

**GARNET VALLEY SCHOOL DISTRICT  
GLEN MILLS, PENNSYLVANIA  
DELAWARE COUNTY**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2013**

# GARNET VALLEY SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

**Board of School Directors  
Garnet Valley School District  
Glen Mills, 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 Garnet Valley School District, Glen Mills, Pennsylvania as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Garnet Valley 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.

### ***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 Garnet Valley School District, Glen Mills, Pennsylvania 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.

## **Other Matters**

### **Report on Summarized Comparative Information**

We have previously audited the Garnet Valley School District's 2012 financial statements, and our report dated December 4, 2012, expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund and other post-employment benefits schedule of funding progress on pages 3 through 13 and 42 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013, on our consideration of the Garnet Valley 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 Garnet Valley School District's internal control over financial reporting and compliance.

*BBD, LLP*

**Philadelphia, Pennsylvania  
November 27, 2013**

# GARNET VALLEY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

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Management's discussion and analysis ("**MD&A**") of the financial performance of the Garnet Valley School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2013. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

### DISTRICT PROFILE

The District consists of five schools – three elementary schools, a middle school and a senior high school consisting of approximately 4,830 students. The District encompasses several communities in southwestern Delaware County and covers an area of approximately 21.4 square miles. The District's boundaries are coterminous with those of the Borough of Chester Heights and the Townships of Bethel and Concord, all located in Delaware County, Pennsylvania. The central point of the District lies approximately 8 miles west of the City of Chester, Delaware County, Pennsylvania, 10 miles north of Wilmington, Delaware, 20 miles southeast of the City of Coatesville, Chester County, Pennsylvania, and 25 miles southwest of downtown Philadelphia. There are approximately 845 employees in the District, including 395 teachers, 30 administrators and 420 support personnel including confidential employees, secretaries, maintenance staff, custodial staff, cafeteria staff, transportation and teachers aides.

The mission of the District is to provide a stimulating learning environment, which provides quality educational opportunities for all students.

### FINANCIAL HIGHLIGHTS

- On a government-wide basis, including all governmental activities and the business-type activity, the assets and deferred outflow of resources of the District exceeded liabilities resulting in total net position at the close of the 2012-2013 fiscal year of \$12,913,005. During the 2012-2013 fiscal year, the District had an increase in total net position of \$5,938,669. The net position of governmental activities increased by \$5,958,296 and net position of business-type activities decreased by \$19,627.
- The General Fund reported an increase in fund balance of \$1,326,720, bringing the cumulative balance to \$8,777,549 at the conclusion of the 2012-2013 fiscal year.
- At June 30, 2013, the General Fund fund balance includes \$451,464 restricted for student activities, \$3,158,665 committed to long-term early retirement incentive obligations and retirement rate stabilization and unassigned amounts of \$5,167,420 or 5.91% of the \$87,454,320 2013-2014 General Fund expenditure budget. Guidelines prescribed by the Pennsylvania Department of Education allow a district to maintain a maximum General Fund fund balance of 8% of the following year's expenditure budget.
- Total General Fund revenues were \$2,224,793 or 2.64% more than budgeted amounts and total General Fund expenditures were \$1,901,927 or 2.26% less than budgeted amounts resulting in a net positive variance of \$4,126,720.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic 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 District's finances, in a manner similar to a private-sector business.

# GARNET VALLEY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

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The *Statement of Net Position* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

In the government-wide financial statements, the District's activities are divided into two categories:

### **Governmental Activities**

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

### **Business-Type Activities**

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 14 and 15 of this report.

## **FUND FINANCIAL STATEMENTS**

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

### **Governmental Funds**

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-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 the District'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 governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

# **GARNET VALLEY SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED**

**June 30, 2013**

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The District maintains three individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the three major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 16 through 19 of this report.

### ***Proprietary Funds***

The District maintains one type of proprietary fund. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

The proprietary fund financial statements can be found on Pages 20 through 22 of this report.

### ***Fiduciary Funds***

The District is the trustee, or fiduciary, for assets that belong to others, consisting of scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on Pages 23 and 24 of this report.

### ***Notes to the Financial Statements***

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 25 through 41 of this report.

### ***Other Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund and a schedule concerning the District's progress in funding its obligation to provide other post-employment benefits.

The required supplementary information can be found on Pages 42 and 43 of this report.

# GARNET VALLEY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2012-2013 fiscal year the District's assets and deferred outflow of resources exceeded liabilities by \$12,913,005. The following table presents condensed information for the *Statement of Net Position* of the District at June 30, 2013 and 2012.

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>						
Current assets	\$ 27,678,562	\$ 15,941,141	\$91,550	\$ 81,172	\$ 27,770,112	\$ 16,022,313
Noncurrent assets	115,225,078	116,825,075	88,298	107,925	115,313,376	116,933,000
Deferred outflow of resources	<u>1,572,215</u>	<u>1,738,983</u>	<u>-</u>	<u>-</u>	<u>1,572,215</u>	<u>1,738,983</u>
<b>Total assets</b>	<u>144,475,855</u>	<u>134,505,199</u>	<u>179,848</u>	<u>189,097</u>	<u>144,655,703</u>	<u>134,694,296</u>
<b>LIABILITIES</b>						
Current liabilities	11,253,430	8,808,799	91,550	81,172	11,344,980	8,889,971
Noncurrent liabilities	<u>120,397,718</u>	<u>118,829,989</u>	<u>-</u>	<u>-</u>	<u>120,397,718</u>	<u>118,829,989</u>
<b>Total liabilities</b>	<u>131,651,148</u>	<u>127,638,788</u>	<u>91,550</u>	<u>81,172</u>	<u>131,742,698</u>	<u>127,719,960</u>
<b>NET POSITION (DEFICIT)</b>						
Net investment in capital assets	9,449,517	7,566,371	88,298	107,925	9,537,815	7,674,296
Restricted	3,251,464	470,842	-	-	3,251,464	470,842
Unrestricted (deficit)	<u>123,726</u>	<u>(1,170,802)</u>	<u>-</u>	<u>-</u>	<u>123,726</u>	<u>(1,170,802)</u>
<b>Total net position</b>	<u>\$ 12,824,707</u>	<u>\$ 6,866,411</u>	<u>\$88,298</u>	<u>\$107,925</u>	<u>\$ 12,913,005</u>	<u>\$ 6,974,336</u>

The District's total assets and deferred outflow of resources as of June 30, 2013 were \$144,655,703 of which \$22,907,363 or 15.84% consisted of cash and \$115,313,376 or 79.72% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2013 were \$131,742,698 of which \$100,218,493 or 76.07% consisted of general obligation debt used to acquire and construct capital assets.

The District had unrestricted net position of \$123,726 at June 30, 2013. The District's unrestricted net position increased by \$1,294,528 during 2012-2013 primarily due to the results of current year operations.

A portion of the District's net position reflects its restricted net position which totaled \$3,251,464 as of June 30, 2013. All of the District's restricted net position related to amounts restricted for student activities and capital expenditures.

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its 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. For the year ended June 30, 2013, the District's net investment in capital assets increased by \$1,863,519 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated.

# GARNET VALLEY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

The following table presents condensed information for the *Statement of Activities* of the District for 2013 and 2012:

	Governmental Activities		Business-Type Activities		Totals	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 1,897,593	\$ 1,822,967	\$ 1,850,873	\$ 1,807,561	\$ 3,748,466	\$ 3,630,528
Operating grants and contributions	11,260,552	8,853,657	285,080	252,369	11,545,632	9,106,026
Capital grants and contributions	-	-	-	-	-	-
<b>General revenues</b>						
Property taxes levied for general purposes	68,630,049	65,236,584	-	-	68,630,049	65,236,584
Other taxes	90,495	87,243	-	-	90,495	87,243
Grants and entitlements not restricted to specific programs	5,077,795	5,077,936	-	-	5,077,795	5,077,936
Investment earnings	52,291	70,779	904	551	53,195	71,330
<b>Total revenues</b>	<u>87,008,775</u>	<u>81,149,166</u>	<u>2,136,857</u>	<u>2,060,481</u>	<u>89,145,632</u>	<u>83,209,647</u>
<b>EXPENSES</b>						
Instruction	51,738,050	49,447,440	-	-	51,738,050	49,447,440
Instructional student support services	4,610,762	4,699,685	-	-	4,610,762	4,699,685
Administrative and financial support services	6,184,262	6,412,183	-	-	6,184,262	6,412,183
Operation and maintenance of plant services	6,990,952	7,259,879	-	-	6,990,952	7,259,879
Pupil transportation	4,034,270	3,958,807	-	-	4,034,270	3,958,807
Student activities	2,846,866	2,758,747	-	-	2,846,866	2,758,747
Community services	151,592	149,664	-	-	151,592	149,664
Interest and amortization expense related to non-current liabilities	4,493,725	5,105,374	-	-	4,493,725	5,105,374
Food service	-	-	2,156,484	2,080,108	2,156,484	2,080,108
<b>Total expenses</b>	<u>81,050,479</u>	<u>79,791,779</u>	<u>2,156,484</u>	<u>2,080,108</u>	<u>83,206,963</u>	<u>81,871,887</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 5,958,296</u>	<u>\$ 1,356,387</u>	<u>\$ (19,627)</u>	<u>\$ (19,627)</u>	<u>\$ 5,938,669</u>	<u>\$ 1,337,760</u>

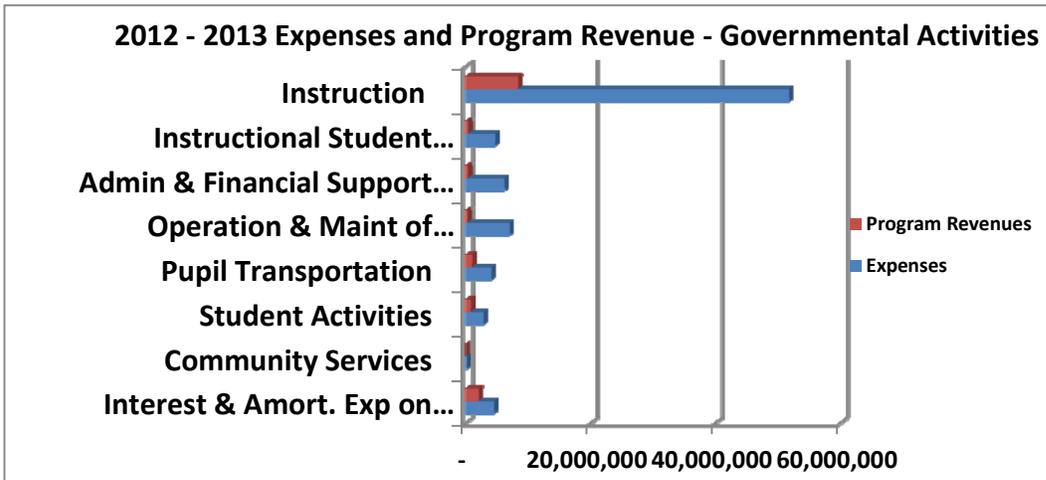
Overall, the District's financial position has been improving, but challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts have a potential to offset these gains in future fiscal years. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing whose growth has slowed in recent years. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities located mostly in Concord Township.

# GARNET VALLEY SCHOOL DISTRICT

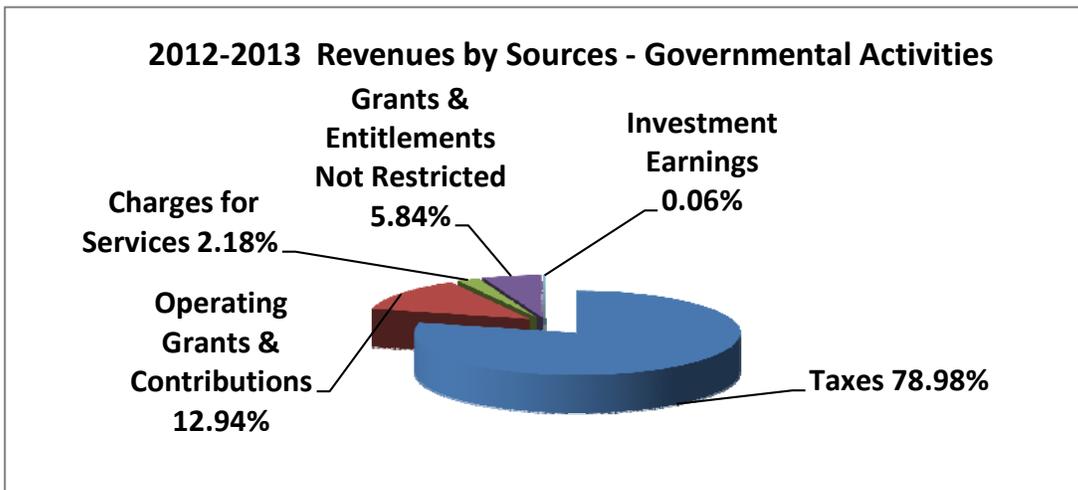
## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



# GARNET VALLEY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

### GOVERNMENTAL FUNDS

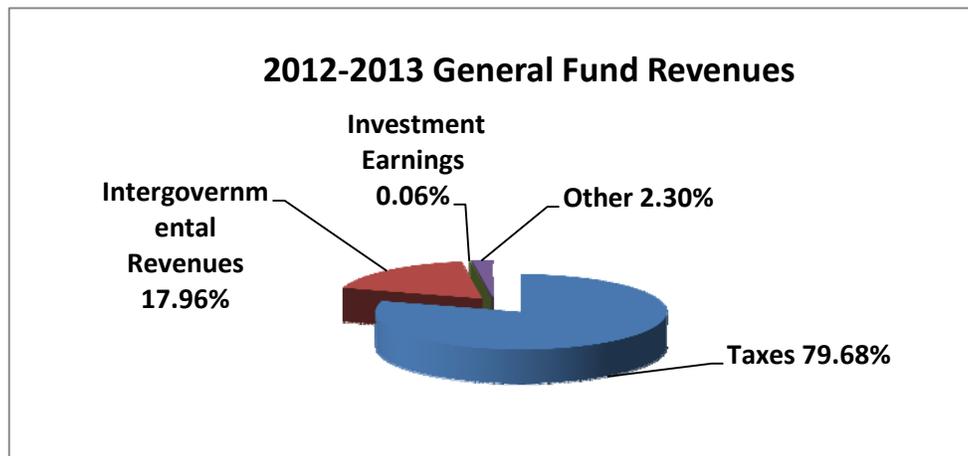
The governmental fund financial statements provide detailed information on the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2013, the District's governmental funds reported a combined fund balance of \$18,558,266 which is an increase of \$9,891,337 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2013 and 2012 and the total 2013 change in governmental fund balances.

	<u>2013</u>	<u>2012</u>	<u>Change</u>
General Fund	\$ 8,777,549	\$7,450,829	\$1,326,720
Capital Projects Fund	9,780,717	1,216,100	8,564,617
Prison Fund	-	-	-
	<u>\$18,558,266</u>	<u>\$8,666,929</u>	<u>\$9,891,337</u>

### GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2012-2013 fiscal year, the General Fund fund balance was \$8,777,549 representing an increase of \$1,326,720 in relation to the prior year. The increase in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2012-2013 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 79.68% of General Fund revenues are derived from local taxes.



### General Fund Revenues

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$68,905,335	\$65,295,297	\$3,610,038	5.53
Intergovernmental revenues	15,530,709	13,070,654	2,460,055	18.82
Investment earnings	52,163	70,578	(18,415)	(26.09)
Other	<u>1,986,959</u>	<u>1,833,478</u>	<u>153,481</u>	<u>8.37</u>
	<u>\$86,475,166</u>	<u>\$80,270,007</u>	<u>\$6,205,159</u>	<u>7.73</u>

# GARNET VALLEY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

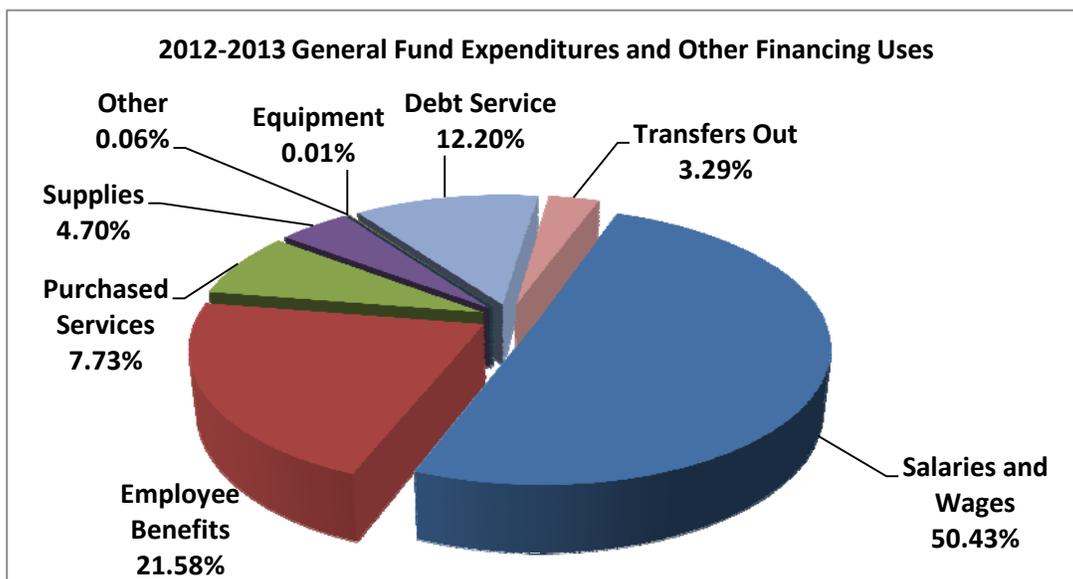
June 30, 2013

Net tax revenues increased by \$3,610,038 or 5.53% due to several factors. A millage increase of approximately 2.45% in 2012-2013, tax assessment base growth and increases in interim and transfer taxes primarily in Concord Township accounted for a majority of the current year increase in tax revenues. The following table summarizes changes in the District's tax revenues for 2013 compared to 2012:

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Real estate tax	\$64,789,323	\$62,620,409	\$2,168,914	3.46
Interim tax	1,012,765	335,128	677,637	202.20
PURTA tax	90,495	87,243	3,252	3.73
Transfer tax	1,573,791	711,238	862,553	121.27
Delinquent tax	<u>1,438,961</u>	<u>1,541,279</u>	<u>(102,318)</u>	<u>(6.64)</u>
	<u>\$68,905,335</u>	<u>\$65,295,297</u>	<u>\$3,610,038</u>	<u>5.53</u>

Intergovernmental revenues increased primarily due to additional funding received for rental and sinking fund reimbursements and the state retirement subsidy which increased commensurate with the employer annual contributions percentage.

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



### General Fund Expenditures and Other Financing Uses

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$42,939,754	\$42,871,856	\$ 67,898	0.16
Employee benefits	18,372,581	16,657,117	1,715,464	10.30
Purchased services	6,579,551	6,448,347	131,204	2.03
Supplies	4,001,178	3,710,085	291,093	7.85
Equipment	10,500	15,757	(5,257)	(33.36)
Other	55,958	54,430	1,528	2.81
Debt service	10,388,924	10,616,553	(227,629)	(2.14)
Transfers out	<u>2,800,000</u>	<u>-</u>	<u>2,800,000</u>	<u>100.00</u>
	<u>\$85,148,446</u>	<u>\$80,374,145</u>	<u>\$4,774,301</u>	<u>5.94</u>

# **GARNET VALLEY SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED**

**June 30, 2013**

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Employee benefits increased primarily due to an increase in the required employer annual retirement contribution to 12.36% from 8.65%.

Transfers out represent a transfer to the Capital Projects Fund to subsidize one-time expenditures for capital projects, technology purchases and accounting software.

### **CAPITAL PROJECTS FUND**

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. At the conclusion of the 2012-2013 fiscal year, the Capital Projects Fund fund balance was \$9,780,717, representing an increase of \$8,564,617 in relation to the prior year and is restricted for future capital expenditures.

### **PRISON FUND**

The Prison Fund accounts for education services provided to juveniles detained at the Delaware County prison located in Concord Township. The District outsources the services to the Delaware County Intermediate Unit and is funded solely from State appropriations. An annual reconciliation of revenues received and costs incurred for services provided is performed and any excess or deficiency is accounted for resulting in a net breakeven at year end.

### **GENERAL FUND BUDGET INFORMATION**

The District maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1 each year. The most significant budgeted fund is the General Fund.

Actual revenues were \$2,224,793 more than budgeted amounts and actual expenditures and other financing uses were \$1,901,927 less than budgeted amounts resulting in a net overall positive variance of \$4,126,720. Major budgetary highlights for 2012-2013 were as follows:

- Actual state revenues received were \$1,810,537 more than budgeted amounts primarily due to rental and sinking fund reimbursements received in excess of budgeted amounts.
- Total actual expenditures and other financing uses were under budget by \$1,901,927 which resulted from not replacing or delaying the hiring of staff vacancies, reducing support staff hours where practical, combining job assignments, reducing the use of substitutes and savings realized by staff not using benefits to the extent anticipated. In addition, the District realized savings from better than anticipated rates on variable rate long-term debt.

### **BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND**

The Food Service Program operates on a breakeven cash flow basis, but incurs annual net position decreases equal to the annual provision for depreciation which was \$19,627 for 2012-2013. As of June 30, 2013, the business-type activities and food service fund had a net position of \$88,298 equal to its investment in capital assets.

### **CAPITAL ASSETS**

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2013 amounted to \$115,313,376 net of accumulated depreciation. This investment in capital assets includes land, land improvements, buildings and improvements and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$1,619,624 or 1.39%. The decrease was the result of current year depreciation expense and disposals in excess of current year capital additions.

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# GARNET VALLEY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

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Current year capital additions were \$1,965,795 and depreciation expense and loss on disposals were \$3,585,419.

Major capital additions for the current fiscal year included the following:

- Construction in progress – Guaranteed Energy Savings Act project \$1,182,871
- Eight 84 passenger school buses \$ 767,120

Major capital disposals for the current fiscal year included the following:

- Seven school buses \$ 319,687

### NON-CURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$100,218,493 consisting of \$78,651,546 in bonds payable and \$21,028,000 in notes payable, and net deferred credits of \$538,947. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt increased by \$2,974,706 or 3.06% during the fiscal year. During 2012-2013, the District issued general obligation notes Series of 2013 and Series of 2012 totaling \$8,350,000 the proceeds from which were used for the acquisition of equipment and improvements to the District's buildings to reduce energy consumption and the acquisition of equipment, computers and buses.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The District's outstanding general obligation debt of \$100,218,493 is within the current debt limitation of the District which was \$185,694,924 as of June 30, 2013.

The District has an appropriation-based lease with the State Public School Building Authority to finance the construction of the Bethel Springs Elementary School. Lease rental payments are appropriated from current year funds and are not considered a general obligation debt of the District. This lease agreement qualifies as a capital lease and has been recorded at the present value of future minimum lease payments. The lease rental payable was \$14,110,000 at June 30, 2013 and decreased by \$860,000 or 5.75% in the current fiscal year.

Other non-current liabilities consist of the District's liabilities for compensated absences, early retirement incentive plans and its net obligation for post-employment benefits, which totaled \$6,069,225 as of June 30, 2013. These liabilities decreased by \$546,977 or 8.27% during the fiscal year.

### FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District experienced significant growth over the last 10 years, which has more recently leveled. If the student population distribution changes so that more students enter the District than currently are anticipated, adjustments will have to be made to current and future building utilizations which in turn will affect the District's future budget and financial model which assumptions have been made.
- The increase in net property tax base assessments within the District has been moderate and an increase in successful property tax assessment appeals has been decreasing the District's existing property tax base.
- The District's student enrollment is not expected to change significantly for the next three years.
- Additional tax and enrollment information is available on the District's website: (<http://www.garnetvalleyschools.com>).

# GARNET VALLEY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2013

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- The District adopted a self-sustaining balanced 2013-2014 budget totaling \$87,454,320 which did not appropriate any General Fund fund balance as of June 30, 2013 and the real estate tax millage rate was increased by approximately 1.67%.
- In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to seek approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduced certain new requirements on school districts which include the following:
  - ◆ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state (1.7% for Garnet Valley School District for 2013-2014), the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
  - ◆ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.
  - ◆ Any revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders. (Act 1 permitted slot machine gambling in Pennsylvania.)
- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("**House Bill 2497**") into law. The legislation is now known as Act 120 of 2010. House Bill 2497 includes a series of actuarial and funding changes to the public school employee's retirement system ("**PSERS**") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation the employer contribution rate for 2014-2015 is projected at 21.40%. Currently, the employer contribution rate for 2013-2014 is 16.93%, which is an increase of 36.97% from the 2012-2013 employer contribution rate of 12.36%. It is estimated that the increase in the employer contribution rate for 2013-2014 will increase the District's retirement expense by approximately \$1,942,500, of which the District's share is \$971,000.
- The District is currently in the process of contract negotiations with the Garnet Valley Education Association whose contracts expire on June 30, 2014. In November 2013, the Garnet Valley Educational Support Professionals Association agreed to a 1 year contract extension expiring on June 30, 2015.

### CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to John Scully, Director of Business and Support Services, Garnet Valley School District, 80 Station Road, Glen Mills, Pennsylvania 19342-1558.

# GARNET VALLEY SCHOOL DISTRICT

## STATEMENT OF NET POSITION

June 30, 2013 with summarized comparative totals for 2012

	Governmental Activities	Business-Type Activities	Totals	
			2013	2012
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 22,885,663	\$ 21,700	\$ 22,907,363	\$ 11,045,021
Taxes receivable	1,728,913	-	1,728,913	1,821,414
Due from other governments	2,799,752	39,368	2,839,120	2,836,052
Internal balances	21,415	(21,415)	-	-
Other receivables	242,819	-	242,819	271,809
Inventories	-	51,897	51,897	48,017
<b>Total current assets</b>	<u>27,678,562</u>	<u>91,550</u>	<u>27,770,112</u>	<u>16,022,313</u>
<b>NONCURRENT ASSETS</b>				
Capital assets, net	<u>115,225,078</u>	<u>88,298</u>	<u>115,313,376</u>	<u>116,933,000</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Deferred amounts on debt refunding	<u>1,572,215</u>	<u>-</u>	<u>1,572,215</u>	<u>1,738,983</u>
<b>Total assets and deferred outflow of resources</b>	<u>144,475,855</u>	<u>179,848</u>	<u>144,655,703</u>	<u>134,694,296</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	1,856,481	49,251	1,905,732	1,107,332
Accrued salaries, payroll withholdings and benefits	5,678,623	-	5,678,623	4,196,433
Accrued interest payable	3,718,326	-	3,718,326	3,544,999
Unearned revenue	-	42,299	42,299	41,207
<b>Total current liabilities</b>	<u>11,253,430</u>	<u>91,550</u>	<u>11,344,980</u>	<u>8,889,971</u>
<b>NONCURRENT LIABILITIES</b>				
Due within one year	7,560,664	-	7,560,664	6,961,104
Due in more than one year	<u>112,837,054</u>	<u>-</u>	<u>112,837,054</u>	<u>111,868,885</u>
<b>Total noncurrent liabilities</b>	<u>120,397,718</u>	<u>-</u>	<u>120,397,718</u>	<u>118,829,989</u>
<b>Total liabilities</b>	<u>131,651,148</u>	<u>91,550</u>	<u>131,742,698</u>	<u>127,719,960</u>
<b>NET POSITION (DEFICIT)</b>				
Net investment in capital assets	9,449,517	88,298	9,537,815	7,674,296
Restricted	3,251,464	-	3,251,464	470,842
Unrestricted (deficit)	<u>123,726</u>	<u>-</u>	<u>123,726</u>	<u>(1,170,802)</u>
<b>Total net position</b>	<u>\$ 12,824,707</u>	<u>\$ 88,298</u>	<u>\$ 12,913,005</u>	<u>\$ 6,974,336</u>

See accompanying notes

# GARNET VALLEY SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

Year ended June 30, 2013 with summarized comparative totals for 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>	
							<u>2013</u>	<u>2012</u>
<b>GOVERNMENTAL ACTIVITIES</b>								
Instruction	\$51,738,050	\$1,191,990	\$ 7,202,145	\$ -	\$(43,343,915)	\$ -	\$(43,343,915)	\$(41,316,567)
Instructional student support	4,610,762	-	368,478	-	(4,242,284)	-	(4,242,284)	(4,366,459)
Administrative and financial support services	6,184,262	-	326,238	-	(5,858,024)	-	(5,858,024)	(6,123,828)
Operation and maintenance of plant services	6,990,952	74,460	198,674	-	(6,717,818)	-	(6,717,818)	(7,001,778)
Pupil transportation	4,034,270	-	957,920	-	(3,076,350)	-	(3,076,350)	(3,070,914)
Student activities	2,846,866	631,143	121,551	-	(2,094,172)	-	(2,094,172)	(2,011,115)
Community services	151,592	-	-	-	(151,592)	-	(151,592)	(149,664)
Interest and amortization expense related to long-term debt	4,493,725	-	2,085,546	-	(2,408,179)	-	(2,408,179)	(5,074,830)
<b>Total governmental activities</b>	<u>81,050,479</u>	<u>1,897,593</u>	<u>11,260,552</u>	<u>-</u>	<u>(67,892,334)</u>	<u>-</u>	<u>(67,892,334)</u>	<u>(69,115,155)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>								
Food service	2,156,484	1,850,873	285,080	-	-	(20,531)	(20,531)	(20,178)
<b>Total primary government</b>	<u>\$83,206,963</u>	<u>\$3,748,466</u>	<u>\$11,545,632</u>	<u>\$ -</u>	<u>(67,892,334)</u>	<u>(20,531)</u>	<u>(67,912,865)</u>	<u>(69,135,333)</u>
<b>GENERAL REVENUES</b>								
Property taxes levied for general purposes					68,630,049	-	68,630,049	65,236,584
Other taxes					90,495	-	90,495	87,243
Grants and entitlements not restricted to specific programs					5,077,795	-	5,077,795	5,077,936
Investment earnings					52,291	904	53,195	71,330
<b>Total general revenues</b>					<u>73,850,630</u>	<u>904</u>	<u>73,851,534</u>	<u>70,473,093</u>
<b>CHANGE IN NET POSITION</b>					5,958,296	(19,627)	5,938,669	1,337,760
<b>NET POSITION</b>								
Beginning of year					6,866,411	107,925	6,974,336	5,636,576
<b>End of year</b>					<u>\$ 12,824,707</u>	<u>\$ 88,298</u>	<u>\$ 12,913,005</u>	<u>\$ 6,974,336</u>

**GARNET VALLEY SCHOOL DISTRICT**

**BALANCE SHEET – GOVERNMENTAL FUNDS**

June 30, 2013 with summarized comparative totals for 2012

	<u>Major Funds</u>			<u>Totals</u>	
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Prison Fund</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>					
Cash	\$15,813,392	\$7,072,271	\$ -	\$22,885,663	\$11,043,005
Taxes receivable	1,728,913	-	-	1,728,913	1,821,414
Due from other governments	2,700,381	-	99,371	2,799,752	2,801,073
Due from other funds	21,415	2,800,000	-	2,821,415	138,373
Other receivables	242,819	-	-	242,819	270,422
<b>Total assets</b>	<b><u>\$20,506,920</u></b>	<b><u>\$9,872,271</u></b>	<b><u>\$99,371</u></b>	<b><u>\$30,478,562</u></b>	<b><u>\$16,074,287</u></b>
<b>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 1,665,556	\$ 91,554	\$99,371	\$ 1,856,481	\$ 1,067,367
Due to other funds	2,800,000	-	-	2,800,000	133,146
Accrued salaries, payroll withholdings and benefits	6,193,993	-	-	6,193,993	4,952,233
<b>Total liabilities</b>	<b><u>10,659,549</u></b>	<b><u>91,554</u></b>	<b><u>99,371</u></b>	<b><u>10,850,474</u></b>	<b><u>6,152,746</u></b>
<b>DEFERRED INFLOW OF RESOURCES</b>					
Unavailable revenues – property taxes	1,069,822	-	-	1,069,822	1,254,612
<b>FUND BALANCES</b>					
Restricted for					
Student activities	451,464	-	-	451,464	470,842
Capital projects	-	9,780,717	-	9,780,717	1,216,100
Committed to					
Early retirement incentive	1,958,665	-	-	1,958,665	2,281,258
Retirement rate stabilization	1,200,000	-	-	1,200,000	-
Unassigned	5,167,420	-	-	5,167,420	4,698,729
<b>Total fund balances</b>	<b><u>8,777,549</u></b>	<b><u>9,780,717</u></b>	<b><u>-</u></b>	<b><u>18,558,266</u></b>	<b><u>8,666,929</u></b>
<b>Total liabilities, deferred inflow of resources and fund balances</b>	<b><u>\$20,506,920</u></b>	<b><u>\$9,872,271</u></b>	<b><u>\$99,371</u></b>	<b><u>\$30,478,562</u></b>	<b><u>\$16,074,287</u></b>

See accompanying notes

**GARNET VALLEY SCHOOL DISTRICT**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION**

June 30, 2013

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<b>TOTAL GOVERNMENTAL FUND BALANCES</b>	<b>\$ 18,558,266</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	115,225,078
Deferred outflows of resources for deferred amounts on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position.	1,572,215
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred inflow of resources on the governmental funds balance sheet.	1,069,822
Non-current liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(119,882,348)
Accrued interest payable on long-term liabilities is included in the government-wide statement of net position, but is excluded from the governmental funds balance sheet until due and payable.	<u>(3,718,326)</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 12,824,707</u></b>

# GARNET VALLEY SCHOOL DISTRICT

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

Year ended June 30, 2013 with summarized comparative totals for 2012

	Major Funds			Totals	
	General Fund	Capital Projects Fund	Prison Fund	2013	2012
<b>REVENUES</b>					
Local sources	\$70,944,458	\$ 129	\$ -	\$70,944,587	\$67,199,549
State sources	13,913,788	-	807,638	14,721,426	12,133,555
Federal sources	1,616,920	-	-	1,616,920	1,798,037
<b>Total revenues</b>	<b>86,475,166</b>	<b>129</b>	<b>807,638</b>	<b>87,282,933</b>	<b>81,131,141</b>
<b>EXPENDITURES</b>					
Current					
Instruction	48,829,428	-	807,638	49,637,066	47,480,527
Support services	20,261,978	33,400	-	20,295,378	20,452,721
Operation of noninstructional services	2,863,675	-	-	2,863,675	2,770,226
Facilities acquisition, construction and improvement services	-	2,552,112	-	2,552,112	1,371,276
Debt service	10,393,365	-	-	10,393,365	10,616,553
<b>Total expenditures</b>	<b>82,348,446</b>	<b>2,585,512</b>	<b>807,638</b>	<b>85,741,596</b>	<b>82,691,303</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>4,126,720</b>	<b>(2,585,383)</b>	<b>-</b>	<b>1,541,337</b>	<b>(1,560,162)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of debt	-	8,350,000	-	8,350,000	1,250,000
Issuance of debt – refunding	-	-	-	-	4,570,000
Payment of debt – refunding	-	-	-	-	(4,640,000)
Bond premiums	-	-	-	-	149,944
Transfers in	-	2,800,000	-	2,800,000	-
Transfers out	(2,800,000)	-	-	(2,800,000)	-
<b>Total other financing sources (uses)</b>	<b>(2,800,000)</b>	<b>11,150,000</b>	<b>-</b>	<b>8,350,000</b>	<b>1,329,944</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,326,720</b>	<b>8,564,617</b>	<b>-</b>	<b>9,891,337</b>	<b>(230,218)</b>
<b>FUND BALANCES</b>					
Beginning of year	7,450,829	1,216,100	-	8,666,929	8,897,147
<b>End of year</b>	<b>\$ 8,777,549</b>	<b>\$ 9,780,717</b>	<b>\$ -</b>	<b>\$18,558,266</b>	<b>\$ 8,666,929</b>

See accompanying notes

# GARNET VALLEY SCHOOL DISTRICT

## RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2013

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**NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS** \$ 9,891,337

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 and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlay expenditures	\$ 1,965,795	
Depreciation expense	(3,555,112)	
Loss on disposal of capital assets	<u>(10,680)</u>	(1,599,997)

Because some taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources decreased by this amount this year.

Deferred inflows of resources June 30, 2012	(1,254,612)	
Deferred inflows of resources June 30, 2013	<u>1,069,822</u>	(184,790)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of debt	(8,350,000)	
Repayment of bonds payable	3,530,000	
Repayment of notes payable	1,756,000	
Repayment of lease rental payable	860,000	
Amortization of discounts, premiums and deferred amounts on refunding	<u>(77,474)</u>	(2,281,474)

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures in governmental funds.

Current year change in accrued interest payable	(173,327)	
Current year change in long-term early retirement incentive	322,593	
Current year change in compensated absences	107,548	
Current year change in net post-employment benefit (OPEB) obligation	<u>(123,594)</u>	<u>133,220</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 5,958,296

**GARNET VALLEY SCHOOL DISTRICT**

**STATEMENT OF NET POSITION – PROPRIETARY FUND**

June 30, 2013 with summarized comparative totals for 2012

	<u>Major Fund</u>	
	<u>Food Service Fund</u>	
	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 21,700	\$ 2,016
Accounts receivable	-	1,387
Due from other governments	39,368	34,979
Inventories	<u>51,897</u>	<u>48,017</u>
<b>Total current assets</b>	<u>112,965</u>	<u>86,399</u>
<b>NON-CURRENT ASSETS</b>		
Capital assets, net	<u>88,298</u>	<u>107,925</u>
<b>Total assets</b>	<u>201,263</u>	<u>194,324</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Accounts payable	49,251	39,965
Due to other funds	21,415	5,227
Unearned revenue	<u>42,299</u>	<u>41,207</u>
<b>Total liabilities</b>	<u>112,965</u>	<u>86,399</u>
<b>NET POSITION</b>		
Net investment in capital assets	<u>\$ 88,298</u>	<u>\$107,925</u>

*See accompanying notes*

# GARNET VALLEY SCHOOL DISTRICT

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

Year ended June 30, 2013 with summarized comparative totals for 2012

	<u>Major Fund</u>	
	<u>Food Service Fund</u>	
	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$1,850,873	\$1,807,561
<b>OPERATING EXPENSES</b>		
Salaries	770,425	737,872
Employee benefits	256,170	225,050
Supplies	1,110,262	1,097,559
Depreciation	<u>19,627</u>	<u>19,627</u>
<b>Total operating expenses</b>	<u>2,156,484</u>	<u>2,080,108</u>
<b>Operating loss</b>	<u>(305,611)</u>	<u>(272,547)</u>
<b>NON-OPERATING REVENUES</b>		
Earnings on investments	904	551
State sources	30,407	32,394
Federal sources	<u>254,673</u>	<u>219,975</u>
<b>Total non-operating revenues</b>	<u>285,984</u>	<u>252,920</u>
<b>CHANGE IN NET POSITION</b>	(19,627)	(19,627)
<b>NET POSITION</b>		
Beginning of year	<u>107,925</u>	<u>127,552</u>
<b>End of year</b>	<u>\$ 88,298</u>	<u>\$ 107,925</u>

See accompanying notes

# GARNET VALLEY SCHOOL DISTRICT

## STATEMENT OF CASH FLOWS – PROPRIETARY FUND

Year ended June 30, 2013 with summarized comparative totals for 2012

	<b>Major Fund</b>	
	<b>Food Service Fund</b>	
	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from charges for services	\$ 1,853,352	\$ 1,808,700
Cash payments to suppliers for goods and services	(1,043,121)	(1,039,103)
Cash payments to employees for services	<u>(1,010,407)</u>	<u>(951,729)</u>
<b>Net cash used for operating activities</b>	<u>(200,176)</u>	<u>(182,132)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State sources	30,833	28,784
Federal sources	<u>188,123</u>	<u>154,801</u>
<b>Net cash provided by noncapital financing activities</b>	<u>218,956</u>	<u>183,585</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Earnings on investments	<u>904</u>	<u>551</u>
<b>Net increase in cash</b>	19,684	2,004
<b>CASH</b>		
Beginning of year	<u>2,016</u>	<u>12</u>
<b>End of year</b>	<u>\$ 21,700</u>	<u>\$ 2,016</u>
<b>Reconciliation of operating loss to net cash used for operating activities:</b>		
Operating loss	\$ (305,611)	\$ (272,547)
<b>Adjustments to reconcile operating loss to net cash used for operating activities</b>		
Depreciation	19,627	19,627
Donated commodities used	61,735	46,363
(Increase) decrease in		
Accounts receivable	1,387	(1,387)
Due from other funds	-	5,966
Inventories	(3,880)	7,024
Increase (decrease) in		
Accounts payable	9,286	5,069
Due to other funds	16,188	5,227
Unearned revenue	<u>1,092</u>	<u>2,526</u>
<b>Net cash used for operating activities</b>	<u>\$ (200,176)</u>	<u>\$ (182,132)</u>
<b>SUPPLEMENTAL DISCLOSURE</b>		
<b>Noncash noncapital financing activity</b>		
USDA donated commodities	<u>\$ 61,735</u>	<u>\$ 46,363</u>

See accompanying notes

**GARNET VALLEY SCHOOL DISTRICT**

**STATEMENT OF NET POSITION – FIDUCIARY FUND**

June 30, 2013 with summarized comparative totals for 2012

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	<b>Private-Purpose Trust Fund</b>	
	<u><b>2013</b></u>	<u><b>2012</b></u>
<b>ASSETS</b>		
Cash	<u>\$273,204</u>	<u>\$283,552</u>
<b>LIABILITIES</b>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Net position held in trust for scholarships	<u>\$273,204</u>	<u>\$283,552</u>

**GARNET VALLEY SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUND**

Year ended June 30, 2013 with summarized comparative totals for 2012

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	<b>Private-Purpose Trust Fund</b>	
	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>ADDITIONS</b>		
Local contributions	\$ 27,502	\$ 21,995
<b>DEDUCTIONS</b>		
Scholarships awarded and fees paid	<u>37,850</u>	<u>35,700</u>
<b>CHANGE IN NET POSITION</b>	(10,348)	(13,705)
<b>NET POSITION</b>		
Beginning of year	<u>283,552</u>	<u>297,257</u>
<b>End of year</b>	<b><u>\$273,204</u></b>	<b><u>\$283,552</u></b>

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See accompanying notes

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Garnet Valley School District (the "**District**") operates three elementary schools, a middle school and a senior high school to provide education and related services to the residents in the Townships of Bethel and Concord and the Borough of Chester Heights. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("**GAAP**") as applied to governmental units. The Governmental Accounting Standards Board ("**GASB**") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

#### **Reporting Entity**

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

#### **Basis of Presentation**

##### ***Government-Wide Financial Statements***

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

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

### ***Fund Financial Statements***

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

### ***Governmental Funds***

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

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

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

The Prison Fund accounts for financial resources restricted to be used to provide education services to juveniles detained at the Delaware County Prison located in Concord Township.

### ***Revenue Recognition***

In applying the "susceptible to accrual concept" under the modified accrual basis, 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 tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

### ***Expenditure Recognition***

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### ***Proprietary Funds***

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following major proprietary fund:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

These 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 District's proprietary fund are charges for services. Operating expenses for the District's proprietary fund include payroll, employee benefits, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

### ***Fiduciary Funds***

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a 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. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds.

### **Cash and Cash Equivalents**

The 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.

### **Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

### **Property Taxes**

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

July 1 – August 31	- Discount period, 2% of gross levy
September 1 – October 31	- Face period
November 1 to collection	- Penalty period, 10% of gross levy
February 28	- Lien date

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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The County Board of Assessments determines assessed valuations of property, and the District's taxes are billed and collected by local elected tax collectors. The tax on real estate for public school purposes for fiscal 2012-2013 was 28.7126 mills (\$28.71 for \$1,000 of assessed valuation) for Chester Heights Borough and Concord Township and 29.0550 mills (\$29.06 for \$1,000 of assessed valuation) for Bethel Township (includes additional levy for the sponsorship of the Delaware County Community College). 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.

Taxpayers within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	-	October 31
Installment Two	-	November 30
Installment Three	-	December 31

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

### **Prepaid Items and Inventories**

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

All inventories are valued at the lower of cost (first-in, first-out method) or market.

### **Unearned Revenues**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

### **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 20-50 years, land improvements – 20 years and furniture and equipment – 5-20 years.

### **Impairment of Long-Lived Assets**

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2013.

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# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### **Compensated Absences**

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a non-current liability in the government-wide financial statements. The portion of the liability resulting from employee resignations and retirements, if applicable, is reported as a liability in the governmental funds' financial statements.

### **Long-Term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources and uses. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures except for refundings paid from proceeds which are reported as other financing costs.

### **Fund Equity**

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

#### ***Non-spendable***

Non-spendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

#### ***Restricted***

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

#### ***Committed***

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

#### ***Assigned***

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Business Administrator or (b) an appointed body (e.g., finance committee) or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### ***Unassigned***

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

The School Board has set a policy to maintain an unassigned General Fund fund balance of not less than 5% and a maximum General Fund fund balance of 8% of the following year's expenditure budget. Unassigned General Fund fund balance in excess of 8% of the following year's expenditure budget may be approved by the School Board for nonrecurring expenditures.

### ***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 summarized information was derived.

### ***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.

### ***Implementation of New Accounting Pronouncements***

Effective July 1, 2012, the District adopted the provision of GASB Statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements*", GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*", GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Announcements*", GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements ("**SCAs**") which are a type of public-private or public-public partnership. As used in this statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 had no impact on the financial statements of the District for the year ended June 30, 2013.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends Statement No. 14, "*The Financial Reporting Entity*", and the related financial reporting requirements of Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments*". The implementation of GASB Statement No. 61 had no impact on the financial statements of the District for the year ended June 30, 2013.

GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of GASB Statement No. 62 had no impact on the financial statements of the District for the year ended June 30, 2013.

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# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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GASB Statement No. 63 standardizes the presentation of deferred balances and their effects on a government's net position. As a result of the implementation of GASB Statement No. 63 the District reports deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and reports net position instead of net assets in its financial statements for the year ended June 30, 2013.

GASB Statement No. 65 clarifies the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources and when to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). As a result of the implementation of GASB Statement No. 65, the District reports debt issuance costs, which were previously reported as assets, as outflows of resources in its financial statements for the year ended June 30, 2013.

### **New Accounting Pronouncements**

GASB has issued the following statements not yet implemented by the District. The District's management has not yet determined the effect, if any; these statements will have on the District's financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans—an Amendment of FASB Statement 25* will be effective for the District for the year ending June 30, 2014. GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27* will be effective for the District for the year ending June 30, 2015. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

## **(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Budgetary Information**

An annual 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, although project-length financial plans are adopted for the Capital Projects fund.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. 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.

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

### Excess of Expenditures Over Appropriation

During the year ended June 30, 2013, there were no expenditures in excess of appropriations.

### (3) DEPOSITS

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit 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.

### Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2013, the carrying amount of the District's deposits was \$23,180,567 and the bank balance was \$23,544,196. The District is required by state 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, Commonwealth of Pennsylvania or any political subdivision. 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. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$7,884,222 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**") and the 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 their objective is to maintain a stable net assets value of \$1 per share, are rated by a nationally recognized statistical rating organization and are subject to independent annual audit. As of June 30, 2013, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating agency.

### (4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 1,641,664	\$ -	\$ -	\$ 1,641,664
Construction in progress	-	1,182,871	-	1,182,871
<b>Total capital assets not being depreciated</b>	<u>1,641,664</u>	<u>1,182,871</u>	<u>-</u>	<u>2824,535</u>
Capital assets being depreciated				
Buildings and improvements	143,214,667	-	-	143,214,667
Land improvements	8,353,212	-	-	8,353,212
Furniture and equipment	8,549,894	782,924	386,542	8,946,276
<b>Total capital assets being depreciated</b>	<u>160,117,773</u>	<u>782,924</u>	<u>386,542</u>	<u>160,514,155</u>
Less accumulated depreciation for				
Buildings and improvements	(35,181,503)	(2,785,740)	-	(37,967,243)
Land improvements	(3,188,114)	(352,620)	-	(3,540,734)
Furniture and equipment	(6,564,745)	(416,752)	(375,862)	(6,605,635)
<b>Total accumulated depreciation</b>	<u>(44,934,362)</u>	<u>(3,555,112)</u>	<u>(375,862)</u>	<u>(48,113,612)</u>
<b>Total capital assets being depreciated, net</b>	<u>115,183,411</u>	<u>(2,772,188)</u>	<u>10,680</u>	<u>112,400,543</u>
<b>Governmental activities, net</b>	<u>\$116,825,075</u>	<u>\$(1,589,317)</u>	<u>\$ 10,680</u>	<u>\$115,225,078</u>

**GARNET VALLEY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2013

**Business-type activities**

Machinery and equipment	\$ 314,370	\$ -	\$ -	\$ 314,370
Less accumulated depreciation	<u>(206,445)</u>	<u>(19,627)</u>	<u>-</u>	<u>(226,072)</u>
<b>Business-type activities, net</b>	<u>\$ 107,925</u>	<u>\$ (19,627)</u>	<u>\$ -</u>	<u>\$ 88,298</u>

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

**Governmental activities**

Instruction	\$2,417,274
Instructional student support	221,284
Administrative and financial support services	290,200
Operation and maintenance of plant services	302,199
Pupil transportation	189,833
Student activities	<u>134,322</u>

**Total depreciation expense – governmental activities** \$3,555,112

**Business-type activities**

Food service	<u>\$ 19,627</u>
--------------	------------------

As of June 30, 2013, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed as of June 30, 2013 are as follows:

	<u>Project Amount</u>	<u>Completed Through June 30, 2013</u>	<u>Remaining Commitments</u>
Guaranteed Energy Savings Act project	<u>\$7,100,000</u>	<u>\$1,182,871</u>	<u>\$5,917,129</u>

**(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2013 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Capital Projects Fund	\$2,800,000	General Fund	\$2,800,000
General Fund	<u>21,415</u>	Food Service Fund	<u>21,415</u>
	<u>\$2,821,415</u>		<u>\$2,821,415</u>

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses.

A summary of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	<u>\$2,800,000</u>	General Fund	<u>\$2,800,000</u>

Transfers from General Fund to Capital Projects Fund represents transfers to subsidize costs associated with the acquisition of capital assets.

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

### (6) NON-CURRENT LIABILITIES

The following summarizes the changes in non-current liabilities for the year ended June 30, 2013:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
<b>Governmental activities</b>					
<b>General obligation debt</b>					
Bonds payable	\$ 82,181,546	\$ -	\$3,530,000	\$ 78,651,546	\$3,980,000
Notes payable	14,434,000	8,350,000	1,756,000	21,028,000	2,076,000
Bond premiums	795,578	-	124,066	671,512	124,066
Bond discounts	<u>(167,337)</u>	<u>-</u>	<u>(34,772)</u>	<u>(132,565)</u>	<u>(34,772)</u>
<b>Total general obligation debt</b>	<u>97,243,787</u>	<u>8,350,000</u>	<u>5,375,294</u>	<u>100,218,493</u>	<u>6,145,294</u>
<b>Other long-term liabilities</b>					
Lease rental payable	14,970,000	-	860,000	14,110,000	900,000
Early retirement incentive	3,037,058	-	563,023	2,474,035	515,370
Compensated absences	2,739,280	-	107,548	2,631,732	-
OPEB obligation	<u>839,864</u>	<u>489,930</u>	<u>366,336</u>	<u>963,458</u>	<u>-</u>
<b>Total other long-term liabilities</b>	<u>21,586,202</u>	<u>489,930</u>	<u>1,896,907</u>	<u>20,179,225</u>	<u>1,415,370</u>
<b>Total non-current liabilities</b>	<u>\$118,829,989</u>	<u>\$8,839,930</u>	<u>\$7,272,201</u>	<u>\$120,397,718</u>	<u>\$7,560,664</u>

Non-current liabilities are generally liquidated by the General Fund.

#### General Obligation Debt

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted local sources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of June 30, 2013 consisted of the following:

<u>Description</u>	<u>Interest</u> <u>Rate(s)</u>	<u>Original</u> <u>Issue</u> <u>Amount</u>	<u>Final</u> <u>Maturity</u>	<u>Principal</u> <u>Outstanding</u>
<b>General obligation bonds</b>				
Series of 2001B	5.35% - 5.40%	\$2,646,546	02/15/2018	\$ 2,646,546
Series of 2005	3.00% - 5.00%	\$23,255,000	04/01/2032	20,260,000
Series of 2006	3.125% - 4.20%	\$8,650,000	02/15/2025	8,450,000
Series of 2006A	3.75% - 4.60%	\$8,000,000	06/01/2026	6,100,000
Series of 2007	3.55% - 5.00%	\$37,985,000	04/01/2028	35,920,000
Series of 2009	2.00% - 3.50%	\$5,695,000	02/15/2015	1,975,000
Series of 2012	0.50% - 3.00%	\$4,570,000	04/01/2015	<u>3,300,000</u>
<b>Total general obligation bonds</b>				<u>78,651,546</u>

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

### General obligation notes

Series of 2002	Variable	\$25,343,000	08/25/2027	10,772,000
Series of 2009	Variable	\$1,250,000	06/25/2014	326,000
Series of 2010	Variable	\$1,250,000	11/25/2014	638,000
Series of 2011	Variable	\$1,250,000	10/25/2015	942,000
Series of 2012	1.437%	\$700,000	02/25/2023	700,000
Series of 2012	Variable	\$550,000	02/25/2017	550,000
Series of 2013	2.071%	\$7,100,000	02/25/2028	<u>7,100,000</u>

### Total general obligation notes

21,028,000

### Total general obligation debt

\$99,679,546

General obligation notes bear interest at a variable rate that is adjusted weekly based upon the Bond Market Association Municipal Swap Index.

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2014	\$ 6,056,000	\$ 3,361,535	\$ 9,417,535
2015	5,949,000	3,235,328	9,184,328
2016	5,871,000	3,084,178	8,955,178
2017	3,892,766	4,768,842	8,661,608
2018	3,484,780	4,418,558	7,903,338
2019-2023	27,716,000	11,737,089	39,453,089
2024-2028	33,910,000	6,259,431	40,169,431
2029-2032	<u>12,800,000</u>	<u>1,416,733</u>	<u>14,216,733</u>
	<u>\$99,679,546</u>	<u>\$38,281,694</u>	<u>\$137,961,240</u>

### Series of 2012 General Obligation Note

On December 26, 2012, the District issued a \$1,250,000 general obligation note, the proceeds from which were used for (a) the acquisition of equipment, computers, furniture and buses and (b) pay for the costs of issuance.

### Series of 2013 General Obligation Note

On March 1, 2013, the District issued a \$7,100,000 general obligation note, the proceeds from which were used for (a) the acquisition of equipment and improvements to the District's buildings to reduce energy consumption and (b) pay for the costs of issuance.

### In-Substance Defeasance – Prior Years

In prior years, the District has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's government-wide financial statements. As of June 30, 2013, the amount of defeased outstanding debt was as follows:

	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Series of 2004	04/01/2014	<u>\$26,525,000</u>

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### Interest Rate Management Plan

The General Obligation Notes of the District have been issued to the Delaware Valley Regional Finance Authority ("**DVRFA**"). The DVRFA was formed by certain counties in Southeastern Pennsylvania to provide financing to local government units ("**participants**") for various projects. DVRFA obtained the funds used to finance these projects by issuing its Local Government Revenue Bonds. In order to reduce the interest costs of participants in its loan program and to enhance their ability to manage their interest rate risks, DVRFA and the participants in its loan program, including the District, have entered into an Interest Rate Management Plan, the provisions of which allow the participants to select fixed or variable rates of interest on their loans. In order to provide this option to participants, DVRFA has entered into interest rate swap agreements with financial institutions. In the event that the swap agreements between DVRFA and the financial institutions are terminated and the value of the swaps to DVRFA at the time of termination is a liability, the participants are required to pay their proportionate share of the liability. The value of the swap agreements relative to the General Obligation Notes at June 30, 2013 was an asset of \$3,516,595. The value of the swap agreements relative to the District's General Obligation Notes is not reflected on the District's statement of net position.

### Lease Rental Payable

The District has entered into a long-term appropriation-based lease with the State Public School Building Authority (the "**SPSBA**") to finance the construction of the Bethel Springs Elementary School. The SPSBA was formed by the Commonwealth of Pennsylvania for the purpose of financing the construction and improvement of public school facilities under the jurisdiction of the Pennsylvania Department of Education. The SPSBA finances projects through the issuance of bonds, the principal and interest of which are paid by the annual lease rental payments from public schools. The SPSBA has no general liability with respect to these obligations and has no beneficial interest in the related assets. Acting solely in an agency capacity, the SPSBA serves as a financing conduit, bringing the ultimate borrower and lender together. The goal of the SPSBA is to make lower cost financings available to public schools.

The lease agreement between the District and the SPSBA provides that the SPSBA will lease to the District, for a term at least as long as the term of the bonds issued to finance the project, certain school facilities owned by the Authority known as the Bethel Springs Elementary School. The District is obligated to make rental payments under the lease from funds appropriated from the current fiscal year and constitutes a current expense. The lease and the obligations of the District under the lease do not constitute a lien or charge upon the funds of the District beyond the fiscal year for which the District has made appropriations for lease rental payments. Therefore, the lease and the obligations of the District under the lease do not constitute a debt or general obligation of the District.

This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments as of June 30, 2013 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 900,000	\$ 652,257	\$ 1,552,257
2015	945,000	611,758	1,556,758
2016	985,000	569,232	1,554,232
2017	1,030,000	524,908	1,554,908
2018	1,075,000	478,558	1,553,558
2019-2023	6,205,000	1,652,607	7,857,607
2024-2025	<u>2,970,000</u>	<u>224,750</u>	<u>3,194,750</u>
	<u>\$14,110,000</u>	<u>\$4,714,070</u>	<u>\$18,824,070</u>

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# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### Early Retirement Incentive

The District from time to time offers additional retirement incentives known as early retirement incentive plans ("**ERIP**") to senior professional staff and administrators contemplating retirement. There is no contractual requirement for the District to offer ERIP incentives. An ERIP is formally approved by School Board action in the year an ERIP plan is implemented.

In order for an employee to retire and participate in a District sponsored ERIP, the District must first decide whether or not to offer an ERIP in the year the employee is retiring and a specified minimum number of employees must opt into the ERIP. The District's ERIP plans provide for the payment of specific annuity amounts to the participating retiree.

The District's liability for its ERIP plans has been reported at the discounted present value of expected future benefit payments in the government-wide financial statements. For the year ended June 30, 2013, 63 retirees received benefits under the District's ERIP plans and the District paid \$755,800 in ERIP benefits to retirees.

As of June 30, 2013, the District had four ERIP plans in effect. The number of participants and the present value of those benefits as of June 30, 2013 are summarized below:

<u>ERIP Began</u>	<u>Participants</u>	<u>Present Value of ERIP Benefits</u>
July 1, 2007	10	\$ 237,286
July 1, 2008	10	456,536
July 1, 2010	3	182,202
July 1, 2011	20	<u>1,598,011</u>
		<u>\$2,474,035</u>

### Other Post-Employment Benefits

The District's other post-employment benefits include a single-employer defined benefit plan that provides medical insurance to certain eligible retirees and their spouses. The School Board has 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 District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

### 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. 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.

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2013, 2012 and 2011 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$489,930	74.77%	\$963,458
2012	\$492,678	65.98%	\$839,864
2011	\$463,608	59.67%	\$672,259

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

Annual required contribution	\$ 503,697
Interest on net OPEB obligation	37,794
Adjustment to annual required contribution	<u>(51,561)</u>
Annual OPEB cost (expense)	489,930
Contributions made	<u>(366,336)</u>
Increase in net OPEB obligation	123,594
Net OPEB obligation – beginning of year	<u>839,864</u>
Net OPEB obligation – end of year	<u>\$ 963,458</u>

### **Funded Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$4,458,344, all of which was unfunded. The covered payroll (annual payroll of active employees receiving benefits) was \$4,674,463 and the ratio of the unfunded actuarial accrued liability ("**UAAL**") to the covered payroll was 95.38%.

Actuarial valuations 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 benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### **Actuarial Methods and Assumptions**

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

In the most recent actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 8.00%, decreasing 0.50% per year to an ultimate rate of 5.50% in 2016 and later. The UAAL is being amortized based on the level dollar, 30-year open period.

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### (7) PENSION PLAN

#### Plan Description

The District contributes to the Public School Employees' Retirement System ("**PSERS**"), a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees' Retirement System. The PSERS provides retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments and certain health care insurance premium assistance to plan members and beneficiaries. The Public School Employees' Retirement Code (Act No. 96, of October 2, 1975, as amended) provides the authority to establish and amend benefit provisions. The PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, 5 North 5<sup>th</sup> Street, Harrisburg, PA 17101-0125; or by accessing its website at <http://www.psers.state.pa.us/publications/general/cafr.htm>.

#### Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Individual employees contribute between 5.25% and 10.30% of annual salary depending on their membership status. Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the rate of employer contribution was 12.36% of covered payroll. The District's contributions to PSERS for the years ended June 30, 2013, 2012 and 2011 were \$5,254,265, \$3,729,061 and \$2,467,114, respectively, equal to the required contribution for each year. The Commonwealth contributes to PSERS reimbursing the District 50% of its contribution each year.

### (8) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

#### Delaware County Vocational Technical School and Delaware Vocational Technical School Authority

The District and the other fourteen Delaware County school districts participate in the Delaware County Vocational Technical School (the "**DCVTS**"). The DCVTS provides vocational-technical training and education to students of the participating school districts. The DCVTS is controlled by a joint Board comprised of representative school board members of the participating school districts. District oversight of the DCVTS operations is the responsibility of the joint board. The District's share of operating costs for the DCVTS fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2012-2013 was \$362,116.

The District and the other fourteen Delaware County school districts also participate in a joint venture for the operation of the Delaware County Vocational-Technical School Authority (the "**DCVTSA**"). The DCVTSA oversees acquiring holding, constructing, improving and maintaining the DCVTSA school buildings. The DCVTSA is controlled by a joint board comprised of representative school board members of the participating school districts in the DCVTS. The participating school districts have entered into a long-term lease agreement with the DCVTSA to provide rental payments sufficient to retire the DCVTSA's outstanding debt obligations. The agreement expires in 2012-2013 unless the debt is retired earlier. The District's share of rent expense for 2012-2013 was \$24,496.

Both the DCVTS and the DCVTSA prepare financial statements that are available to the public from their administrative offices located at 200 Yale Avenue Morton, Pennsylvania 19070.

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### Delaware County Community College

The District and twelve other Delaware County schools sponsor the Delaware County Community College (the "**DCCC**"). Only residents of Bethel Township participate in this joint venture within the District. The DCCC provides higher education programs to the residents of southeastern Pennsylvania. Sponsoring school districts pay a share of the DCCC's operating and debt service costs which fluctuate based on each District's certified market values and in return residents of each of the sponsoring school districts pay a reduced cost to participate in DCCC higher education programs. The sponsoring school districts have entered into a long-term lease agreement with the DCCC to provide rental payments sufficient to retire the DCCC's outstanding debt obligations. The lease agreement expires in 2032-2033 unless the debt is retired earlier. The District's share of operating costs and rent expense for 2012-2013 was \$230,330.

The DCCC prepares financial statements that are available to the public from their administrative offices located at 901 South Media Line Road, Media, Pennsylvania 19063.

The District's future annual lease payments to the DCCC are as follows:

<u>Year ending June 30,</u>	<u>DCCC</u>
2014	\$ 38,753
2015	38,753
2016	31,003
2017	31,003
2018	31,003
2019-2023	150,093
2024-2028	138,609
2029-2033	<u>138,609</u>
	<u>\$ 597,826</u>

### Delaware County Intermediate Unit

The District and the other Delaware County school districts are participating members of the Delaware County Intermediate Unit (the "**DCIU**"). The DCIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual operating budget of the DCIU but the participating districts have no ongoing fiduciary interest or responsibility to the DCIU. The DCIU is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and state and federal liaison services.

## (9) OPERATING LEASE

The District leases a building to the Delaware County Intermediate Unit (the "**D.C.I.U.**") under a lease agreement that expires on June 30, 2026. Rent is determined annually based upon an agreed-upon amount per square foot between the District and the D.C.I.U. The lease may be cancelled on June 30, 2016 or June 30, 2021 at the option of the D.C.I.U. with proper notification to the District. The D.C.I.U. is responsible for its share of expenses associated with the building. Rental income recognized under this lease, including the proportionate share of expenses, was \$1,010,726 for 2012-2013.

# GARNET VALLEY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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### (10) CONTINGENCIES AND COMMITMENTS

#### Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these 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. District officials do not expect any significant adjustments as a result of these examinations.

#### Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

### (11) 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 including workers compensation and employee health accident insurance. 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 the three prior years.

### (12) PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 65, the District made a prior period adjustment to reclassify debt issuance costs, which were previously reported as assets, to outflows of resources. This prior period adjustment and its effect on net position at July 1, 2011 and on changes in net position for the year ended June 30, 2012 are summarized in the following table:

Net position at July 1, 2011, as previously reported	\$ 6,756,896
Prior period adjustment to	
Reclassify debt issuance costs from an asset to outflows of resources	<u>(1,120,320)</u>
Net position at July 1, 2011, as restated	<u>5,636,576</u>
Change in net position for the year ended June 30, 2012, as previously reported	1,325,838
Prior period adjustment to	
Reclassify debt issuances costs from an asset to outflows of resources	(84,944)
Reverse amortization expense recorded for debt issuance costs	<u>96,866</u>
Change in net position for the year ended June 30, 2012, as restated	<u>1,337,760</u>
Net position at June 30, 2012, as restated	<u>\$ 6,974,336</u>

### (13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 27, 2013, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in the financial statements.

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**REQUIRED SUPPLEMENTARY INFORMATION**

# GARNET VALLEY SCHOOL DISTRICT

## BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local sources	\$70,004,370	\$70,004,370	\$70,944,458	\$ 940,088
State sources	12,103,251	12,103,251	13,913,788	1,810,537
Federal sources	<u>2,142,752</u>	<u>2,142,752</u>	<u>1,616,920</u>	<u>(525,832)</u>
<b>Total revenues</b>	<u>84,250,373</u>	<u>84,250,373</u>	<u>86,475,166</u>	<u>2,224,793</u>
<b>EXPENDITURES</b>				
<b>Instruction</b>				
Regular programs	34,697,695	35,666,424	34,636,848	1,029,576
Special programs	12,572,665	13,775,044	13,420,497	354,547
Vocational programs	533,633	516,304	512,051	4,253
Other instructional programs	146,978	29,702	29,702	-
Higher education programs	<u>230,331</u>	<u>230,330</u>	<u>230,330</u>	<u>-</u>
<b>Total instruction</b>	<u>48,181,302</u>	<u>50,217,804</u>	<u>48,829,428</u>	<u>1,388,376</u>
<b>Support services</b>				
Pupil support services	2,045,056	2,142,634	2,078,877	63,757
Instructional staff services	2,100,835	1,769,691	1,726,021	43,670
Administrative services	6,227,621	4,820,753	4,704,632	116,121
Pupil health	634,395	601,510	583,540	17,970
Business services	1,056,955	1,187,445	1,154,794	32,651
Operation and maintenance of plant services	6,276,460	6,192,338	6,101,684	90,654
Student transportation services	4,085,002	3,933,764	3,832,922	100,842
Other support services	<u>78,654</u>	<u>79,508</u>	<u>79,508</u>	<u>-</u>
<b>Total support services</b>	<u>22,504,978</u>	<u>20,727,643</u>	<u>20,261,978</u>	<u>465,665</u>
<b>Operation of non-instructional services</b>				
Student activities	2,789,528	2,759,969	2,712,083	47,886
Community services	<u>127,860</u>	<u>151,592</u>	<u>151,592</u>	<u>-</u>
<b>Total operation of non-instructional services</b>	<u>2,917,388</u>	<u>2,911,561</u>	<u>2,863,675</u>	<u>47,886</u>
<b>Debt service</b>				
	<u>10,646,705</u>	<u>10,393,365</u>	<u>10,393,365</u>	<u>-</u>
<b>Total expenditures</b>	<u>84,250,373</u>	<u>84,250,373</u>	<u>82,348,446</u>	<u>1,901,927</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>-</u>	<u>-</u>	<u>4,126,720</u>	<u>4,126,720</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>-</u>	<u>(2,800,000)</u>	<u>(2,800,000)</u>	<u>-</u>
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>(2,800,000)</u>	<u>(2,800,000)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (2,800,000)</u>	<u>1,326,720</u>	<u>\$ 4,126,720</u>
<b>FUND BALANCE</b>				
Beginning of year			<u>7,450,829</u>	
<b>End of year</b>			<u>\$ 8,777,549</u>	

**GARNET VALLEY SCHOOL DISTRICT**

**OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS**

Year ended June 30, 2013

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<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/2011	\$ -	\$4,458,344	\$4,458,344	0.00%	\$4,674,463	95.38%
07/01/2008	\$ -	\$2,151,222	\$2,151,222	0.00%	\$4,703,003	45.74%

**SINGLE AUDIT**

**GARNET VALLEY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS**

Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2012</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2013</u>
<b><u>U.S. Department of Education</u></b>										
<b><u>Passed-Through the Pennsylvania Department of Education</u></b>										
Title I – Improving Basic Programs	I	84.010	013-120161	07/01/11 – 09/30/12	\$ 114,950	\$ 22,585	\$ 22,585	\$ -	\$ -	\$ -
Title I – Improving Basic Programs	I	84.010	013-130161	07/01/12 – 09/30/13	135,299	99,027	-	135,299	135,299	36,272
Title II – Improving Teacher Quality	I	84.367	020-120161	07/01/11 – 09/30/12	56,329	3,544	3,544	-	-	-
Title II – Improving Teacher Quality	I	84.367	020-130161	07/01/12 – 09/30/13	58,161	50,059	-	58,161	58,161	8,102
ARRA – Education Jobs Fund	I	84.410	140-110119	07/01/11 – 06/30/12	3,912	3,912	3,912	-	-	-
<b><u>Passed Through the Delaware County I. U.</u></b>										
I.D.E.A. – Part B, Section 611	I	84.027	N/A	07/01/11 – 06/30/12	937,458	933,458	933,458	-	-	-
I.D.E.A. – Part B, Section 611	I	84.027	N/A	07/01/12 – 06/30/13	930,651	4,000	-	930,651	930,651	926,651
ARRA – I.D.E.A. – Part B, Section 619	I	84.392	N/A	07/01/12 – 06/30/13	12,094	-	-	12,094	12,094	12,094
<b>Total U.S. Department of Education</b>						<u>1,116,585</u>	<u>963,499</u>	<u>1,136,205</u>	<u>1,136,205</u>	<u>983,119</u>
<b><u>U.S. Department of Agriculture</u></b>										
<b><u>Passed-Through the Pennsylvania Department of Education</u></b>										
National School Lunch Program	I	10.555	N/A	07/01/10 – 06/30/12	N/A	28,937	28,937	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/12 – 06/30/13	N/A	155,293	-	187,275	187,275	31,982
Breakfast Program	I	10.553	N/A	07/01/10 – 06/30/12	N/A	429	429	-	-	-
Breakfast Program	I	10.553	N/A	07/01/12 – 06/30/13	N/A	3,464	-	5,663	5,663	2,199
State Matching Share	S	N/A	N/A	07/01/10 – 06/30/12	N/A	5,613	5,613	-	-	-
State Matching Share	S	N/A	N/A	07/01/12 – 06/30/13	N/A	25,220	-	30,407	30,407	5,187

Continued on next page

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2012</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2013</u>
<b>Passed-Through PA Department of Agriculture</b>										
USDA Donated Commodities	I	10.555	N/A	07/01/12 – 06/30/13	N/A	61,735	-	61,735	61,735	-
<b>Total U.S. Department of Agriculture</b>						<u>280,691</u>	<u>34,979</u>	<u>285,080</u>	<u>285,080</u>	<u>39,368</u>
<b>Total Federal Awards and Certain State Grants</b>						<u>\$1,397,276</u>	<u>\$998,478</u>	<u>\$1,421,285</u>	<u>\$1,421,285</u>	<u>\$1,022,487</u>

**Source Codes**

D – Direct Funding

I – Indirect Funding

S – State Share

# **GARNET VALLEY SCHOOL DISTRICT**

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

**June 30, 2013**

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### **(1) FEDERAL EXPENDITURES**

The 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) NONMONETARY FEDERAL AWARDS – DONATED FOOD**

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 USDA Commodities represent federal surplus food consumed by the District during the 2012-2013 fiscal year.

### **(4) ACCESS PROGRAM**

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2013 was \$480,715.

**GARNET VALLEY SCHOOL DISTRICT**

***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***

**Year ended June 30, 2013**

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There were no audit findings for the year ended June 30, 2012.



**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***

**Board of School Directors  
Garnet Valley School District  
Glen Mills, 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 Garnet Valley School District, Glen Mills, Pennsylvania, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Garnet Valley School District's basic financial statements, and have issued our report thereon dated November 27, 2013.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Garnet Valley 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 Garnet Valley School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Garnet Valley School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 Garnet Valley 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.

*BBD, LLP*

**Philadelphia, Pennsylvania  
November 27, 2013**



## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**Board of School Directors  
Garnet Valley School District  
Glen Mills, Pennsylvania**

### ***Report on Compliance for Each Major Federal Program***

We have audited Garnet Valley 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 Garnet Valley School District's major federal programs for the year ended June 30, 2013. Garnet Valley 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 Garnet Valley 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 Garnet Valley 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 Garnet Valley School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Garnet Valley 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 Garnet Valley 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 Garnet Valley 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 Garnet Valley 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.

*BBD, LLP*

**Philadelphia, Pennsylvania  
November 27, 2013**

# **GARNET VALLEY SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Year ended June 30, 2013**

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### **SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of the Garnet Valley School District.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of the Garnet Valley School District are reported in the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the Garnet Valley School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the Garnet Valley School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:
  - Special Education Cluster:
    - I.D.E.A. – Part B, Section 611 – CFDA Number 84.027
    - ARRA – I.D.E.A. – Part B, Section 619 – CFDA Number 84.392
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Garnet Valley School District did qualify as a low-risk auditee.

### **FINDINGS—FINANCIAL STATEMENT AUDIT**

None

### **FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None