

# Portage Area School District

"Home of the Mustangs"

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) JUNE 30, 2014

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

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

### FINANCIAL HIGHLIGHTS

#### The Bad News:

**General Fund expenditures will be greater than revenues by the year 2016-2017 unless changes occur in the two following areas:**

##### 1. State Aid

For the 2011-2012 budget year school districts across the commonwealth had their state funding cut drastically. The largest of the items cut was Basic Education Funding (BEF). PASD was cut almost 5% of revenues which equaled to \$580,000 in BEF funds. Because everyone from the school board and administration understood PASD's dilemma a "bare bones" budget was passed for 2011-2012. Many items such as new computers, desk, chairs, certain supplies, to name a few things, were cut from the budget. Other areas such as travel and dues and fees were also cut deeply. Because of these cutting efforts, revenues exceeded expenditures by almost \$179,000 in the General Fund during 2011-2012.

Moving forward, Governor Corbett and the legislature flat lined the BEF funding for PASD in 2012-2013 and then increased BEF by only \$73,384 and \$ -0- in 2013-2014 and 2014-2015, respectively, or just 1.1% and -0-%. State funds have always been the largest revenue source for PASD. State funds currently make up 76% of our total funding, with BEF being almost 53% of these funds. So the adage that we live and die by what the state gives us has never rung truer than in today's world. Without a lot more help from the state, it will be very difficult to balance our budget in the next few years.

That being said, the state has kept up with their share of Public School Employee Retirement System (PSERS) pension costs. That is saying a lot, because according to State Representative Glen Grell, a Republican from the 87<sup>th</sup> District in Mechanicsburg, the state's share of PSERS costs will *increase* by \$600 million in 2014-2015. This was taken from an interview he did with *theTimesTribune.com* on October 29, 2013. Past attempts at pension

reforms have done little to alleviate the current situation, and the Governor and legislature did nothing last year or this year.

## *2. Retirement and Health Care Costs*

The good news is PASD did manage to set aside a little over \$3.4 million dollars in Committed Fund Balance the past seven years to combat the expected and unprecedented rise in pension expenses, and now has almost \$738,511 in Unassigned Fund Balance that it could choose to add to this total. That is where the good financial news ends.

Without major changes to the PSERS pension plan and health care plans that would result in very substantial savings, the financial future of PASD, all other things remaining the same, is dire. The reason is, without any pension reform PSERS rates have increased and are slated to increase in the coming years from the 2013-2014 rate of 12.36% to 16.93%, 21.31%, 25.80%, 28.30%, 29.15% and then projected to be between 30% and 31% for the next 5 years. Even on just the 2013-2012 wages of \$5,041,294 PASD paid to PSERS, these increases would wipe out PASD's \$4.1 million dollars by the year 2018-2019, in just five years

As for Health Care Costs, PASD paid out \$1.28 million dollars for employee coverage in 2012-2013. The last two years increases for 2013-2014 and 2014-2015 have been 12.90% and 7.03%, well above the national averages of 3.3% and 4.0% (Source: Insurance Journal, October 17, 2013 and Kaiser Health News, October 14, 2014). While preliminary indications are that the 2015-2016 increase will be lower at 5.0%, it will still be higher than the expected national average, and is anticipated to cost PASD an additional \$70,000. PASD cannot sustain these increases.

### **The Good News:**

#### **State Bond Issue Reimbursements Received**

The process of issuing bonds is called the PLANCON process and is overseen by the State Public School Building Authority (SPSBA). When PASD issued the Series of 2010 General Obligation Bonds that went for renovating our Elementary School, the SPSBA gave absolutely no indication that it would not fulfill its financial obligation to school districts across the state. In fact, the SPSBA just did not process the PLANCON forms, creating a back log of over 100 school districts across the state awaiting their share of state aid for building projects. Only after getting our state representative involved have we finally learned that we were supposedly 17<sup>th</sup> in line to receive this state reimbursement. This means as other school districts across the state pay off bonds, only then will money be freed up for the 100 or so school districts waiting in line. We were told by state officials this could take years. In 2012-2013 the Governor announced that the state would not make any new reimbursements to schools for at least three years. In terms of numbers, we had to come up with over \$300,000 a year from our General Fund for the last four years to cover this lack of state reimbursement. It should be noted that PASD kept its annual net payment amount around \$305,000, the exact same from the last major renovation project paid off in 2005. In other words, PASD was being fiscally responsible in not just borrowing money because it was cheap, but borrowing it based upon what it could afford and what its needs were.

However during fiscal year 2013-2014 PASD got great news. PASD received four years' worth of back payments totaling \$1,158,341 and will continue to receive its PLANCON reimbursements. We were one of only five schools to receive this great news.

## **Fiscal Summation**

To sum it up, because of the ongoing national economic situation, the decrease in State Aid - especially the decrease in Basic Education Funding, the State Public School Employees Pension (PSERS) crisis and ever increasing health care costs, the Administrative Team and School Board must be more vigilant than ever in managing PASD finances as it moves into a very unstable financial future. The only good news was the receipt of state Bond Issue reimbursements,

### *Declining Enrollment and Teaching Positions - 2007-2008 to present*

In the face of declining enrollment and the aforementioned financial factors, the School Board and Administrative Team decided through attrition not to replace 9.25 teaching positions since 2007-2008.

### *Renovation Projects - 2009-2010 and 2011-2012*

It must be noted that real estate taxes were not raised for either renovation project. The partial renovation project for the Junior Senior High School and Football Stadium were completed before the start of the 2009-2010 fiscal year at a cost of \$3.34 million dollars, all paid from Capital Reserve Funds. Then on February 16, 2010 PASD took advantage of historically low interest rates and floated a bond for \$9,145,000 for the Elementary School Renovation Project. This project was substantially complete during 2011-2012. The annual net payments on this bond were purposely kept the same as the 2001 General Obligation Bond payment. The facilities upgrades made during these projects will meet the needs of the students, teachers and community for years to come.

It should be stated that during 2007-2008 PASD made final payments on its 2001 General Obligation Bonds and 1993 Vo Tech General Obligation Bonds, allowing PASD to set aside these amounts in the Capital Reserve Fund which was used for the Junior Senior High School and Football Stadium Renovation Project.

### *The E Rate Program*

E Rate is a program offered by the Federal Government to assist schools and libraries by qualifying them for discounts on telecommunication expenses (telephone, cell phone and internet access fees) and internal connections (servers and other telecommunications hardware). The discount percentage is determined by the number of students eligible for the assisted meals program (free and reduced lunch program) as determined by the state or by a survey conducted by a school district.

During 2013-2014 PASD once again applied for E Rate discounts. As enrollment continued to decline, we knew a survey would likely not increase our discount percentage, so we relied on state data for these two years. Therefore, we did not qualify for the 90% discount on internal connections, but did qualify for the 80% discount on telecommunications expenses. However, with the anticipated rollout of E Rate 2.0 by the Federal Government, we may once again see additional financial advantages in the E Rate program.

During 2010-2011 and in years past instead of relying on state numbers PASD did conduct a survey that was good for two years of E Rate discounts. PASD qualified for the 90% discount in 2010-2011 and 2011-2012. As planned, the Administrative Team and School Board made the E Rate Program play a major role in the technological piece of the Elementary Renovation Project during this time period. Almost all internal connections and telecommunications expenses purchased for this renovation did receive the 90% discount, thus maximizing district dollars spent on technology. PASD received \$596,620 in discounts on \$670,991 expended for the technology piece of the Elementary Renovation Project. Thus it cost PASD only \$74,371 for \$670,991 worth of technology.

Since we began participating in the E Rate program in 1998-1999 we have been very successful, recently passing the two million dollar mark in discounts

**USING THE ANNUAL FINANCIAL REPORT**

This annual report consists of two distinct series of financial statements: District-wide and fund. The first two statements (District-wide) are government-wide financial statements. They are the Statement of Net position and the Statement of Activities. These provide both long-term and short-term information about the district’s overall financial status.

The remaining statements (fund) focus on individual parts of the PASD’s operations in more detail than the government-wide statements. The Government Wide and Fund Statements tell how general district services were financed in the short-term, as well as what remains for future spending. Proprietary fund statements offer short and long-term financial information about the activities that the district operates like a business. For PASD, it is the Food Service Fund. Fiduciary fund statements provide information about financial relationships where the district acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

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

Figure A-1  
 Required Components of  
 Portage Area School District’s  
 Report  
 Financial

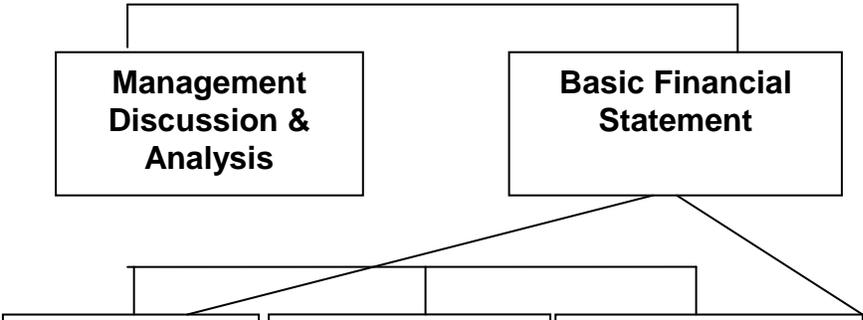


Figure A-2 summarizes the major features of PASD’s financial statements, including the portion of the district they cover and the types of information they contain. The remainder of this overview section of the Management Discussion and Analysis explains the structure and contents of each of the statements.

**Figure A-2**  
**Major Features of Portage Area School District’s**  
**Government-Wide and Fund Financial Statements**

	Government- Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as education, administration and community services	Activities the district operates similar to private business – Food Services	Instances in which the district is the trustee or agent to someone else’s resources
Required financial statements	Statement of net position, and Statement of activities	Balance Sheet, Statement of revenues, expenditures, and changes in fund balance	Statement of net position, Statement of revenues, expenses and changes in net position, and Statement of cash flows	Statement of fiduciary net position, and Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term

Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid
------------------------------------	--	--	--	--

## OVERVIEW OF FINANCIAL STATEMENTS

### Government-wide Statements

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

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

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

To assess the overall health of PASD, you need to consider additional non-financial factors, such as changes in the PASD's property tax base and the performance of the students.

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

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

### Fund Financial Statements

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

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

Proprietary funds – These funds are used to account for PASD activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the district charges customers for services it provides - whether to outside customers or to other units in

the district – these services are generally reported in proprietary funds. The Food Service Fund is PASD’s proprietary fund and is the same as the business-type activities we report in the government-wide statement, but provides more detail and additional information, such as cash flows.

Fiduciary funds – PASD is the trustee, or fiduciary, for some agency funds. All of the district’s fiduciary activities are reported in separate Statements for Fiduciary Net position. We exclude these activities from the district’s other financial statements because the district cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

PASD’s total net position was \$11,288,211 and \$10,682,914 at June 30, 2014 and 2013.

Table A-1  
Fiscal Year Ended June 30, 2014 and 2013  
GOVERNMENT WIDE STATEMENT OF NET POSITION

	<u>2014</u>			<u>2013</u>		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 5,809,875	\$ 66,509	\$ 5,870,920	\$ 4,799,047	\$ 79,444	\$ 4,878,491
Non-current assets	15,608,259	224,440	15,832,699	16,140,125	258,748	16,398,873
Total Deferred Outflows	8,112	---	8,112	---	---	---
Total Assets & Outflows	<u>\$21,426,246</u>	<u>\$290,949</u>	<u>\$21,717,195</u>	<u>\$20,939,172</u>	<u>\$338,192</u>	<u>\$21,277,364</u>
Current and other liabilities	\$1,722,792	\$ 1,280	\$ 1,724,072	\$1,464,329	\$42,245	\$ 1,506,574
Non-current liabilities	8,655,035	15,800	8,670,835	9,069,490	18,386	9,087,876
Total Liabilities	10,377,827	17,080	10,394,907	10,533,819	60,631	10,594,450
Unearned revenue	---	\$ 34,077	\$34,077	---	---	---
Total Deferred Inflows	---	34,077	34,077	---	---	---
Net position:						
Invested in capital assets, net of related debt	7,828,259	224,440	8,052,699	7,886,696	258,748	8,145,444
Unrestricted	3,220,160	15,352	3,235,512	2,518,657	18,813	2,537,470
Total Net position	11,048,419	239,792	11,288,211	10,405,353	277,561	10,682,914
Total Liabilities Inflows & Net position	<u>\$21,426,246</u>	<u>\$290,949</u>	<u>\$21,717,195</u>	<u>\$20,939,172</u>	<u>\$338,192</u>	<u>\$21,277,364</u>

Most of the district’s net positions are invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is undesignated amounts. As you will note, the table gives an accounting of the net position for the fiscal year ended June 30, 2014 and 2013.

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

Table A-2 takes the information from that statement, rearranges it slightly, to enable readers to see the total revenues for the year.

Table A-2  
Fiscal Year Ended June 30, 2014 and 2013  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES

	2014			2013		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues						
Program Revenues:						
Charges for Services	\$ ---	\$155,837	\$155,837	\$ ---	\$152,142	\$152,142
Operating Grants & Contributions	9,585,637	364,152	9,949,789	9,121,881	326,665	9,448,546
Capital Grants & Contributions	---	---	---	---	---	---
General Revenues:						
Property Taxes	\$2,386,607	---	2,386,607	2,376,078	---	2,376,078
Investment Earnings	7,895	3	7,898	9,644	12	9,656
Loss on disposal of fixed assets	---	---	---	---	---	---
Interfund Transfers (Out)/In	(101,769)	101,769	---	(117,879)	117,879	---
<b>Total Revenues</b>	<b>11,878,370</b>	<b>621,761</b>	<b>12,500,131</b>	<b>11,389,724</b>	<b>596,698</b>	<b>11,986,422</b>
Expenses						
Instruction	6,364,782	---	6,364,782	6,382,208	---	6,382,208
Student Support	3,948,957	---	3,948,957	3,829,529	---	3,829,529
Student Activities	518,141	---	518,141	459,338	---	459,338
Community Services	1,029	---	1,029	1,750	---	1,750
Capital Outlay	---	---	---	---	---	---
Unallocated Interest Expense	281,819	---	281,819	293,929	---	293,929
Unallocated Depreciation Expense	824,404	---	824,404	855,393	---	855,393
Food Services	---	659,530	659,530	---	636,642	636,642
<b>Total Expenses</b>	<b>11,939,132</b>	<b>656,530</b>	<b>12,598,662</b>	<b>11,822,147</b>	<b>636,642</b>	<b>12,458,789</b>
Increase/(Decrease) in Net position	(60,762)	(37,769)	(98,531)	(432,423)	(39,944)	(472,367)
Net position – Beginning of Year (Originally stated)	10,405,353	277,561	10,682,914	10,784,803	317,505	11,102,308
Prior Period Adjustment	773,901	---	773,901			
Net position – Beginning of Year (Re-stated)	11,179,254	277,561	11,456,815			
(Decrease) in Inventory Reserve	(70,073)	---	(70,073)	52,973	---	52,973

Net position – End of Year	<u>\$11,048,419</u>	<u>\$239,792</u>	<u>\$11,288,211</u>	<u>\$10,405,353</u>	<u>\$277,561</u>	<u>\$10,682,914</u>
----------------------------	---------------------	------------------	---------------------	---------------------	------------------	---------------------

The tables below present the expenses of both the governmental activities and the business-type activities of PASD.

Table A-3 shows the PASD’s major functions including instruction, administrative, operation & maintenance of plant and pupil transportation, as well as each program’s net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions, to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3  
Fiscal Year Ended June 30, 2014 and 2013  
Governmental Activities

Functions/Programs	2014		2013	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$6,364,782	\$2,580,404	\$6,382,208	\$2,416,560
Support Services	3,948,957	(3,597,877)	3,829,529	(3,506,416)
Student Activities	518,141	(518,141)	459,338	(459,338)
Community Services	1,029	(1,029)	1,750	(1,750)
Capital Outlay	---	---	---	---
Unallocated Interest Expense	281,819	7,552	293,929	(293,929)
Unallocated Depreciation Expense	824,404	(824,404)	855,393	(855,393)
<b>Total Governmental Activities</b>	<u>\$11,939,132</u>	<u>(2,353,495)</u>	<u>\$11,822,147</u>	<u>(2,700,266)</u>
Interfund Transfers Out		(101,769)		(117,879)
Total Needs from Local Taxes and Other Revenues		<u>(\$2,460,728)</u>		<u>(\$2,818,145)</u>

Table A-4 reflects the activities of the Food Service Program, the only business-type activity of the district.

Table A-4  
Fiscal Year Ended June 30, 2014 and 2013  
Business-type Activities

Functions/Programs	2014		2013	
	<u>Total Cost of Services</u>	<u>Net Services</u>	<u>Total Cost of Services</u>	<u>Net Services</u>
Food Services	\$659,530	(\$139,541)	\$636,642	(\$157,835)
Less: Investment Earnings	---	3	---	12
Interfund Transfers In	---	101,769	---	117,879
<b>Total Business-Type Activities</b>	<u>\$659,530</u>	<u>(\$37,769)</u>	<u>\$636,642</u>	<u>(\$39,944)</u>

The Statement of Revenues, Expenses and Changes in Fund Net position for this proprietary fund will further detail the actual results of operations.

## THE DISTRICT FUNDS

At June 30, 2014 and 2013, the district Governmental Fund Types reported fund balances of \$4,431,931 and \$3,691,984, respectively. This is an increase of \$810,018 from the previous year.

### General Fund Budget

During the fiscal year, the Board of School Directors authorizes revisions to the original budget in the form of budget transfers. This accommodates the differences from the original budget to the actual expenditures of the district. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year and allowable by state law. A schedule showing the district's original and final budget amounts, compared with the amounts actually paid and received, is provided in the annual financial report.

PASD applies for federal, state and local grants that cannot always be anticipated in the budgeting process. While this normally causes fluctuations in budgeted revenues and expenditures, the influx of American Recovery and Reinvestment Act (ARRA) Funds after the budget was set, caused the budgeted revenues and expenditures to fluctuate dramatically.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2014 and 2013, PASD had \$15,832,699 and \$16,294,710, respectively, invested in land, buildings and equipment. Of the total, \$15,608,259 and \$16,035,962, respectively, made up governmental activities.

Table A-5  
Capital Assets at June 30, 2014 and 2013  
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land and Improvements	\$ 142,976	\$ 142,976	\$ ---	\$ ---	\$ 142,976	\$ 142,976
Construction in Progress	288,981	---	---	---	---	---
Buildings and Improvements	14,669,608	15,342,667	---	---	14,669,608	15,342,667
Furniture and Equipment	<u>506,694</u>	<u>550,319</u>	<u>224,440</u>	<u>258,748</u>	<u>731,134</u>	<u>809,067</u>
Totals	<u>\$ 15,608,259</u>	<u>\$ 16,035,962</u>	<u>\$ 224,440</u>	<u>\$ 258,748</u>	<u>\$ 15,543,718</u>	<u>\$ 16,294,710</u>

## DEBT ADMINISTRATION

On February 16, 2010 PASD issued \$9,145,000 in bonds for renovations of the Elementary School. Table A-6 summarizes the bonds outstanding.

Table A-6  
Outstanding Bonds at Year End

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
2010 General Obligation Bonds	\$ <u>7,780,000</u>	\$ <u>8,140,000</u>

Other obligations include two commercial loans, accrued vacation and sick leave liabilities (compensated absences) and equipment lease obligations (copiers). More detailed information about the district's long-term liabilities is included in Note 8 to the financial statements.

### FUNDING AND ENROLLMENT

#### *Local, State and Federal Funding*

As for local funding, PASD does not expect significant property value growth in the future. There is steady residential growth, but it is not too significant. Commercial growth is not expected now or anytime in the foreseeable future. The district joined the Portage Borough in its efforts to reignite commercial growth through the Local Economic Tax Revitalization Act (LERTA). However, past LERTA Programs did not yield significant commercial growth, though those businesses that did get the LERTA tax break indicated that they would not have been able to build without it. Earned income tax growth is usually small, but steady, with significant growth every three to five years. This growth occurred in 2007-2008 and again in 2010-2011 and because of the new law now requiring all employers to withhold EIT, it increased again in 2012-2013. However, all growth in the local area is much smaller than the expenditure increases of the PSERS and healthcare.

Because of the ongoing national financial situation PASD does not expect substantial increases in State or Federal revenues. However, with the New Governor Elect Wolf, we shall see if his promise of increased educational funding can be kept. That being said, Federal Revenues decreased over \$55,000 in 2012-2013 down to \$366,879, mainly due to the decrease in Title I Funds by \$26,355. These Federal Revenues held steady during 2013-2014.

#### *Enrollment*

Student enrollment in PASD has continued to decrease, and continues to do so at a rate of 0.80% or 8 students a year over the last five years. The state birth rates showed enrollment becoming stable in 2011-2012 and beyond, but in actuality it has continued to decline, but at about half the rate it has in the past ten years. It must be stated that it is important to track student enrollment because it is always tied to state subsidies in some way.

## THE PENNSYLVANIA TAXPAYER RELIEF ACT

Act 1 of 2006 was changed into The Pennsylvania Taxpayers Relief Act in 2007-2008 by the previous Governor after only a handful of school district's constituents voted to opt into Act 1 of 2006. *This tax relief act does not increase revenues to school districts.* The act does replace a certain percentage of PASD revenues from local property taxes with state gambling revenues, thus giving homeowners some property tax relief. Portage Area taxpayers received an average of \$160 in property tax relief credit for the past seven years, but only if they applied for this relief in a timely manner as prescribed by the state. The total average property tax relief for Portage Area homeowners over the past six years was \$335,408. *This equates to an overall decrease of 20% for homeowners property taxes within PASD.* This also equates to a monetary tax savings of \$462 for the seven years for a Median Valued home, even when the tax increases of 2011-2012 and 2014-2015 are taken from this amount.

The Pennsylvania Taxpayers Relief Act also limits the capacity for school boards to generate property tax revenues beyond a certain annual index. For PASD this index equates to 1.4065mills for 2015-2016. This means the board can only raise real estate taxes to the index, or 1.4065 mills, without seeking voter approval via a referendum or getting state approval for exceptions to this index. Originally there were nine exceptions to this index, but PASD must seek either a county judge's approval or approval from the Pa Department of Education before implementing these exceptions. PASD may consider passing an early budget to keep the exceptions option open for 2015-2016.

### FUTURE BUDGETS

While the 2014-2015 budget will probably have revenues equaling expenditures, it is the 2015-2016 and especially the 2016-2017 budgets that are troublesome. All things remaining the same, PASD will most likely have expenditures exceeding income in these budget years.

Comparisons of revenue and expenditure percentages by category for the most recent budget years are as follows:

Table A-7

#### Budgeted Revenues & Expenditures by Percent 2012-2013 & 2013-2014

	<u>Budget 2013-2014</u>	<u>Budget 2014-2015</u>
Budgeted Revenues		
Local	20.86%	21.10%
State	76.05%	76.07%
Federal	3.09%	2.83%
Totals	<u>100.00%</u>	<u>100.00%</u>

#### Budgeted Expenditures

Instruction	56.70%	57.15%
-------------	--------	--------

Support Services	32.82%	32.38%
Non Instruction / Transfers	4.06%	4.99%
Debt Payments	<u>6.42%</u>	<u>5.48%</u>
Totals	<u>100.00%</u>	<u>100.00%</u>

## PRIOR BUDGETS

### *2011-2012 Budget*

A question asked in the 2010-2011 MD&A was: “Where will the state get the funds for the 2011-2012 budget to offset the loss of the Federal American Recovery and Reinvestment Act (ARRA) Funds, called State Fiscal Stabilization Funds (SFSF)?” Unfortunately, we knew the answer: Instead of retaining the funding for school districts, the state made unprecedented cuts to school districts across the commonwealth. The state used these SFSF funds to back fill State Basic Education Funds (BEF) to the tune of \$804,546 and \$785,076 in 2009-2010 and 2010-2011. As stated earlier our district was cut \$580,000 in state funding for 2011-2012. If the legislature had not stepped in, the Governor would have cut the District over \$900,000. Because of these state funding cuts and normal operating cost increases, the Administrative Team and School Board cut well over \$400,000 from the 2011-2012 budget. These cuts included an administrative wage freeze, department head cuts and creating a Life Skills class at Portage Area for PASD students that was formerly taught and housed at a neighboring district. A two mill tax hike still left PASD as the third lowest in real estate taxes among the twelve Cambria County school districts.

The aforementioned SFSF Funds were not used by PASD for additional expenditures, but instead used prudently on existing expenditures.

### *The 2012-2013 Budget*

As stated earlier in this Management Discussion and Analysis, PASD ended up cutting 5.25 teaching positions from the 2012-2013 budget through attrition. PASD did add some items back into the 2012-2013 budget, but did not increase real estate taxes even though it did not receive any additional state BEF funds.

### *The 2013-2014 and 2014-2015 Budgets*

While the state’s overall financial picture continued to improve, Governor Corbett was not interested in increasing Basic Education Funds to school districts. Our district ended up getting a meager 1.1% or \$73,384 and 0.0% or \$ -0- in additional state BEF funds, respectively, in 2013-2014 and 2014-2015.

## CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the PASD's finances and to show the Board's accountability for the money it receives. If you have questions regarding this report or wish to request additional financial information, please contact Michael J. Kunko, Business Administrator at Portage Area School District, Administrative Offices, 84 Mountain Avenue, Portage, PA 15946, (814)736-9636, ext. 1270.