<u>111,768,325</u>	<u>111,768,325</u>	<u>112,124,425</u>	<u>356,100</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(1,174,288)</u>	<u>(1,174,288)</u>	<u>1,399,234</u>	<u>2,573,522</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from refunding bonds	-	-	43,190,000	43,190,000
Payments to refunded bond escrow agent	-	-	(43,319,342)	(43,319,342)
Bond premium	-	-	867,388	867,388
Transfers out	-	-	(2,000,000)	(2,000,000)
Proceeds from sale of fixed assets	-	-	36,800	36,800
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>(1,225,154)</u>	<u>(1,225,154)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(1,174,288)</u>	<u>(1,174,288)</u>	<u>174,080</u>	<u>1,348,368</u>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>15,421,011</u>	<u>15,421,011</u>	<u>15,421,011</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 14,246,723</u>	<u>\$ 14,246,723</u>	<u>\$ 15,595,091</u>	<u>\$ 1,348,368</u>

*See accompanying note to the budgetary comparison schedule.*

**PENNRIDGE SCHOOL DISTRICT**  
**NOTE TO THE BUDGETARY COMPARISON SCHEDULE**  
*Year Ended June 30, 2013*

**NOTE A      BUDGETARY INFORMATION**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for the Capital Projects Fund. All transactions of this fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.

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 proposed 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 Manager 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.
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).

Included in the General Fund budget are program budgets as approved by the state and federal agencies funding the program. Program budgets normally cover fiscal periods different from the School District's. Therefore, for financial statement presentation, program budgets are adjusted, based on expenditures, to reflect a 12-month budget which corresponds to the School District's.

**PENNRIDGE SCHOOL DISTRICT**  
**POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**  
**FUNDING PROGRESS**  
*Year Ended June 30, 2013*

**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 % of Covered Payroll (c)/(e)
2008	\$ -	\$ 6,349,505	\$ 6,349,505	0.00%	\$ 45,319,427	14.01%
2010	-	5,277,747	5,277,747	0.00%	45,582,174	11.58%
2012	-	6,179,002	6,179,002	0.00%	52,821,696	11.70%

## **SUPPLEMENTARY INFORMATION SECTION**

**PENNRIDGE SCHOOL DISTRICT**  
**COMBINING SCHEDULE OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
*June 30, 2013*

	Agency Funds		
	<u>Student Loan Fund</u>	<u>Student Activities Fund</u>	<u>Total Fiduciary Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 191,292	\$ 191,292
Investments	49,924	-	49,924
Other receivables	<u>24,175</u>	<u>-</u>	<u>24,175</u>
<b>TOTAL ASSETS</b>	<u>\$ 74,099</u>	<u>\$ 191,292</u>	<u>\$ 265,391</u>
<b>LIABILITIES</b>			
Due to other funds	\$ -	\$ 4,959	\$ 4,959
Due to students	74,099	-	74,099
Due to student organizations	<u>-</u>	<u>186,333</u>	<u>186,333</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 74,099</u>	<u>\$ 191,292</u>	<u>\$ 265,391</u>

***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  
Pennridge School District  
Perkasie, 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 Pennridge School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which comprise the Pennridge School District's basic financial statements, and have issued our report thereon dated December 4, 2013.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Pennridge 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 Pennridge School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pennridge 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of School Directors  
Pennridge School District  
Perkasie, Pennsylvania

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Pennridge 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.

*Maullie LLP*

Oaks, Pennsylvania  
December 4, 2013



***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  
Pennridge School District  
Perkasie, Pennsylvania

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited the Pennridge 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 Pennridge School District's major federal programs for the year ended June 30, 2013. The Pennridge 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 Pennridge 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 Pennridge 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 Pennridge School District's compliance.



To the Board of School Directors  
Pennridge School District  
Perkasie, Pennsylvania

### ***Opinion on Each Major Federal Program***

In our opinion, the Pennridge School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the Pennridge 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 Pennridge 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 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 Pennridge School District's internal control over compliance.

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

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

### ***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.

*Maillie LLP*

Oaks, Pennsylvania  
December 4, 2013

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

**PENNRIDGE SCHOOL DISTRICT****SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS***Year Ended June 30, 2013*

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<b>Passed through the Pennsylvania Department of Education</b>				
Title I Improving Basic Programs	I	84.010*	13-112328-A	July 1, 2012 to September 30, 2013
Title I Improving Basic Programs	I	84.010*	13-112328	July 1, 2011 to September 30, 2012
Title II Improving Teacher Quality	I	84.367	20-120328-A	July 1, 2012 to September 30, 2013
Title II Improving Teacher Quality	I	84.367	20-120328	July 1, 2011 to September 30, 2012
Title III Language Instruction LEP/Immigrant Students	I	84.365	10-130328-A	July 1, 2012 to September 30, 2013
Title III Language Instruction LEP/Immigrant Students	I	84.365	10-110328	July 1, 2010 to September 30, 2011
Title III Language Instruction LEP/Immigrant Students	I	84.365	10-120328	July 1, 2011 to September 30, 2012
ARRA - Education Jobs Fund	I	84.410A	14-0120328	July 2, 2012 to September 30, 2013
<b>Passed through the Bucks County Schools Intermediate Unit No. 22</b>				
IDEA	I	84.027*	62-130022-1	July 1, 2012 to September 30, 2013
IDEA	I	84.027*	62-120022 B1	July 1, 2011 to September 30, 2012
ARRA - IDEA	I	84.391	S410A100039	February 17, 2011 to September 30, 2013
IDEA-B SECTION 619	I	84.173*	131-110022 D	July 1, 2011 to September 30, 2012
IDEA-B SECTION 619	I	84.173*	131-120022	July 1, 2012 to September 30, 2013
<b>TOTAL FORWARD</b>				

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2012</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2013</u>
\$ 540,099	\$ 507,323	\$ -	\$ 545,965	\$ 545,965	\$ 38,642
284,445	203,175	198,768	4,407	4,407	-
171,894	85,597	-	120,121	120,121	34,524
169,352	96,773	93,200	3,573	3,573	-
20,369	-	-	9,501	9,501	9,501
23,889	14,333	11,243	3,090	3,090	-
15,882	-	(4,538)	4,538	4,538	-
10,575	10,575	-	10,575	10,575	-
1,193,043	757,191	-	1,193,043	1,193,043	435,852
1,219,214	250,934	250,934	-	-	-
10,077	10,077	-	10,077	10,077	-
9,458	-	(183)	183	183	-
4,585	<u>4,585</u>	<u>-</u>	<u>4,585</u>	<u>4,585</u>	<u>-</u>
	<u>\$ 1,940,563</u>	<u>\$ 549,424</u>	<u>\$ 1,909,658</u>	<u>\$ 1,909,658</u>	<u>\$ 518,519</u>

**PENNRIDGE SCHOOL DISTRICT****SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS***Year Ended June 30, 2013*

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
TOTAL FORWARDED				
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Passed through the Pennsylvania Department of Education				
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, 2012 to June 30, 2013
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, 2012 to June 30, 2013
US Donated Commodities	I	10.555*	N/A	July 1, 2012 to June 30, 2013
TOTAL U.S. DEPARTMENT OF AGRICULTURE				
LESS STATE SHARE				
TOTAL EXPENDITURES OF FEDERAL AWARDS				

**Source Codes:**

D = Direct Funding  
I = Indirect Funding  
S = State Funding  
\* = Major Program

*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, 2012</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2013</u>
	\$ <u>1,940,563</u>	\$ <u>549,424</u>	\$ <u>1,909,658</u>	\$ <u>1,909,658</u>	\$ <u>518,519</u>
N/A	584,067	77,466	546,782	546,782	40,181
N/A	99,200	15,811	91,255	91,255	7,866
N/A	64,188	10,599	60,794	60,794	7,205
N/A	9,756	1,385	8,371	8,371	-
N/A	<u>132,122</u> (a)	<u>(16,496)</u> (b)	<u>147,908</u>	<u>147,908</u> (c)	<u>(710)</u> (d)
	889,333	88,765	855,110	855,110	54,542
	<u>(73,944)</u>	<u>(11,984)</u>	<u>(69,165)</u>	<u>(69,165)</u>	<u>(7,205)</u>
	\$ <u><u>2,755,952</u></u>	\$ <u><u>626,205</u></u>	\$ <u><u>2,695,603</u></u>	\$ <u><u>2,695,603</u></u>	\$ <u><u>565,856</u></u>

**Footnotes:**

- (a) Total amount of foods received from the Department of Agriculture.
- (b) Beginning inventory at July 1, 2012.
- (c) Total amount of foods used.
- (d) Ending inventory at June 30, 2013.

**PENNRIDGE SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF**  
**FEDERAL AND STATE AWARDS**  
*Year Ended June 30, 2013*

**NOTE A      ORGANIZATION AND SCOPE**

The schedule of expenditures of federal and certain state awards is a listing of the total federal financial assistance received, both directly and/or indirectly, from the U.S. Departments of Education, Health and Human Services and Agriculture.

**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.

**PENNRIDGE SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended June 30, 2013*

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of the Pennridge School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Pennridge School District were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major award programs for the Pennridge School District expresses an unmodified opinion.
6. The programs tested as major programs include:

<u>Program</u>	<u>CFDA</u>
Title I Improving Basic Programs	84.010
National School Lunch Program	10.555
Special Education Cluster	84.027, 84.173

7. The threshold used for distinguishing Types A and B programs was \$300,000.
8. Pennridge School District was determined to be a high-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

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

None.



**PENNRIDGE SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
*Year Ended June 30, 2013*

**12-01**            **Lack of Payroll Time Documentation**  
                    **Title I - Improving Basic Programs - CFDA No. 84.010**  
                    **National School Lunch Program - CFDA No. 10.555**

**Condition:** Our review of payroll expenses revealed that the School District charged payroll expenses to the program based on estimates determined before the services were performed. In addition, periodic payroll certifications were not on file to support wages charged 100% to federal programs.

**Criteria:** Federal regulations under OMB Circular A-87 dictate that estimates or other percentage distributions determined before services are performed do not qualify as support for charges to a federal award. In addition, OMB Circular A-87 states that periodic payroll certifications must be maintained for any employees whose wages are charged 100% to federal programs.

**Effect:** The School District cannot properly support salaries and wage costs charged to the programs.

**Cause:** The School District charged payroll expenses to the federal program based on estimates; wages for employees who worked on multiple activities were not supported by activity reports or equivalent documentation reflecting an after-the fact distribution of the actual activity of the employee; wages for employees whose wages are charged 100% to a federal program were not supported by periodic payroll certifications.

**Recommendation:** We recommend employees maintain timesheets that break down their time by activity. Salary and wage expenses should then be charged to the programs each pay period based on the actual activity of the employees. Alternatively, estimates or other distribution percentages may be used for interim accounting purposes, provided that the School District create a methodology where, on no less than a quarterly basis, comparisons of actual costs to budgeted distributions based on the timesheets are made and adjustments are made to the salaries and wages charged to the program to reflect the actual activity of the employees. In addition, we recommend the School District utilize periodic payroll certification forms by requiring the department supervisors sign forms annually stating that the applicable employees' duties relate 100% to the federal program. These certification forms should be maintained in the employees' personnel files.

**Questioned Costs:** Title I - \$261,382. National School Lunch Program - Unknown.

**Status:** This finding has been corrected.

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**QUAKERTOWN COMMUNITY  
SCHOOL DISTRICT**

---

**FINANCIAL STATEMENTS  
AND SINGLE AUDIT**

For the Year Ended June 30, 2013

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)	4
BASIC FINANCIAL STATEMENTS	
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	13
Statement of Activities	14
<b>Fund Financial Statements</b>	
<i>Governmental Funds</i>	
Balance Sheet	15
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	18
<i>Proprietary Funds</i>	
Statement of Net Position	19
Statement of Revenues, Expenses and Changes in Net Position	20
Statement of Cash Flows	21

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## TABLE OF CONTENTS, continued

	<u>Page</u>
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position	23
<b>Notes to the Basic Financial Statements</b>	24
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Funding Progress for the Postemployment Benefits Plan	43
Budgetary Comparison Schedule	44
Notes to Required Supplementary Information	45
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Expenditures of Federal Awards and Certain State Grants	46
Notes to Schedule of Expenditures of Federal Awards and Certain State Grants	47
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	48
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance required By OMB Circular A-133	50
Schedule of Findings and Questioned Costs	52
Corrective Action Plan	55



## INDEPENDENT AUDITOR'S REPORT

To the Board of School Directors  
QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
Quakertown, 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 QUAKERTOWN COMMUNITY SCHOOL DISTRICT, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the QUAKERTOWN COMMUNITY SCHOOL DISTRICT as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 12 and pages 43 through 45, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise QUAKERTOWN COMMUNITY SCHOOL DISTRICT's basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Report on Summarized Comparative Information*

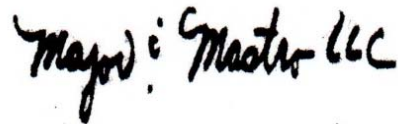
The prior year summarized comparative information has been derived from the School's 2012 financial statements and, in our report dated February 11, 2013, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014, on our consideration of the QUAKERTOWN COMMUNITY 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 QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control over financial reporting and compliance.

January 31, 2014

MAJOR & MASTRO, LLC  
Montgomeryville, Pennsylvania  
*Certified Public Accountants*

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



**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**FOR THE YEAR ENDED JUNE 30, 2013**

**INTRODUCTION**

The Management's Discussion and Analysis (MD&A) of the financial performance of Quakertown Community School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this section is to look at the District's performance as a whole; however, it also should be read in conjunction with the basic financial statements and the accompanying notes.

**FINANCIAL ANALYSIS**

The increase in net position of the governmental activities was \$215,961 and the decrease in the net position of the business-type activities was \$51,289, for a total net asset increase of \$164,672.

The District expended \$3,911,934 on capital assets during the year.

The actual results of the District's General Fund for 2012-2013 show that revenues and other financing sources collected during the year were over budget by \$1,172,315, and expenditures were under budget by \$1,389,935. The General Fund reported a positive fund balance of \$13,681,466 as of June 30, 2013, or 14.4 percent of the 2013-2014 \$95.0 million operating budget. Fund balance of \$215,394 is non spendable and \$4,042,958 is committed, which leaves \$9,423,114 as unassigned, which is 9.9 percent of the 2013-2014 budget.

**DATA ANALYSIS: THE BASIC FINANCIAL STATEMENTS**

The MD&A introduces the District's basic financial statements which consist of a series of financial statements and notes to those statements. These statements are organized so that the reader, by considering the government-wide financial statements, can understand the District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how general District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short and long-term financial information about the activities that the District operates like a business. These activities consist of food service operations. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

### Government-wide Reporting Process

The MD&A is only one of the components of the District's financial statements. Two statements that provide comprehensive information about the entire District are the following:

- **Statement of Net Position** – identifies what kinds of assets the District owns, what kinds of debts it owes and the composition of the net position that remain.
- **Statement of Activities** – identifies the costs of providing public school services and the resources to finance the services.

The basis of accounting used in these government-wide statements is full accrual with an economic resources focus. All assets and liabilities, both financial and capital, and short-term and long-term are presented. This basis of accounting takes into account all the current year's revenues and expenses regardless of when cash is received or paid.

In the Statement of Net Position and the Statement of Activities, the District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant services, pupil transportation and extracurricular activities. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business-type Activities** – the District operates a food service operation which charges fees to staff and students to cover some of the costs of the food service operation. State and federal breakfast and lunch programs further subsidize the costs of operations.

### DISTRICT FUND REPORTING

Fund financial statements provide the next level of detail about a district's funds. These statements focus on the District's most significant funds. There are three kinds of fund financial statements – governmental, proprietary and fiduciary funds.

**Governmental funds** – The District's major governmental funds are the general fund and the capital projects fund. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements include only short-term information: the most readily available assets and currently due liabilities, and the resources that flow into and out of a school district during the year. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

**Proprietary funds** – These funds are used to account for the 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. The District's proprietary fund reports the finances of the food services operation. This fund uses the same basis of accounting as business-type activities: therefore, these statements will essentially match government-wide statement reporting of business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows.

**Fiduciary funds** – The District is the trustee, or fiduciary, for some scholarship funds. In addition, the District accounts for funds held on behalf of its students. All of the District's fiduciary activities are reported in separate statements of fiduciary net position. The District excludes these activities from its other financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT

The District's statement of net position and statement of activities for its governmental and business-type activities (combined) as of June 30, 2013 and 2012 are summarized below.

### STATEMENT OF NET POSITION

	2013	2012	Variance
<b>ASSETS</b>			
Current and other assets	\$ 48,069,264	\$ 42,860,944	\$ 5,208,320
Capital assets:			
Land	2,187,468	1,177,235	1,010,233
Land improvements	5,555,859	5,559,035	(3,176)
Buildings and improvements	108,221,862	123,914,687	(15,692,825)
Furniture and equipment	18,170,638	21,105,026	(2,934,388)
Construction-in-progress	4,540,787	1,942,490	2,598,297
Total Capital Assets	138,676,614	153,698,473	(15,021,859)
Less: Accumulated depreciation	(46,937,515)	(56,501,165)	9,563,650
Capital Assets, Net	91,739,099	97,197,308	(5,458,209)
<b>TOTAL ASSETS</b>	139,808,363	140,058,252	(249,889)
<b>Current liabilities</b>	4,700,992	4,385,174	315,818
<b>Long-term liabilities:</b>			
Due within one year	5,684,215	5,328,456	355,759
Due after one year	106,939,890	102,554,534	4,385,356
<b>TOTAL LIABILITIES</b>	117,325,097	112,268,164	5,056,933
<b>Net position:</b>			
Invested in capital assets, net of related debt	9,848,145	13,820,676	(3,972,531)
Unrestricted	12,635,121	13,969,412	(1,334,291)
<b>TOTAL NET POSITION</b>	\$ 22,483,266	\$ 27,790,088	\$ (5,306,822)

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$22,483,266 at the close of the 2012-2013 fiscal year.

A portion of the District's total net position reflects its investment in capital assets net of related debt. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The District reported an increase in its unrestricted net position as a result of the current year operations. The District's investment in capital assets net of related debt decreased as a result of an updated appraisal of capital assets which determined that capital assets were overstated.

### STATEMENT OF ACTIVITIES

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
<b>EXPENDITURES</b>			
Governmental activities	\$ 88,366,661	\$ 84,698,728	\$ 3,667,933
Business-type activities	<u>2,020,919</u>	<u>2,069,247</u>	<u>(48,328)</u>
<b>TOTAL EXPENDITURES</b>	<u>90,387,580</u>	<u>86,767,975</u>	<u>3,619,605</u>
<b>REVENUES</b>			
Program revenues:			
Charges for services	2,200,785	2,184,726	16,059
Operating grants and contributions	8,153,673	7,073,316	1,080,357
Capital grants and contributions	<u>545,433</u>	<u>563,954</u>	<u>(18,521)</u>
Total Program Revenues	<u>10,899,891</u>	<u>9,821,996</u>	<u>1,077,895</u>
General revenues	<u>79,652,361</u>	<u>78,898,938</u>	<u>753,423</u>
<b>TOTAL REVENUES</b>	<u>90,552,252</u>	<u>88,720,934</u>	<u>1,831,318</u>
Change in Net Position	164,672	1,952,959	(1,788,287)
Prior period adjustment	(5,471,494)	0	(5,471,494)
Net Position, Beginning of Year	<u>27,790,088</u>	<u>25,837,129</u>	<u>1,952,959</u>
Net Position, End of Year	<u>\$ 22,483,266</u>	<u>\$ 27,790,088</u>	<u>\$ (5,306,822)</u>

The cost of all District activities in 2012-2013 was \$90,387,580. The amount that taxpayers ultimately financed for those activities through tax revenues was \$65,879,670, or 72.9 percent. A majority of the other cost was paid by government agencies and organizations that subsidized funding with intergovernmental aid and contributions, as well as charges for services (\$22,702,952 or 25.1 percent).

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

General local revenues increased due primarily to real estate tax revenues which increased commensurate with the increased millage rate. State revenues increased due to the state reimbursement subsidy of the district's payment towards the Public Employees' Retirement System. Overall revenues exceeded expenses by \$164,672.

### General Fund Revenues

The District receives its General Fund revenues from three major sources, categorized as local, state and federal. The primary source of revenue, 77 percent, is from local sources, most of which comes from real estate taxes. State revenues account for 22 percent, and federal revenues 1 percent.

The largest increase in local revenues came from real estate taxes. This increase was realized as a result of a 1.25 millage rate increase.

	2013	2012	Variance
Local Revenues			
Real estate taxes	\$ 54,394,514	\$ 53,685,907	\$ 708,607
Interim real estate taxes	162,130	239,540	(77,410)
Earned income taxes	8,559,320	8,616,185	(56,865)
IDEA	778,723	774,179	4,544
Other	3,984,537	3,865,716	118,821
	<u>67,879,224</u>	<u>67,181,527</u>	<u>697,697</u>
State Revenues			
Basic instructional subsidy	8,840,579	8,841,198	(619)
Special education	2,583,566	2,504,595	78,971
Transportation	1,248,311	1,242,990	5,321
Social security and retirement	4,104,244	3,279,919	824,325
Other	2,998,992	3,056,265	(57,273)
	<u>19,775,692</u>	<u>18,924,967</u>	<u>850,725</u>
Federal Revenues			
ARRA funds	-	40,600	(40,600)
Title I	410,661	383,154	27,507
Ed Jobs	-	9,670	(9,670)
Other	352,176	164,992	187,184
	<u>762,837</u>	<u>598,416</u>	<u>164,421</u>
Other sources	<u>1,073,375</u>	<u>320,000</u>	<u>753,375</u>
TOTAL	<u>\$ 89,491,128</u>	<u>\$ 87,024,910</u>	<u>\$ 2,466,218</u>

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### General Fund Expenses

The expenditures of the District are categorized into four major areas, as follows:

	2013	2012	Variance
Instruction	\$ 54,436,607	\$ 51,874,543	\$ 2,562,064
Support services	27,193,227	25,467,895	1,725,332
Operation of noninstructional services	852,776	814,839	37,937
Debt service/other	8,345,352	7,569,173	776,179
	<u>\$ 90,827,962</u>	<u>\$ 85,726,450</u>	<u>\$ 5,101,512</u>

The largest area of expenditures is the instruction to the students, represented on the first line of the preceding table. Support services include guidance, attendance, psychological and social services, tax collection, legal fees, administrative expenses, staff and curriculum development, health, transportation, technology, and operation and maintenance of buildings and grounds,

Non-instructional services include student activities, athletics, and community services such as crossing guards.

### Fund Balances

The General Fund Fund Balance decreased by \$1,336,834. This is the difference between the revenues and other financing sources of \$89,491,128 and the expenditures and other financing uses of \$90,827,962, as shown above. In other words, the expenditures exceeded the revenues by \$1,336,834. The fund balance, as a percentage of total expenditures, was 15.1 percent.

The recommended fund balance level is between five percent and eight percent. During the budget process for the 2012-13 fiscal year, the Board of School Directors (the Board) intended to bring the fund balance within that range. However, a district-wide effort to be conservative on all expenditures resulted in a higher fund balance than expected.

The Capital Projects fund balance increased by \$6,170,120 to an ending balance of \$27,594,589. The increase in fund balance was due to the issuance of debt for planned spending for the Senior High School Renovation. Construction will commence June 2013 and the High School Renovation will be completed in September 2017.

### General Fund Budget Information

The District's budget is prepared in accordance with Pennsylvania law and is based on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund. However, the Board also maintains budgets for the Capital Projects Fund and the Food Service Fund.

The final budget for expenditures reflects required changes in functional categories due to spending patterns. All budget transfers at the function level are approved by the Board. The budgetary comparison statement for the general fund provides more detail on these adjustments in the financial statements. The original budget was modified to incorporate approved federal programs. This modification was the reason for the significant changes between the original and final budgets.

# **QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

### **Capital Assets**

The District has \$91,739,099 invested in capital assets net of depreciation, with \$91,695,959 attributed to governmental activities. Acquisitions for governmental activities totaled \$3,911,934 and depreciation was \$3,924,338. The majority of the acquisitions was for Construction in progress for the Senior High School Renovation (See notes to the basic financial statements-Note 5).

### **Debt**

At June 30, 2013, the District had \$109,599,000 in outstanding notes and bonds payable. The District paid \$5,258,000 in principal on outstanding debt during the fiscal year. Other long-term obligations include accrued sick leave and retirement severance for employees of the District. Detailed information regarding long-term debt is included in the notes to the financial statements (note 6).

### **Labor Relations**

The Quakertown Community Education Association (QCEA), an affiliation of the National Education Association, represents the professional staff of the Quakertown Community School District is under contract through 2016. The Quakertown Educational Personnel Association (QESPA), an affiliation of the National Education Association, represents the support staff of Quakertown Community School District and is under contract through 2017.

### **Strategic Plan**

In August 2007, the District adopted a comprehensive Strategic Plan for 2007 through the fall of 2013 that focused on the purpose and resources of the District. With the help of board members, administrators, teachers, support staff, parents, community members, business leaders and students, five goals were adopted at that time. The District is committed to implementing those goals.

- Continue, develop, implement and support effective programs and strategies that meet the specific needs of every student and that result in increased student achievement.
- Implement and support methods for improved communication with all stakeholders.
- Provide a variety of staff development programs that empower the staff to grow professionally and that support District initiatives.
- Review processes and procedures to ensure efficient and effective use of District resources. Continue planning and implementation to provide safe, physically sound and appropriate facilities for all students and staff.
- Create and support an educational and work environment that welcomes and celebrates diversity.

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### Major Financial Issues and Future Changes

Enrollment at Quakertown Community School District has increased less than 100 students over the last 10 years. While the number of new homes being built is slow, the student population is expected to grow somewhat over the next five years.

To accommodate past growth, the District opened Strayer Middle School in the fall of 2004. Pfaff Elementary School was opened in the fall of 2005, and the former middle school was renovated and opened as the Freshman Center in fall of 2005, relieving the overcrowding at the high school. The Richland Elementary School renovation was completed for the fall of 2010 including small additions to replace four modular classrooms, to comply with ADA and to increase the size of the kitchen. Renovations have been completed to the building at 100 Commerce Drive, the District Services Center which now houses the administrative staff and an alternative school. The area formerly used for the District offices is now used for two new programs: Options Academy and Infinity Cyber School.

In the summer of 2013, a major four-phase renovation to the High School will begin. The \$76 million dollar project will be completed in September of 2017. The millage impact of the project will be a 7.50 Mills phased in over a 7 year period. \$42,660,000 of the funding is now in place.

Employer contribution rates for the Public School Employees' Retirement System (PSERS) are projected to increase significantly. The rates are projected as follows:

2013-14		16.93%		2.6 Mills
2014-15		21.31%		2.6 Mills
2015-16		25.80%		2.8 Mills
2016-17		28.30%		1.7 Mills
2017-18		29.15%		0.5 Mills

Tax assessment appeals have slowed, but there has not been any significant growth in the assessment rolls since 2007-08.

2008-09		400,050,702	
2009-10		401,522,240	0.37%
2010-11		401,198,336	-0.08%
2011-12		399,450,798	-0.44%
2012-13		401,139,569	0.42%
2013-14		399,774,960	-0.34%

In June 2006, Act 1 of 2006 (the Taxpayer Relief Act) was passed by the Pennsylvania State Legislature. As a result, future school district tax increases that exceed the state-mandated index plus allowable exceptions will require a referendum. There continue to be no provisions for unfunded mandates by the state or federal government. Construction costs related to the Senior High School Renovation could have a material impact on a district's future budgets.



## **QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

#### **Contacting the District Financial Management**

The financial reports are designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Robert L. Riegel, CPA, Business Administrator, at Quakertown Community School District, 100 Commerce Drive, Quakertown, PA 18951, (215) 529-2031.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

JUNE 30, 2013

(With Summarized Comparative Data for June 30, 2012)

	Governmental Activities	Business-Type Activities	Totals	
			2013	2012
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 38,244,635	\$ 191,542	\$ 38,436,177	\$ 31,683,765
Investments	3,264,000		3,264,000	3,973,526
Taxes receivable, net	2,152,519		2,152,519	2,188,706
Internal balances	125,143	(125,143)	-	-
Due from other governments	2,376,166	56,187	2,432,353	2,512,789
Other receivables, net	452,722	10,564	463,286	274,853
Prepaid expenses	139,445		139,445	1,005,124
Inventories	75,949	70,239	146,188	180,852
Total Current Assets	<u>46,830,579</u>	<u>203,389</u>	<u>47,033,968</u>	<u>41,819,615</u>
Noncurrent Assets:				
Capital assets:				
Land	2,187,468		2,187,468	1,177,235
Land improvements	5,555,859		5,555,859	5,559,035
Construction in progress	4,540,787		4,540,787	1,942,490
Buildings and building improvements	108,221,862		108,221,862	123,914,687
Property and equipment	17,560,285	610,353	18,170,638	21,105,026
Accumulated depreciation	(46,370,302)	(567,213)	(46,937,515)	(56,501,165)
Bond costs, net	1,035,296		1,035,296	1,041,329
Total Noncurrent Assets	<u>92,731,255</u>	<u>43,140</u>	<u>92,774,395</u>	<u>98,238,637</u>
<b>TOTAL ASSETS</b>	<u>139,561,834</u>	<u>246,529</u>	<u>139,808,363</u>	<u>140,058,252</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	1,534,922	-	1,534,922	1,144,453
Accrued salaries and benefits	2,423,247		2,423,247	2,449,117
Accrued interest	609,503		609,503	651,307
Unearned revenue	75,035	58,285	133,320	140,297
Portion due or payable within one year				
Capital lease payable	327,215		327,215	70,456
Notes payable	3,647,000		3,647,000	3,468,000
Bonds payable	1,710,000		1,710,000	1,790,000
Total Current Liabilities	<u>10,326,922</u>	<u>58,285</u>	<u>10,385,207</u>	<u>9,713,630</u>
Long-term Liabilities:				
Portion due or payable after one year				
Capital lease payable	594,624		594,624	144,974
Notes payable	26,397,000		26,397,000	30,044,000
Bonds payable	77,845,000		77,845,000	70,325,000
Accumulated compensated absences	1,755,830		1,755,830	1,771,065
Other post-employment benefits	347,436		347,436	269,495
Total Long-term Liabilities	<u>106,939,890</u>		<u>106,939,890</u>	<u>102,554,534</u>
<b>TOTAL LIABILITIES</b>	<u>117,266,812</u>	<u>58,285</u>	<u>117,325,097</u>	<u>112,268,164</u>
<b>NET POSITION</b>				
Net investment in capital assets	9,805,005	43,140	9,848,145	13,820,676
Unrestricted	<u>12,490,017</u>	<u>145,104</u>	<u>12,635,121</u>	<u>13,969,412</u>
<b>TOTAL NET POSITION</b>	<u>\$ 22,295,022</u>	<u>\$ 188,244</u>	<u>\$ 22,483,266</u>	<u>27,790,088</u>

See accompanying notes to the basic financial statements

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013  
(With Summarized Comparative Data for June 30, 2012)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
							2013	2012
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 54,655,665	\$ 625,619	\$ 4,814,363	\$	\$ (49,215,683)	\$	\$ (49,215,683)	\$ (47,482,626)
Instructional Student Support	8,360,490		589,689		(7,770,801)		(7,770,801)	(6,463,130)
Administrative Support Services	7,926,131		431,073		(7,495,058)		(7,495,058)	(7,756,013)
Operation and Maintenance of Plant Services	9,553,914	264,461	238,659		(9,050,794)		(9,050,794)	(9,556,309)
Pupil Transportation	3,853,324		1,248,311		(2,605,013)		(2,605,013)	(2,559,366)
Student Activities	843,908	126,963	46,262		(670,683)		(670,683)	(743,115)
Community Services	16,992				(16,992)		(16,992)	(11,812)
Interest on long-term debt	3,156,237			545,433	(2,610,804)		(2,610,804)	(2,311,523)
TOTAL GOVERNMENTAL ACTIVITIES	88,366,661	1,017,043	7,368,357	545,433	(79,435,828)		(79,435,828)	(76,883,894)
BUSINESS-TYPE ACTIVITIES								
Food service	2,020,919	1,183,742	785,316		-	(51,861)	(51,861)	(62,085)
TOTAL BUSINESS TYPE ACTIVITIES	2,020,919	1,183,742	785,316	-	-	(51,861)	(51,861)	(62,085)
TOTAL PRIMARY GOVERNMENT	\$ 90,387,580	\$ 2,200,785	\$ 8,153,673	\$ 545,433	(79,435,828)	(51,861)	(79,487,689)	(76,945,979)
GENERAL REVENUES								
Property taxes, levied for general purposes					56,257,841		56,257,841	55,469,993
Taxes levied for specific purposes					9,621,829		9,621,829	9,635,470
Grants and entitlements not restricted to specific programs					13,409,142		13,409,142	13,381,389
Investment earnings					186,079	572	186,651	111,504
Miscellaneous					176,898		176,898	300,582
TOTAL GENERAL REVENUES					79,651,789	572	79,652,361	78,898,938
CHANGE IN NET POSITION					215,961	(51,289)	164,672	1,952,959
NET POSITION AT BEGINNING OF YEAR								
As Previously Reported					27,550,555	239,533	27,790,088	25,837,129
Adjustment (See Note 13)					(5,471,494)		(5,471,494)	
BALANCE AT BEGINNING OF YEAR, AS RESTATED					22,079,061	239,533	22,318,594	25,837,129
NET POSITION AT END OF YEAR					\$ 22,295,022	\$ 188,244	\$ 22,483,266	\$ 27,790,088

See accompanying notes to the basic financial statements

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

JUNE 30, 2013  
(With Summarized Comparative Data for June 30, 2012)

	General Fund	Capital Projects Fund	Totals	
			2013	2012
<b>ASSETS</b>				
Cash and cash equivalents	\$ 10,650,046	\$ 27,594,589	\$ 38,244,635	\$ 31,504,903
Investments	3,264,000		3,264,000	3,973,526
Taxes receivable, net	2,152,519		2,152,519	2,188,706
Due from other governments	2,376,166		2,376,166	2,411,062
Interfund receivable	125,143		125,143	68,309
Other receivables	452,722		452,722	267,243
Prepaid expenses	139,445		139,445	1,005,124
Inventories	75,949		75,949	115,799
<b>TOTAL ASSETS</b>	<u>\$ 19,235,990</u>	<u>\$ 27,594,589</u>	<u>\$ 46,830,579</u>	<u>\$ 41,534,672</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,534,922	\$	\$ 1,534,922	\$ 1,133,524
Accrued salaries and benefits	2,423,247		2,423,247	2,449,117
Deferred revenue	75,035		75,035	128,368
<b>TOTAL LIABILITIES</b>	<u>4,033,204</u>	<u>-</u>	<u>4,033,204</u>	<u>3,711,009</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - real estate taxes	1,470,107		1,470,107	1,329,710
Unavailable revenue - other taxes	51,213		51,213	51,184
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>1,521,320</u>	<u>-</u>	<u>1,521,320</u>	<u>1,380,894</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Prepaid items	139,445		139,445	1,005,124
Inventories	75,949		75,949	115,799
Committed:				
PSERS liability	2,792,958		2,792,958	2,042,958
Capital reserve	1,250,000		1,250,000	
Assigned:				
Capital Projects		27,594,589	27,594,589	21,424,469
Unassigned	9,423,114		9,423,114	11,854,419
<b>TOTAL FUND BALANCES</b>	<u>13,681,466</u>	<u>27,594,589</u>	<u>41,276,055</u>	<u>36,442,769</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 19,235,990</u>	<u>\$ 27,594,589</u>	<u>\$ 46,830,579</u>	<u>\$ 41,534,672</u>

See accompanying notes to the basic financial statements

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

TOTAL GOVERNMENTAL FUND BALANCES	\$ 41,276,055
----------------------------------	---------------

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of assets is \$138,066,261, and the accumulated depreciation is \$46,370,302.	91,695,959
--	------------

Some of the District's revenues will be collected after year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	1,521,320
---	-----------

Bond issuance costs are recorded as expenditures in the Governmental Funds. The statement of net position includes these amounts as other assets.	1,035,296
---	-----------

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	(609,503)
Bonds and notes payable	(109,599,000)
Capital lease obligation	(921,839)
Other post-employment benefits	(347,436)
Accumulated compensated absences	<u>(1,755,830)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 22,295,022</u>
---	----------------------

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

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

FOR THE YEAR ENDED JUNE 30, 2013  
(With Summarized Comparative Data for the Year Ended June 30, 2012)

	General Fund	Capital Projects Fund	Totals	
			2013	2012
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 67,879,224	\$ 34,068	\$ 67,913,292	\$ 67,327,648
State sources	19,775,692		19,775,692	18,924,967
Federal sources	762,837		762,837	598,416
TOTAL REVENUES	<u>88,417,753</u>	<u>34,068</u>	<u>88,451,821</u>	<u>86,851,031</u>
Other Financing Sources:				
Issuance of debt		8,955,000	8,955,000	9,710,000
Issuance of debt - refunding		9,535,000	9,535,000	-
Bond premium		77,390	77,390	19,428
Proceeds from capital lease	1,043,000		1,043,000	290,000
Sale of/Compensation for capital assets	30,375		30,375	30,000
TOTAL OTHER FINANCING SOURCES	<u>1,073,375</u>	<u>18,567,390</u>	<u>19,640,765</u>	<u>10,049,428</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>89,491,128</u>	<u>18,601,458</u>	<u>108,092,586</u>	<u>96,900,459</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction	54,436,607		54,436,607	51,874,543
Support services	27,193,227	249,710	27,442,937	25,712,339
Operation of non-instructional services	852,776		852,776	814,839
Capital outlay	-	2,638,728	2,638,728	1,650,247
Debt service	8,356,573		8,356,573	7,569,173
TOTAL EXPENDITURES	<u>90,839,183</u>	<u>2,888,438</u>	<u>93,727,621</u>	<u>87,621,141</u>
Other Financing Uses:				
Payment of debt - refunding		9,444,001	9,444,001	
Bond discount		98,899	98,899	
Refund of prior year receipts	(11,221)		(11,221)	53,870
TOTAL OTHER FINANCING USES	<u>(11,221)</u>	<u>9,542,900</u>	<u>9,531,679</u>	<u>53,870</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>90,827,962</u>	<u>12,431,338</u>	<u>103,259,300</u>	<u>87,675,011</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(1,336,834)	6,170,120	4,833,286	9,225,448
FUND BALANCE AT BEGINNING OF YEAR	<u>15,018,300</u>	<u>21,424,469</u>	<u>36,442,769</u>	<u>27,217,321</u>
FUND BALANCE AT END OF YEAR	<u>\$ 13,681,466</u>	<u>\$ 27,594,589</u>	<u>\$ 41,276,055</u>	<u>\$ 36,442,769</u>

See accompanying notes to the basic financial statements

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 4,833,286
Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense and capital outlays:	
Capital outlay	3,911,932
Depreciation expense	(3,924,338)
Because some property taxes will not be collected for several months after year end, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. This amount is net of current year uncollectable accounts.	100,426
Repayment of bond and note principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	5,258,000
Repayment of capital lease principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	336,590
Bond discounts, premiums and issuance costs are amortized over the lives of the bonds in the Statement of Activities, but are recorded as expenditures and other financing uses in the Governmental Funds.	(6,033)
Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.	15,235
Other Post-employment benefits do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.	(77,941)
Issuance of long-term debt provides current financial resources to Governmental Funds, but has no effect on net position.	(10,273,000)
Interest is reported as an expenditure when due in the Governmental Funds, but is accrued on outstanding debt in the statement of activities.	41,804
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 215,961</u>

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

STATEMENT OF NET POSITION  
PROPRIETARY FUND

JUNE 30, 2013  
(With Comparative Data for the Year Ended June 30, 2012)

	Enterprise Fund	
	Food	
	Service Fund	
	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & cash equivalents	\$ 191,542	\$ 178,862
Due from other governments	56,187	101,727
Other receivables	10,564	7,610
Inventories	70,239	65,053
<b>TOTAL CURRENT ASSETS</b>	<b>328,532</b>	<b>353,252</b>
<b>PROPERTY AND EQUIPMENT</b>	610,353	580,143
Accumulated depreciation	(567,213)	(562,695)
<b>PROPERTY AND EQUIPMENT, Net</b>	<b>43,140</b>	<b>17,448</b>
<b>TOTAL ASSETS</b>	<b>371,672</b>	<b>370,700</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable		10,929
Interfund payable	125,143	68,309
Deferred revenue	58,285	51,929
<b>TOTAL CURRENT LIABILITIES</b>	<b>183,428</b>	<b>131,167</b>
<b>NET POSITION</b>		
Net investment in capital assets	43,140	17,448
Unrestricted	145,104	222,085
<b>TOTAL NET POSITION</b>	<b>\$ 188,244</b>	<b>\$ 239,533</b>

See accompanying notes to the basic financial statements



# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2013  
(With Comparative Data for the Year Ended June 30, 2012)

	Enterprise Fund	
	Food	
	Service Fund	
	2013	2012
OPERATING REVENUES		
Food service revenues	\$ 1,183,742	\$ 1,287,329
OPERATING REVENUES	1,183,742	1,287,329
OPERATING EXPENSES		
Payroll	801,496	846,113
Employee benefits	274,502	252,180
Other purchased services	116,458	123,753
Supplies	815,651	835,538
Depreciation	9,319	7,701
Dues and fees	2,431	2,082
Other operating expenses	1,062	1,880
TOTAL OPERATING EXPENSES	2,020,919	2,069,247
OPERATING LOSS	(837,177)	(781,918)
NONOPERATING REVENUES		
Earnings on investments	572	831
State sources	126,002	116,739
Federal sources	659,314	603,094
TOTAL NONOPERATING REVENUES	785,888	720,664
CHANGE IN NET POSITION	(51,289)	(61,254)
NET POSITION AT BEGINNING OF YEAR	239,533	300,787
NET POSITION AT END OF YEAR	\$ 188,244	\$ 239,533

See accompanying notes to the basic financial statements

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND**

FOR THE YEAR ENDED JUNE 30, 2013  
(With Comparative Data for the Year Ended June 30, 2012)

	Enterprise Fund	
	Food	
	Service Fund	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,187,144	\$ 1,290,458
Cash received from other operating revenue	-	64,347
Payments to suppliers	(891,390)	(1,106,174)
Payments to employees	(1,075,998)	(1,098,293)
Payments for other operating expenses	(3,493)	-
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(783,737)</u>	<u>(849,662)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State sources	125,286	109,154
Federal sources	<u>705,569</u>	<u>555,584</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>830,855</u>	<u>664,738</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	<u>(35,010)</u>	<u>(3,760)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(35,010)</u>	<u>(3,760)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Earnings on investments	<u>572</u>	<u>831</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	12,680	(187,853)
<b>CASH AT BEGINNING OF YEAR</b>	<u>178,862</u>	<u>366,715</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 191,542</u></u>	<u><u>\$ 178,862</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (837,177)	\$ (781,918)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	9,319	7,701
(Increase) decrease in assets:		
Receivables	(2,953)	4,781
Inventory	(5,187)	3,524
Increase (decrease) in liabilities:		
Accounts payable	(10,927)	10,927
Interfund payable	6,354	(93,027)
Deferred revenues	<u>56,834</u>	<u>(1,650)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><u>\$ (783,737)</u></u>	<u><u>\$ (849,662)</u></u>
<b>Schedule of noncash noncapital financing activities</b>		
USDA donated commodities	105,943	93,875

See accompanying notes to the basic financial statements

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS**

JUNE 30, 2013

	Private-Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 134,663	\$ 276,996
TOTAL ASSETS	134,663	276,996
LIABILITIES AND NET POSITION		
LIABILITIES		
Due to student organizations		276,996
TOTAL LIABILITIES	-	276,996
NET POSITION		
Reserved for trust	134,663	
TOTAL NET POSITION	\$ 134,663	\$ -

See accompanying notes to the basic financial statements

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

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

**FOR THE YEAR ENDED JUNE 30, 2013**  
**(With Comparative Data for the Year Ended June 30, 2012)**

	Private-Purpose Trust Fund	
	2013	2012
ADDITIONS		
Local contributions	\$ 8,150	\$ 5,925
TOTAL ADDITIONS	8,150	5,925
DEDUCTIONS		
Fees paid and scholarships awarded	9,275	12,150
TOTAL DEDUCTIONS	9,275	12,150
CHANGE IN NET POSITION	(1,125)	(6,225)
NET POSITION AT BEGINNING OF YEAR	135,788	142,013
NET POSITION AT END OF YEAR	\$ 134,663	\$ 135,788

See accompanying notes to the basic financial statements

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

QUAKERTOWN COMMUNITY SCHOOL DISTRICT (the District) operates six elementary schools, two middle schools, one freshman center and one senior high school to provide education to the residents of Quakertown, Richlandtown and Trumbauersville Boroughs and Haycock, Milford and Richland Townships. The financial statements of the District are prepared in accordance with the accounting system and procedures prescribed for school districts by the Commonwealth of Pennsylvania, Department of Education, which conforms to generally accepted accounting principles as applicable to governmental units.

#### Financial Reporting Entity

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

#### New Accounting Pronouncements Implemented

During the current year the District implemented GASB Statements No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The effect of this statement is incorporating deferred inflows and outflows of resources and the renaming of "Net Assets" to "Net Position".

#### Basis of Presentation and Accounting

##### **Government-Wide Financial Statements**

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Fund financial statements but differs from the manner in which Governmental

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

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

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

**Fund Financial Statements**

Fund financial statements report detailed information about the District. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Quakertown Community School District does not have any nonmajor funds. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Government Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues to be available if they are collected within 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

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

#### Basis of Presentation and Accounting, continued

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 total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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

Fiduciary Funds are reported using the economic resources measurement focus.

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

#### Fund Accounting

The accounts of the District are organized on the basis of funds, each of which constitutes a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts. The various funds of the district are grouped into the categories governmental, proprietary, and fiduciary.

#### Governmental Fund Types

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use, and balances of the District's expendable financial resources and the related liabilities are accounted for through governmental fund types:

#### **General Fund**

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

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

#### Governmental Fund Types, continued

##### **Capital Projects Fund**

The Capital Projects fund is used to account for financial resources to be used for the acquisition, construction and renovation of major capital facilities and their related capital assets.

#### Proprietary Fund Type

##### **Enterprise (Food Service) Fund**

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

#### Fiduciary Fund Types

##### **Private-Purpose Trust Fund**

The Private-Purpose Trust Fund accounts for activities in various scholarship accounts whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations.

##### **Agency Fund**

The agency fund accounts for funds held by the District on behalf of students of the District. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations. The School District's Agency Fund consists of the Student Activities Fund.

#### Estimates

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



# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

#### Cash and Cash Equivalents

For the purposes of reporting cash flows for proprietary fund financial statements, cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

#### Intergovernmental Receivables/Payables

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

#### Inventories

All inventories are valued at lower of cost (first-in, first-out method) or market.

#### Capital Assets

Capital assets, which includes land, land improvements, buildings, building improvements, property and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

The District defines capital assets as assets with an initial, individual cost equal to or greater than \$1,000 and an estimated useful life in excess of one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

	<u>Years</u>
Land improvements	20-40
Buildings and building improvements	20-40
Furniture and equipment	5-10

#### Compensated Absences

The District's employees are permitted to accumulate unused allowable sick leave without limitation. Retiring employees shall be entitled to a retirement severance based upon the employee's daily rate, maximum number of days stated in the applicable contract and the number of accumulated sick days. Unused allowable vacation days do not accumulate and must be used within six months of each fiscal year end. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available resources.

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

#### Unavailable and Unearned Revenues

Governmental funds report unearned and unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition with resources that have been received, but not yet earned. At the end of the current fiscal year, unearned and unavailable revenue reported in the governmental funds resulted from delinquent property taxes receivable, federal grants received that have not satisfied eligibility requirements and revenue received but not yet earned.

Unearned revenue in the government-wide financial statements represents resources that have been received but not yet earned.

#### Long-Term Obligations

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

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

#### Net Position

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

#### Interfund Assets/Liabilities

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

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

#### Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2012, from which the comparative data was derived.

#### Fund Balance

The District implemented GASB Statement No. 54 for the year ending June 30, 2011. GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain items within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types have also been modified for clarity and consistency.

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

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

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

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

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

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

#### Fund Balance , continued

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

*Use of fund balance.* The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated. Then committed, assigned and unassigned in that order as needed. If the board has approved a plan for periodic use of committed fund balance, the balance will not be reduced by more than the amount designated in the plan.

### 2. CASH AND INVESTMENTS

#### Cash

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

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2013, \$19,450,723 of the District's bank balance of \$20,200,723 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the District's name.

#### Investments

The remaining cash deposits of the District are in the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2013, PLGIT was rated as AAAM by Standard & Poor's.

## QUAKERTOWN COMMUNITY SCHOOL DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

#### 3. SCHOOL TAXES

The tax on real estate, as levied by the School Board, was 141.51 mills (\$141.51 per \$1,000 of assessed valuation) for fiscal 2013. Assessed valuation of property is established by the Bucks County Board of Assessments, and the District is responsible for collection. Real property in the district for the July 1, 2012 levy was assessed at \$401,139,569. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 – August 31	2% discount period
September 1 – October 31	Face value period
November 1 – collection	10% penalty period
January 15	Lien date

The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Delinquent occupational and per capita taxes receivable are presented net of allowances for estimated uncollectables of \$3,594,590. The allowance for doubtful accounts is calculated on a percentage of outstanding amounts based on historical collection trends. Management believes that the District has adequately provided for probable future losses.

#### 4. INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund activity for the year ending June 30, 2013:

	Interfund Receivables	Interfund Payables
General Fund	\$ 125,143	\$
Proprietary Fund, Food Service Fund		125,143
	<u>\$ 125,143</u>	<u>\$ 125,143</u>

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**5. CAPITAL ASSETS**

Capital Asset Activity for the year ended June 30, 2013, was as follows:

Governmental Activities:

	Balance July 1, 2012	*	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated					
Land	\$ 2,187,468		\$	\$	\$ 2,187,468
Construction in progress	1,942,490		2,598,297		4,540,787
Total Capital assets not being depreciated	4,129,958		2,598,297	-	6,728,255
Capital assets being depreciated					
Land improvements	5,555,859				5,555,859
Buildings and improvements	108,182,153		39,709		108,221,862
Property and equipment	16,286,357		1,273,928		17,560,285
Total capital assets being depreciated at historical cost	130,024,369		1,313,637	-	131,338,006
Less accumulated depreciation for					
Land improvements	(3,002,486)		(253,682)		(3,256,168)
Buildings and improvements	(26,630,999)		(2,710,680)		(29,341,679)
Property and Equipment	(12,812,479)		(959,976)		(13,772,455)
Total accumulated depreciation	(42,445,964)		(3,924,338)	-	(46,370,302)
Total capital assets being depreciated, net	87,578,405		(2,610,701)	-	84,967,704
Governmental Activities capital assets, net	\$ 91,708,363		\$ (12,404)	\$ -	\$ 91,695,959

\* Beginning balance restated for the effects of a prior period adjustment.

Business-type Activities:

Capital assets being depreciated					
Property and equipment	\$ 580,143		\$ 35,010	\$ 4,800	\$ 610,353
Less accumulated depreciation	(562,694)		(9,319)	(4,800)	(567,213)
Business-type activities capital assets, net	\$ 17,449		\$ 25,691	\$ -	\$ 43,140

Depreciation expense for Governmental Activities was charged as direct expense to programs of the primary government as follows:

Instruction	\$ 157,098
Instructional Student Support	532,351
Administrative Support Services	2,355
Operation and Maintenance of Plant Services	3,217,210
Student Activities	15,324
Total Governmental Activities depreciation expense	\$ 3,924,338

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**6. LONG-TERM LIABILITIES**

The following is a summary of governmental long-term liability activity of the district for the year ending June 30, 2013:

Type	Principal Outstanding July 1, 2012	Additions	Repayments	Principal Outstanding June 30, 2013	Due within One Year
General Obligation Note - 1997B	\$ 1,718,000	\$	\$ 246,000	\$ 1,472,000	\$ 261,000
General Obligation Note - 2000	4,746,000		896,000	3,850,000	930,000
General Obligation Note - 2000B	3,116,000		162,000	2,954,000	169,000
General Obligation Note - 2000C	7,740,000		716,000	7,024,000	749,000
General Obligation Note - 2003	3,880,000		205,000	3,675,000	272,000
General Obligation Note -2004 Emmaus	10,000,000		700,000	9,300,000	700,000
General Obligation Note - 2006	2,312,000		543,000	1,769,000	566,000
General Obligation Bond - 2008	9,430,000		9,430,000	-	-
General Obligation Bond - 2009	8,100,000		470,000	7,630,000	480,000
General Obligation Bond -2009A	20,355,000		565,000	19,790,000	575,000
General Obligation Bond - 2010	14,995,000		5,000	14,990,000	5,000
General Obligation Bond - 2010A	9,525,000		575,000	8,950,000	585,000
General Obligation Bond - 2011	9,710,000		5,000	9,705,000	5,000
General Obligation Bond - 2012		8,955,000		8,955,000	5,000
General Obligation Bond - 2013		9,535,000		9,535,000	55,000
	105,627,000	18,490,000	14,518,000	109,599,000	5,357,000
Capital Lease Obligation	215,430	1,043,000	336,591	921,839	327,215
Compensated Absences	1,771,065	27,988	43,223	1,755,830	-
Other Post-employment Benefits	269,495	681,137	603,196	347,436	-
Total	\$ 107,882,990	\$ 20,242,125	\$ 15,501,010	\$ 112,624,105	\$ 5,684,215

Payments of long-term debt are expected to be funded by the general fund.

Notes and Bonds payable at June 30, 2013 consisted of:

General Obligation Note Series B of 1997, maturing through October 2017, bearing interest at 4.20%,. Interest is payable monthly. \$ 1,472,000

General Obligation Note Series 2000, maturing through March 2017, bearing interest at 4.38%. Interest is payable monthly. 3,850,000

General Obligation Note Series B of 2000, maturing through July 2021, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index. 2,954,000

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. LONG-TERM LIABILITIES, continued

General Obligation Note Series C of 2000, maturing through August 2020, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	7,024,000
General Obligation Note Series 2003, maturing through October 2025, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	3,675,000
General Obligation Note Series 2004 Emmaus/PLGIT Bond Pool, maturing through August 2023, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index.	9,300,000
General Obligation Note Series of 2006, maturing through April 2016, bearing interest at 4.02%. Interest is payable monthly.	1,769,000
General Obligation Bond Series 2009, maturing through August 2025, bearing interest ranging from 2.00% to 4.13%. Interest is payable semi-annually in February and August. This series of 2009 provided funds to refund the series of 2004 bonds.	7,630,000
General Obligation Bond Series of 2009A, maturing through October 2023, bearing interest ranging from 2.00% to 4.00%. Interest is payable semi-annually in April and October. This series A of 2009 provided funds to refund the Series 2002 bonds. This current refunding was undertaken to reduce total debt service payments over the next 14 years by \$844,895 and resulted in an economic gain of \$555,229.	19,790,000
General Obligation Bond Series 2010, maturing through August 2026, bearing interest ranging from 2.00% to 4.00%. Interest is payable semi-annually in February and August. This series of 2010 provided funds to finance capital improvements to school facilities and buildings.	14,990,000
General Obligation Bond Series 2010A, maturing through August 2025, bearing interest ranging from .6% to 3.75%. Interest is payable semi-annually in February and August. This series A of 2010 provided funds to refund the series A of 2004 Bonds. This refunding resulted in an economic gain of \$344,383.	8,950,000
General Obligation Bond Series 2011, maturing through August 2027, bearing interest ranging from 2% to 3.5%. Interest is payable semi-annually in February and August. This series 2011 provided funds to finance capital improvements to school facilities and buildings.	9,705,000



## QUAKERTOWN COMMUNITY SCHOOL DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

#### 6. LONG-TERM LIABILITIES, continued

General Obligation Bond Series 2012, maturing through August 2030, bearing interest ranging from 1.25% to 2.73%. Interest is payable semi-annually in February and August. This series 2013 provided funds to finance capital improvements to school facilities and buildings

8,955,000

General Obligation Bond Series 2013, maturing through November 2024, bearing interest ranging from .4% to 2.73%. Interest is payable semi-annually in May and November. This series 2013 provided funds to refund the series 2008 Bonds. This refunding resulted in an economic gain of \$1,101,218

9,535,000

\$ 109,599,000

Presented below is a summary of debt service requirements to maturity by years:

Year Ended June 30,	Principal	Interest	Total
2014	\$ 5,357,000	\$ 3,607,206	\$ 8,964,206
2015	5,544,000	3,431,037	8,975,037
2016	5,760,000	3,243,460	9,003,460
2017	6,045,000	3,035,206	9,080,206
2018	6,221,000	2,811,029	9,032,029
2019-2023	35,050,000	10,630,542	45,680,542
2024-2028	38,992,000	4,172,647	43,164,647
2029-2031	6,630,000	263,543	6,893,543
	<u>\$ 109,599,000</u>	<u>\$ 31,194,670</u>	<u>\$ 140,793,670</u>

Interest expense for the year ended June 30, 2013 was \$2,807,656.

On July 1, 2011, the District entered into a lease-purchase agreement with TD Equipment finance for the purchase of computer equipment. The present value of the lease payments is \$290,000, which was included in governmental activities capital assets. The lease provides for four annual payments of \$74,570. The implicit interest rate is 1.91%.

On July 23, 2012, the District entered into a lease-purchase agreement with TD Equipment finance for the purchase of computer equipment. The present value of the lease payments is \$1,043,000, which was included in governmental activities capital assets. The lease provides for four annual payments of \$266,135. The implicit interest rate is 1.38%.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

6. LONG-TERM LIABILITIES, continued

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 327,215	\$ 13,490	\$ 340,705
2015	332,112	8,594	340,706
2016	262,512	3,623	266,135
	\$ 921,839	\$ 25,707	\$ 947,546

7. PENSION PLAN

Public School Employees' Retirement System Plan

Substantially, all full-time and part-time employees of the District participate in the Pennsylvania Public School Employees' Retirement System (the System), a governmental cost-sharing, multiple-employer defined benefit plan.

The System provides retirement, disability, legislatively mandated ad hoc cost-of-living adjustments and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) assigns the authority to establish and amend benefit provisions to the PSERS Board of Trustees.

The System issues a *Comprehensive Annual Financial Report* (CAFR) 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 N 5<sup>th</sup> Street, Harrisburg, PA 17101-1905. The CAFR is also available on the Publications page of the PSERS website, [www.psers.state.pa.us](http://www.psers.state.pa.us).

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

**Member Contributions** – Active members who joined the system prior to July 22, 1983, contribute a 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the system after June 30, 2011, automatically contribute at the

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

7. PENSION PLAN, continued

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 Contribution** - Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013, the rate of employer's contribution was 12.36 percent of covered payroll. The 12.36 percent rate is composed of a pension contribution rate of 11.5 percent for pension benefits and .86 percent for healthcare insurance premium assistance. The District's contributions to PSERS for the fiscal year ending June 30, 2013, 2012, and 2011, were \$5,231,891, \$3,533,466, and \$2,342,510, respectively, equal to the required contributions for each year.

8. POST-EMPLOYMENT HEALTHCARE BENEFITS

**Plan Description:** Effective for the 2008-2009 fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for certain postemployment health care benefits provided by the District. The requirements of this Statement were implemented prospectively. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors assigns the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

**Funding Policy:** The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2013, the District contributed \$603,196 to the plan for the current premiums.

**Annual OPEB Cost and Net OPEB Obligation:** The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), and 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 costs 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 District's

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

8. POST-EMPLOYMENT HEALTHCARE BENEFITS, continued

OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

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

<u>Description</u>	
Normal cost (service cost for one year)	\$ 279,345
Interest on Normal Cost	12,571
Amortization of Unfunded Actuarial Accrued Liability	<u>393,639</u>
Annual Required Contribution (ARC)	685,555
Interest on net OPEB Obligation	12,127
Adjustment to Annual Required Contribution	<u>(16,545)</u>
Annual OPEB Cost (expense)	681,137
Contributions toward the OPEB Cost	<u>(603,196)</u>
Increase in Net OPEB Obligation	77,941
Net OPEB Obligation, Beginning of Year	<u>269,495</u>
Net OPEB Obligation, End of Year	<u><u>\$ 347,436</u></u>

***Funded Status and Funding Progress:*** As of May 1, 2012, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$6,411,946, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,411,946. The covered payroll (annual payroll of active employees covered by the plan) was \$40,922,269, and the ratio of the UAAL to the covered payroll was 15.67 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

## QUAKERTOWN COMMUNITY SCHOOL DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

#### 8. POST-EMPLOYMENT HEALTHCARE BENEFITS, continued

***Actuarial Methods and Assumptions:*** Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the May 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return and an annual healthcare cost trend rate of 7.5 percent in 2012, decreasing by 0.5 percent per year to 5.5 percent in 2016. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2013 was 25 years.

#### 9. FUND BALANCE COMMITMENTS

The School Board has established a Stabilization Arrangement reflected as committed fund balance for future PSERS rate increases. The current balance is \$2,792,958 and will begin funding PSERS rate increases over the next several years as the retirement contribution rate is projected to increase significantly. Additionally, \$1,250,000 is committed for capital projects.

#### 10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District is a participant in the SDIC consortium which manages the risk for all participants. For insured programs, there were no significant reductions in insurance coverages during the 2012-2013 year. Settlement amounts have not exceeded insurance coverage for the current year or three years prior.

#### 11. CONTINGENCIES AND COMMITMENTS

##### Government Grants and Awards

The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditures, which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**11. CONTINGENCIES AND COMMITMENTS, continued**

Litigation

Certain litigation claims are pending against the District. In the opinion of District management and legal counsel, the potential losses, if any, on such claims would not have a materially adverse effect on the District's finances.

Capital Improvement Commitments

As of June 30, 2013, the District had outstanding construction projects to be completed of approximately \$59,890,964.

**12. JOINT VENTURE**

The District is a participating member of the Upper Bucks County Area Vocational-Technical School (the Vo-Tech). The Vo-Tech is governed by a joint board consisting of school directors from each member district and one nonmember representative. The board of directors from each member district must approve the Vo-Tech's annual budget. Each member pays a private share of the operating costs and debt service of the Vo-Tech based on the student membership from each district. The financial statements of the Vo-Tech School are available from the Vo-Tech business office located at 3115 Ridge Road, Perkasie, PA 18944.

During 2005, the Vo-Tech issued \$4,305,000 of School Lease Revenue Bonds through the State Public School Building Authority for capital improvements to the facilities owned and operated by the Vo-Tech and to repay the outstanding 1996 Emmaus General Authority Bond Pool Note, Series 2002. The bonds are secured by sublease rental payments and are guaranteed by three participating school districts. The District's portion of these bonds is scheduled to be paid through the year ended June 30, 2026.

Future rental payments are schedule as follows:

<u>Year Ending June 30,</u>	
2014	\$ 96,533.00
2015	96,151.00
2016	95,723.00
2017	96,783.00
2018	97,750.00
2019-2023	480,589.00
2024-2026	288,843.00
Total	<u>1,252,372.00</u>
Less: Interest requirements	<u>(245,581.00)</u>
Outstanding rental payments	<u>\$ 1,006,791.00</u>

## **QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS**

#### **13. PRIOR PERIOD ADJUSTMENT**

During 2013 an updated appraisal of capital assets was conducted and it was determined that capital assets were overstated by \$18,964,003 and accumulated depreciation was overstated by \$13,492,509 in prior years. The net effect of the corrections was a decrease in net assets of \$5,471,494. There was no effect on current year operations.

#### **14. SUBSEQUENT EVENTS**

On July 12, 2013, the District entered into a capital lease for computer equipment of \$580,672, with interest of 1.033 percent.

In October 2013, authorized issuance of General Obligation Bond 2013A in the amount of \$7,415,000 to refund the General Obligation Bond 2009.

In November 2013, authorized issuance of General Obligation Bond 2013B in the amount of \$8,955,000 for renovations to the Quakertown Senior High School.

REQUIRED

SUPPLEMENTARY INFORMATION



**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

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

JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
5/1/2012	\$ 0	\$ 6,411,946	\$ 6,411,946	0%	\$ 40,922,269	15.67%
5/1/2010	\$ 0	\$ 7,113,065	\$ 7,113,065	0%	\$ 37,038,903	19.20%
5/1/2008	\$ 0	\$ 3,971,082	\$ 3,971,082	0%	\$ 35,136,366	11.30%

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Local sources	\$ 67,278,392	\$ 67,293,392	\$ 67,879,224	\$ 585,832
State sources	20,064,231	20,258,721	19,775,692	(483,029)
Federal sources	902,841	766,700	762,837	(3,863)
Other financing sources				
Proceeds from capital lease			1,043,000	1,043,000
Sale of capital assets			30,375	30,375
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b>88,245,464</b>	<b>88,318,813</b>	<b>89,491,128</b>	<b>1,172,315</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Instruction				
Regular programs	37,279,805	36,466,437	36,245,654	220,783
Special programs	11,623,258	12,208,169	12,116,708	91,461
Vocational programs	2,759,245	2,767,745	2,767,739	6
Other instructional programs	2,935,911	3,624,522	3,306,506	318,016
Total Instruction	54,598,219	55,066,873	54,436,607	630,266
Support Services				
Pupil personnel services	3,012,293	3,008,661	2,925,594	83,067
Instructional staff services	3,945,563	4,471,362	5,102,018	(630,656)
Administration services	4,701,568	4,794,731	4,607,360	187,371
Pupil health	992,113	995,112	907,166	87,946
Business services	975,308	998,585	998,487	98
Operation and maintenance of plant services	7,424,184	7,023,348	6,401,505	621,843
Student transportation	4,106,224	4,055,224	3,853,324	201,900
Central services	2,488,824	2,528,290	2,338,983	189,307
Other support services	65,000	60,000	58,790	1,210
Total Support Services	27,711,077	27,935,313	27,193,227	742,086
Operation of Non-instructional Services				
Student activities	855,568	890,947	835,784	55,163
Community services	24,000	25,000	16,992	8,008
Total Operation of Non-instructional Services	879,568	915,947	852,776	63,171
Debt Service	8,364,219	8,299,764	8,356,573	(56,809)
Other Financing Uses				
Refund of prior year receipts			(11,221)	11,221
Budgetary reserve	528,040			-
Total Other Financing Uses	528,040	-	(11,221)	11,221
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<b>92,081,123</b>	<b>92,217,897</b>	<b>90,827,962</b>	<b>1,389,935</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>(3,835,659)</b>	<b>(3,899,084)</b>	<b>(1,336,834)</b>	<b>2,562,250</b>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>12,781,861</b>	<b>12,845,286</b>	<b>15,018,300</b>	<b>2,173,014</b>
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 8,946,202</b>	<b>\$ 8,946,202</b>	<b>\$ 13,681,466</b>	<b>\$ 4,735,264</b>

See accompanying notes to the required supplementary information

## **QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2013**

#### Budgetary Data

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

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

## SUPPLEMENTARY INFORMATION

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Grant Period</u>	<u>Program or Award Amount</u>	<u>Accrued or (Deferred) at July 1, 2012</u>	<u>Total Received For the Year</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) at June 30, 2013</u>	<u>Revenue Recognized</u>
<b>U.S. DEPT. OF EDUCATION</b>									
Passed Through the PA Dept. of Education									
Title I	84.010	013-120353	7/1/11 - 9/30/12	\$ 383,154	\$ 51,094	\$ 51,094	\$ -	\$ -	\$ -
Title I	84.010	013-130353	7/1/12 - 9/30/13	410,661	-	357,767	410,661	52,894	410,661
Title II	84.367	020-120353	7/1/11 - 9/30/12	119,211	15,667	15,667	-	-	-
Title II	84.367	020-130353	7/1/12 - 9/30/13	121,036	-	105,128	121,036	15,908	121,036
Title III	84.365	010-120353	7/1/11 - 9/30/12	36,965	(3,517)	-	3,517	-	3,517
Title III	84.365	010-130353	7/1/12 - 9/30/13	28,097	-	18,731	16,236	(2,495)	16,236
Education Jobs Fund	84.410	140-120353	7/1/11 - 6/30/12	9,670	9,670	9,670	-	-	-
Passed Through the Bucks County Intermediate Unit #22									
IDEA	84.027	062-120022	7/1/11 - 6/30/12	763,045	435,893	435,893	-	-	-
IDEA	84.027	062-130022	7/1/12 - 6/30/13	747,210	-	438,519	747,210	308,691	747,210
IDEA - Section 619	84.392	131-110022	7/1/11 - 6/30/12	7,151	7,151	7,151	-	-	-
IDEA - Section 620	84.392	131-120022	7/1/12 - 6/30/13	3,389	-	-	3,389	3,389	3,389
Race to the Top	84.413A	B413A120004	7/1/12 - 9/30/15	26,735	-	-	18,926	18,926	18,926
Passed Through Commonwealth of Pennsylvania									
Medical Assistance Administrative	93.778				-	7,807	15,386	7,579	15,386
Passed Through the Tuscarola Intermediate Unit #11									
PA Leads	84.377		7/1/12 - 6/30/13	15,000	-	-	9,198	9,198	9,198
<b>TOTAL U.S. DEPT. OF EDUCATION</b>				<b>2,671,324</b>	<b>515,958</b>	<b>1,447,427</b>	<b>1,345,559</b>	<b>414,090</b>	<b>1,345,559</b>
<b>CHILD NUTRITION CLUSTER</b>									
<b>U.S. DEPT. OF AGRICULTURE</b>									
Passed Through the PA Dept. of Education									
National School Lunch Program	10.555	N/A	7/1/11 - 6/30/12	N/A	72,107	72,107	-	-	-
National School Lunch Program	10.555	N/A	7/1/12 - 6/30/13	N/A	-	519,099	545,061	25,962	545,061
National School Breakfast Program	10.553	N/A	7/1/11 - 6/30/12	N/A	829	829	-	-	-
National School Breakfast Program	10.553	N/A	7/1/12 - 6/30/13	N/A	-	11,474	12,193	719	12,193
Passed Through the PA Dept. of Agriculture									
Value of USDA Commodities	10.555	N/A		N/A	(15,534)	105,943	102,060	(19,417)	102,060
<b>TOTAL U.S. DEPT. OF AGRICULTURE</b>				<b>-</b>	<b>57,402</b>	<b>709,452</b>	<b>659,314</b>	<b>7,264</b>	<b>659,314</b>
<b>TOTAL FEDERAL AWARDS</b>				<b>2,671,324</b>	<b>573,360</b>	<b>2,156,879</b>	<b>2,004,873</b>	<b>421,354</b>	<b>2,004,873</b>
<b>STATE GRANTOR/PROGRAM TITLE</b>									
National School Lunch Program	N/A	N/A	7/1/11 - 6/30/12	N/A	6,933	6,933	-	-	-
National School Lunch Program	N/A	N/A	7/1/12 - 6/30/13	N/A	-	45,248	47,540	2,292	47,540
<b>TOTAL STATE GRANTS</b>					<b>6,933</b>	<b>52,181</b>	<b>47,540</b>	<b>2,292</b>	<b>47,540</b>
<b>TOTAL FEDERAL AND STATE AWARDS</b>				<b>\$ 2,671,324</b>	<b>\$ 580,293</b>	<b>\$ 2,209,060</b>	<b>\$ 2,052,413</b>	<b>\$ 423,646</b>	<b>\$ 2,052,413</b>

## **QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

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

**FOR THE YEAR ENDED JUNE 30, 2013**

**1. SCOPE OF THIS SCHEDULE**

The accompanying Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

**2. BASIS OF ACCOUNTING**

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

**3. NON-MONETARY FEDERAL AWARDS – DONATED COMMODITIES**

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Federal Awards under CFDA # 10.555 National School Lunch – Commodities represent surplus food consumed by the District during the 2012-2013 fiscal year.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of School Directors  
QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
Quakertown, 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 QUAKERTOWN COMMUNITY SCHOOL DISTRICT as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise QUAKERTOWN COMMUNITY SCHOOL DISTRICT's basic financial statements and have issued our report thereon dated January 31, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered QUAKERTOWN COMMUNITY 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 QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control. Accordingly, we do not express an opinion on the effectiveness of the QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control.

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

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies – item #2013-1.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether QUAKERTOWN COMMUNITY 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item #2013-2.

### **Quakertown Community School District's Response to Findings**

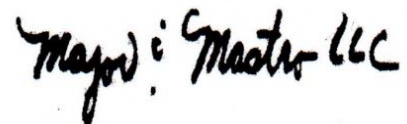
QUAKERTOWN COMMUNITY SCHOOL DISTRICT's response to the findings identified in our audit is described in the accompanying corrective action plan. QUAKERTOWN COMMUNITY SCHOOL DISTRICT's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

January 31, 2014

MAJOR & MASTRO, LLC  
Montgomeryville, Pennsylvania

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





INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133

To the Board of School Directors  
QUAKERTOWN COMMUNITY SCHOOL DISTRICT  
Quakertown, Pennsylvania

**Report on Compliance for Each Major Federal Program**

We have audited QUAKERTOWN COMMUNITY SCHOOL DISTRICT's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of QUAKERTOWN COMMUNITY SCHOOL DISTRICT's major federal programs for the year ended June 30, 2013. QUAKERTOWN COMMUNITY SCHOOL DISTRICT's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of QUAKERTOWN COMMUNITY 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 QUAKERTOWN COMMUNITY 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 QUAKERTOWN COMMUNITY SCHOOL DISTRICT's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, QUAKERTOWN COMMUNITY SCHOOL DISTRICT complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control Over Compliance**

Management of QUAKERTOWN COMMUNITY 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 QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of QUAKERTOWN COMMUNITY SCHOOL DISTRICT's internal control over compliance.

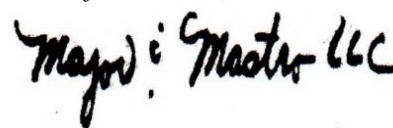
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

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

January 31, 2014

MAJOR & MASTRO, LLC  
Montgomeryville, Pennsylvania  
Certified Public Accountant

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

# QUAKERTOWN COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

### A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of QUAKERTOWN COMMUNITY SCHOOL DISTRICT.
2. One significant deficiency relating to the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. One instance of noncompliance material to the financial statements of QUAKERTOWN COMMUNITY SCHOOL DISTRICT which is required to be reported in accordance with *Government Auditing Standards* was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with OMB CircularA-133.
5. Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance in Accordance with OMB CircularA-133 expresses an unqualified opinion on all major federal programs.
6. No audit findings were disclosed relating to major programs that are required to be reported under section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

IDEA Cluster	
IDEA	84.027
IDEA Section 619	84.392

## QUAKERTOWN COMMUNITY SCHOOL DISTRICT

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued

FOR THE YEAR ENDED JUNE 30, 2013

8. The threshold for distinguishing Types A and B programs was \$ 300,000.
9. QUAKERTOWN COMMUNITY SCHOOL DISTRICT was determined to be a low-risk auditee.

#### B. FINDINGS - FINANCIAL STATEMENTS AUDIT

##### 2013-1 Capital Lease Recording

*Condition:* The issuance of a new capital lease was not recorded.

*Criteria:* Governmental Accounting requires capital lease issuances to be recorded as an other financing source on the fund level financial statements and as long term debt on the government-wide financial statements.

*Cause:* A system for communicating new lease agreements between business office staff does not exist.

*Effect:* The financial statements would have been misstated without the proper recording of the capital lease.

*Recommendation:* Management should review all lease agreements to ensure all capital leases are properly recorded.

##### 2013-2 Compliance with laws and regulations

*Condition:* Several child I-9 Employment Eligibility forms, child abuse clearances, and FBI fingerprint checks were missing from within some employees' personnel records.

*Criteria:* Laws require that these clearances and forms be obtained for each employee and retained by the District.

*Cause:* Personnel files and required documentation are not reviewed for completeness.

**QUAKERTOWN COMMUNITY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued**

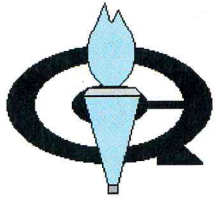
**FOR THE YEAR ENDED JUNE 30, 2013**

*Effect:* Some required documentation was unable to be located for some employees.

*Recommendation:* Management should review employee personnel files and obtain missing documentation as required by law.

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

None



# Quakertown Community School District

**Business Services**  
100 Commerce Drive  
Quakertown, PA 18951  
(215) 529-2032  
FAX (215) 529-2036

---

## **CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2013**

January 31, 2014

The Quakertown Community School District respectfully submits the following corrective action plan for the year ended June 30, 2013.

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **FINDINGS - FINANCIAL STATEMENTS AUDIT**

#### 2013-1 Capital Lease Recording

*Recommendation:* Management should review all lease agreements to ensure all capital leases are properly recorded.

*Action Taken:*

- 1.) *The Business Services Department will establish a file for all capital lease contracts much like the contract file we established to segregate all district contracts.*
- 2.) *We have four 4-Year rolling capital leases for refreshing one-quarter of our technology inventory each year. We will work with our independent auditor to make sure we provide the proper accounting treatment for these leases at the end of each year.*
- 3.) *The Business Services Department will review all our other leases to make sure they are not capital leases such as our copier lease.*

#### 2013-2 Compliance with laws and regulations

*Recommendation:* Management should review employee personnel files and obtain missing documentation as required by law.

*Action Taken:*

- 1.) *The Personnel Department created a checklist to make sure that all documentation is accounted for.*
- 2.) *Documents will be dated on the screen so that the Personnel Department will know historically when files and documents were received.*
- 3.) *Missing documentation was from older files. Since then new Personnel Employees were hired with better education and training in the human resource field, as well as, technology skills.*

Sincerely yours,

Robert Riegel, CPA  
Business Administrator

**[THIS PAGE INTENTIONALLY LEFT BLANK]**