

PENNRIDGE SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2008

INTRODUCTORY SECTION

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FINANCIAL SECTION



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Independent Auditors' Report

To the Board of School Directors
Pennridge School District
Perkasie, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Pennridge School District, Perkasie, Pennsylvania, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pennridge School District, Perkasie, Pennsylvania's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 and each major fund of the Pennridge School District, Perkasie, Pennsylvania, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2008, on our consideration of the Pennridge School District, Perkasie, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

To the Board of School Directors
Pennridge School District
Perkasie, Pennsylvania

The management's discussion and analysis on pages 6 through 18 and budgetary comparison information on pages 56 through 58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pennridge School District, Perkasie, Pennsylvania's basic financial statements. The combining schedule of fiduciary net assets is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Pennridge School District, Perkasie, Pennsylvania. The combining schedule of fiduciary net assets and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maullio Falconiero & Company, LLP

Oaks, Pennsylvania
November 12, 2008

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2008

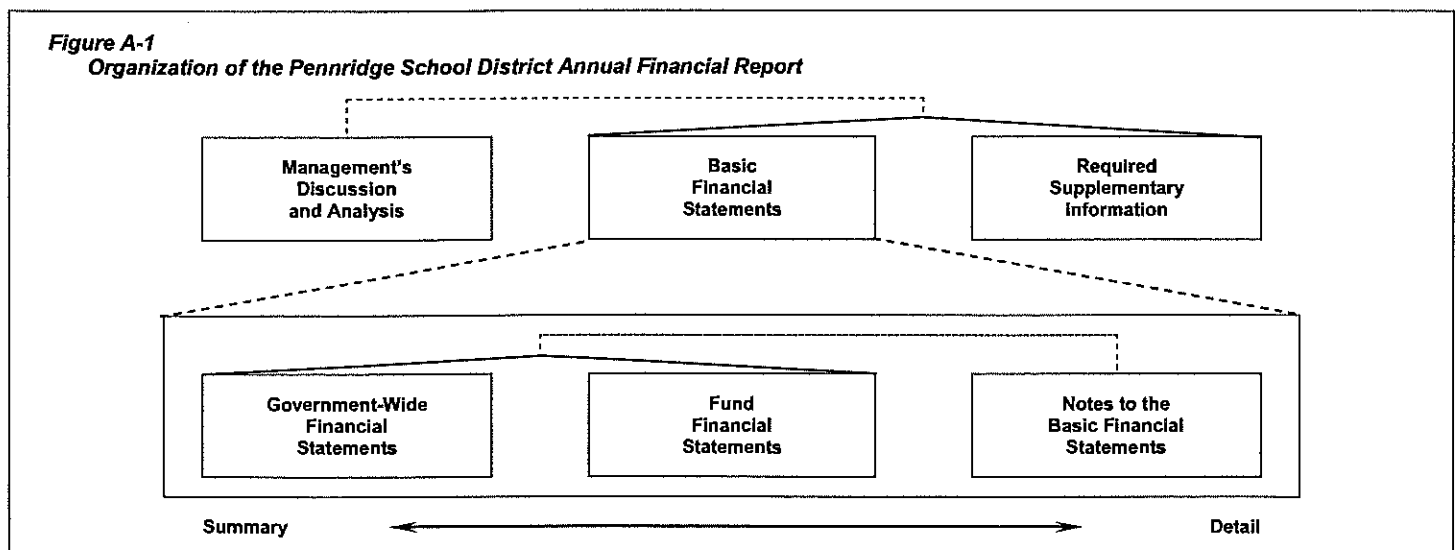
This section of the Pennridge School District's annual financial report presents its discussion and analysis of the School District's financial performance during the fiscal year ending June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Pennridge School District exceeded its liabilities at the close of the most recent fiscal year by \$47,185,502 (net assets).
- The School District's total net assets increased by \$11,365,790.
- As of the close of the current fiscal year, the Pennridge School District's Governmental Funds reported combined ending fund balances of \$36,411,577, an increase of \$6,031,276 in comparison with the prior year. The majority of this fund balance is restricted for specific capital projects and expenditures.
- The unreserved fund balance of the General Fund is \$4,128,618 or 4.24% of total General Fund expenditures.
- The Pennridge School District's general obligation debt increased by \$2,595,100.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2008

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

Government-Wide Financial Statements

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

The Statement of Net Assets presents information on all of the Pennridge School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Pennridge School District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Pennridge School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Pennridge School District include Instruction, Support Services, Operation of Non-Instructional Services, Depreciation Expense, Unallocated and Interest on Long-Term Debt. The business-type activity of the Pennridge School District is Food Services.

Fund Financial Statements

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

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2008

Governmental Funds

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

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

The Pennridge School District maintains four individual Governmental Funds. Information is presented separately on the Governmental Funds balance sheet and on the Governmental Funds statement of revenues, expenditures and changes in fund balances for the General Fund, the Capital Projects Fund, the Capital Reserve Fund and the Athletic Fund, all of which are considered to be major funds.

The Pennridge School District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund for your review.

Proprietary Funds

The Pennridge School District maintains two different types of Proprietary Funds. The Enterprise Fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses the Enterprise Fund for student food services and uses the Internal Service Fund to account for health insurance, self-insurance activities. Because the self-insurance activities benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

The information reported on the fund statements for the Proprietary Funds provides the same type of information as the government-wide financial statements, only in more detail.

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2008

Fiduciary Funds

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

Notes to the Basic Financial Statements

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Pennridge School District, assets exceeded liabilities by \$47,185,502 at the close of the fiscal year.

The amount of net assets invested in capital assets, net of related debt, increased substantially over the prior year. This is due to the fact that the District is involved in a large renovation and construction project at the Fifth Street Campus and North Middle School. The District has already financed a large portion of this project through various debt issuances. As you will notice, there is a large amount of current assets that will be used to fund this project.

PENNRIDGE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)
June 30, 2008

Table A-1
Net Assets
June 30, 2008 and 2007

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
ASSETS						
Current and other assets	\$ 61,141,604	\$ 53,143,291	\$ 459,956	\$ 365,992	\$ 61,601,560	\$ 53,509,283
Capital assets	161,454,929	156,922,873	205,125	287,702	161,660,054	157,210,575
TOTAL ASSETS	<u>222,596,533</u>	<u>210,066,164</u>	<u>665,081</u>	<u>653,694</u>	<u>223,261,614</u>	<u>210,719,858</u>
LIABILITIES						
Current and other liabilities	15,506,419	16,832,567	494	6,100	15,506,913	16,838,667
Long-term liabilities	160,529,397	158,022,915	39,802	38,592	160,569,199	158,061,507
TOTAL LIABILITIES	<u>176,035,816</u>	<u>174,855,482</u>	<u>40,296</u>	<u>44,692</u>	<u>176,076,112</u>	<u>174,900,174</u>
NET ASSETS						
Invested in capital assets, net of related debt	20,997,333	15,182,022	205,125	287,702	21,202,458	15,469,724
Unrestricted	<u>25,563,384</u>	<u>20,028,660</u>	<u>419,660</u>	<u>321,300</u>	<u>25,983,044</u>	<u>20,349,960</u>
TOTAL NET ASSETS	<u>\$ 46,560,717</u>	<u>\$ 35,210,682</u>	<u>\$ 624,785</u>	<u>\$ 609,002</u>	<u>\$ 47,185,502</u>	<u>\$ 35,819,684</u>

Changes in Net Assets

The results of this year’s operations as a whole are reported in the Statement of Activities on page 20. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District’s activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the Commonwealth of Pennsylvania and the local taxes assessed to community taxpayers.

PENNRIDGE SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)
June 30, 2008

Table A-2 takes the information from that statement and rearranges it slightly so you can see our total revenues for the year.

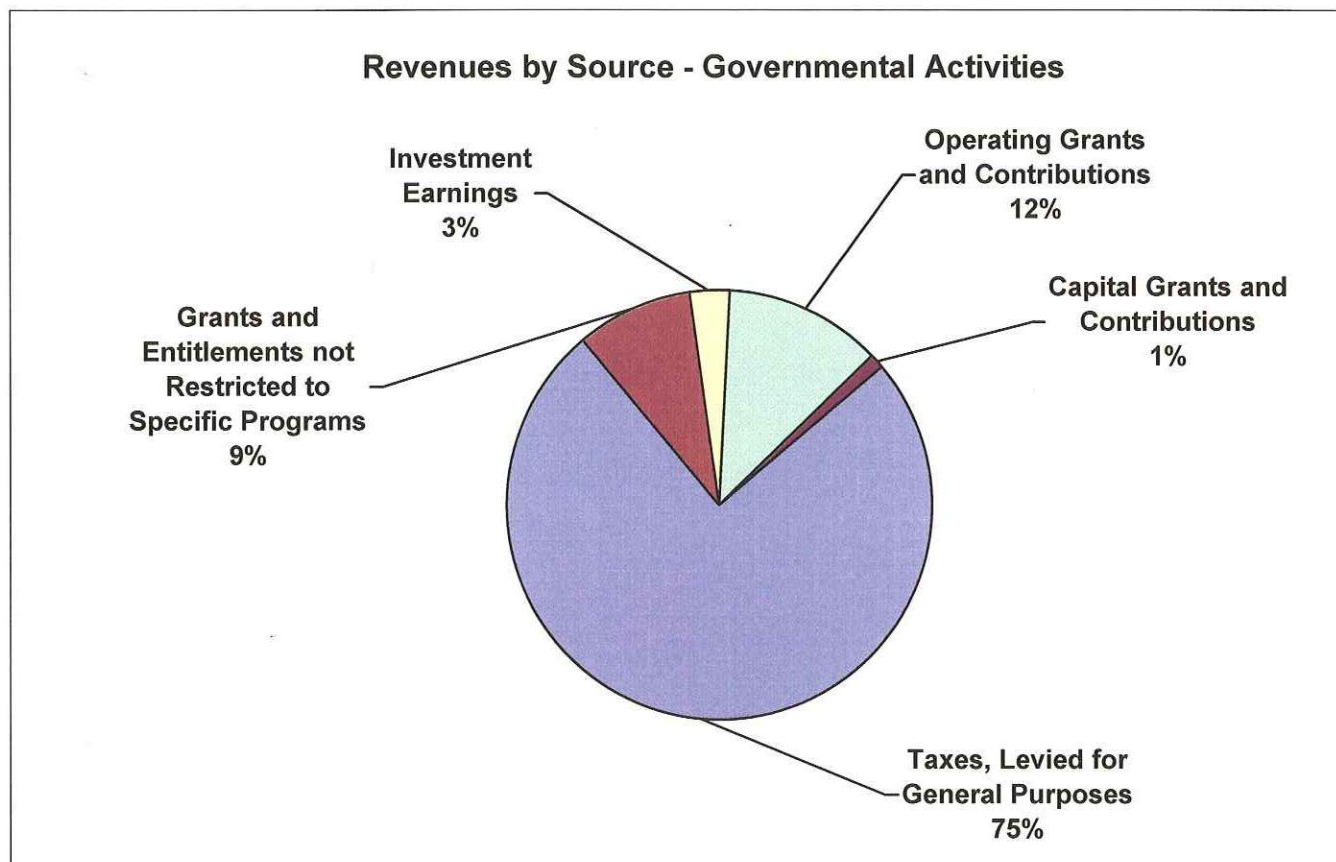
Table A-2
Changes in Net Assets
June 30, 2008 and 2007

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
REVENUES						
Program revenues						
Charges for services	\$ 334,559	\$ 276,012	\$ 1,851,460	\$ 1,765,450	\$ 2,186,019	\$ 2,041,462
Operating grants and contributions	12,866,683	11,891,367	553,225	524,969	13,419,908	12,416,336
Capital grants and contributions	873,633	1,303,793	-	-	873,633	1,303,793
General revenues						
Taxes, levied for general purposes	79,543,878	74,641,194	-	-	79,543,878	74,641,194
Grants and entitlements not restricted to specific programs	9,192,427	9,009,719	-	-	9,192,427	9,009,719
Miscellaneous	98,146	16,283	-	-	98,146	16,283
Investment earnings	2,747,432	3,791,405	14,721	10,383	2,762,153	3,801,788
TOTAL REVENUES	105,656,758	100,929,773	2,419,406	2,300,802	108,076,164	103,230,575
EXPENSES						
Instruction	53,437,359	51,448,605	-	-	53,437,359	51,448,605
Operation and maintenance of plant services	8,376,616	7,792,633	-	-	8,376,616	7,792,633
Pupil transportation	5,605,620	4,922,088	-	-	5,605,620	4,922,088
Other support services	14,516,017	13,702,190	-	-	14,516,017	13,702,190
Student activities	994,599	856,252	-	-	994,599	856,252
Community services	44,852	36,975	-	-	44,852	36,975
Depreciation expense, unallocated	5,815,283	3,783,993	-	-	5,815,283	3,783,993
Interest on long-term debt	5,513,084	4,982,226	-	-	5,513,084	4,982,226
Food services	3,321	923	2,403,623	2,254,857	2,406,944	2,255,780
TOTAL EXPENSES	94,306,751	87,525,885	2,403,623	2,254,857	96,710,374	89,780,742
INCREASE IN NET ASSETS	\$ 11,350,007	\$ 13,403,888	\$ 15,783	\$ 45,945	\$ 11,365,790	\$ 13,449,833

PENNRIDGE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
June 30, 2008

Governmental Activities

Governmental activities increased the Pennridge School District's net assets by \$11,350,007. Table A-2 identifies the key revenues and expenses of the governmental activities. The following graph illustrates the key revenues of the District. As you will notice, local taxes support 75% of the total revenues, while operating grants and contributions are 12%. Investment earnings and other restricted grants and subsidies account for 13%.

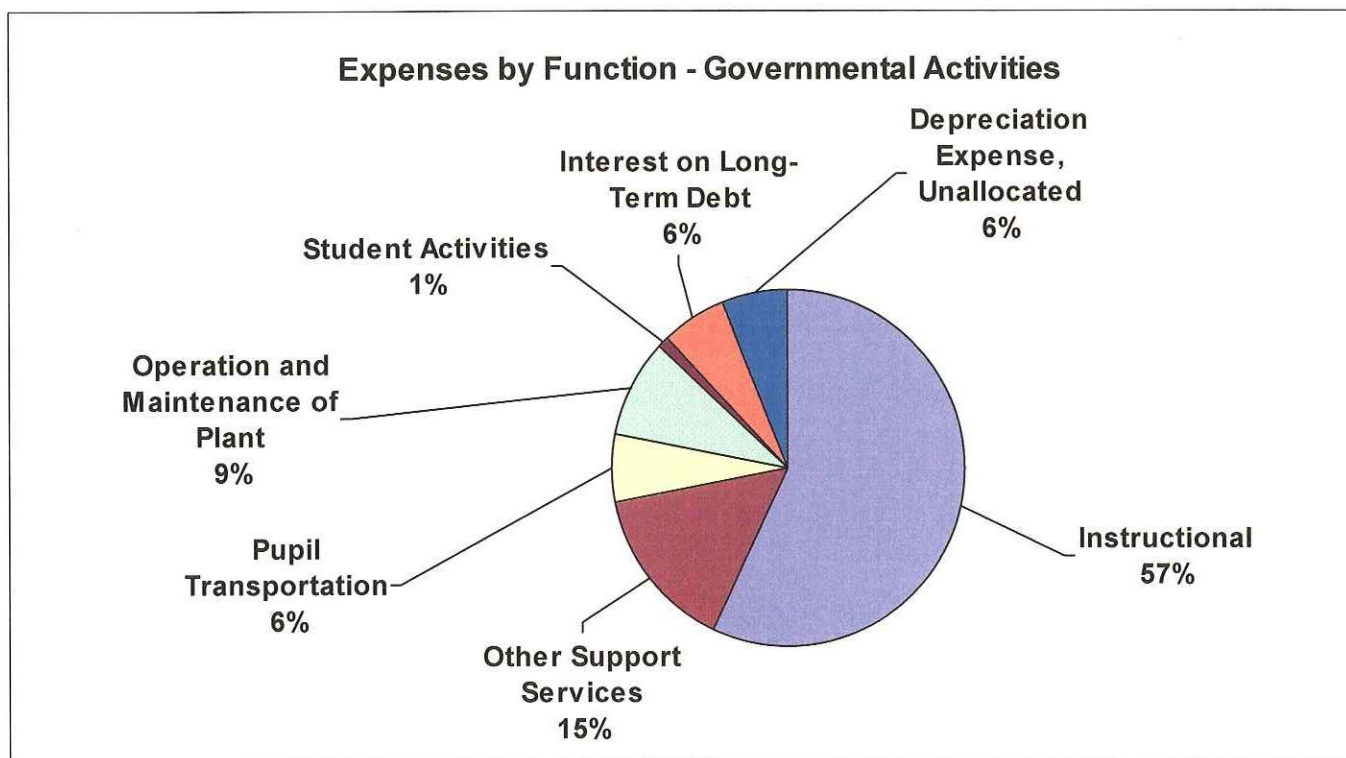


PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2008

The following graph illustrates the functional distribution of the District's governmental activities expenses. The largest category of District expenses is the Instructional area that accounts for 57% of all governmental activities.



PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2008

Business-Type Activities

Business-type activities increased the Pennridge School District's net assets by \$15,783. The District food service operation has reversed the downward progression and shows a net income increase for three sequential years. The department has had its net assets increase (decrease) as follows:

	<u>Net Income (Loss)</u>	<u>Ending Net Assets</u>
2007 to 2008	\$ 15,783	\$ 624,785
2006 to 2007	45,945	609,002
2005 to 2006	40,525	563,057
2004 to 2005	(95,944)	522,532
2003 to 2004	(123,726)	618,476
2002 to 2003*	(157,845)	742,202
2001 to 2002	(79,432)	400,839
2000 to 2001	(100,570)	480,272

*There was a prior period adjustment that increased net assets by \$499,208 for the year ended June 30, 2003, to properly reflect the estimated cost basis of food service equipment.

There will be a more specific discussion regarding this in a later section of this document.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Pennridge School District's Governmental Funds reported combined ending fund balances of \$36,411,577, an increase of \$6,031,276 in comparison with the prior year. A large portion of ending fund balance is in our Capital Reserve Fund (\$18,817,045) and the Capital Projects Fund (\$12,943,706). The fund balance in the Capital Reserve Fund and a portion of the Capital Projects Funds is designated funding for building renovations identified in the District's Five Year Capital Plan. There are some funds remaining to close out the Fifth Street Campus construction project.

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2008

The General Fund is the chief operating fund of the Pennridge School District. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$4,128,618, while the total fund balance was \$4,650,826. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and the total fund balance to total fund expenditures. The General Fund's unreserved fund balance represents 3.91% of General Fund expenditures, while total General Fund fund balance represents 4.40% of General Fund expenditures. The fund balance of the Pennridge School District's General Fund increased by \$99,634 during the current fiscal year.

The Pennridge School District maintains a Capital Reserve Fund used to accumulate funds for large capital purchases and for replacement of capital equipment in the instructional and administrative technology and student transportation departments. Operating transfers from the General Fund provide the Capital Reserve Fund resources. During the current fiscal year, there was an operating transfer of \$7,469,654 and other revenue of \$236,311 supporting this fund. There were \$2,286,364 of expenditures made during the current fiscal year. The fund balance of this fund increased from \$13,397,444 in the previous fiscal year to \$18,817,045 at year end.

The Athletic Fund accounts for resources used in support of the interscholastic sports program, as well as funds raised by students to provide additional extracurricular activities. In the current year, there was an operating transfer from the General Fund in the amount of \$706,639 and additional revenues of \$119,560 supporting this fund. The fund balance increased by \$48,322 during the fiscal year.

The District uses the Capital Projects Fund to account for the inflow and outflow of financial resources relating to the issuance of long-term debt used to fund large capital projects. The Pennridge School District is in the final stages of a large long-term addition and renovation project at our Fifth Street Campus, including the North Middle School. Additionally, the District issued \$8,340,000 in bonds to finance a portion of the Five Year Capital Plan. There are expenditures relating to this project of \$1,505,570 during the year. Additionally, there were Fifth Street Campus project expenditures amounting to \$6,658,091 during the current year. The ending fund balance for the fiscal year ended June 30, 2008, was \$12,943,706.

Proprietary Funds

The Pennridge School District's Proprietary Funds provide the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the Food Service Fund at the end of the year amounted to \$419,660. The District has been pro-active in evaluating the operation of the nutritional services offered to the students. The Food Service Fund continued to operate with a modest profit of \$15,783. This surplus is somewhat less than the previous year due to increasing food costs.

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2008

GENERAL FUND BUDGETARY HIGHLIGHTS

The Pennridge School District's actual revenues exceeded the budget amounts by \$3,626,920. Actual revenues exceeded estimated revenues because the residential real estate market remained strong. The following table identifies the specific revenue sources that reflect this situation:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Current real estate taxes	\$ 66,627,349	\$ 67,848,531	\$ 1,221,182
Earned income taxes	<u>10,400,000</u>	<u>11,657,851</u>	<u>1,257,851</u>
	<u>\$ 77,027,349</u>	<u>\$ 79,506,382</u>	<u>\$ 2,479,033</u>

The increasing short-term interest rate market has aided the District in exceeding the amount budgeted for investment earnings. The actual interest earnings amounted to \$1,964,729 or \$964,729 more than the amount budgeted.

The budgeted expenditures exceeded the actual expenditures by \$4,575,356 or 4.5% of the final budget. Reasons for this variance relate to the number of retirees occurring after the budget was finalized, a refinancing of bond issues resulting in reduced debt service and actual healthcare benefit costs being less than the amount budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Pennridge School District's investment in capital assets for its governmental and business-type activities for the current fiscal year amounts to \$161,660,054 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, construction in progress and furniture, equipment and vehicles. Major capital asset events during the current fiscal year included the following:

- Construction is in progress on the Fifth Street Campus. Currently, there is \$1,505,570 of construction in progress.

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2008

Long-Term Debt

At the end of the current fiscal year, the Pennridge School District had total bonded debt outstanding of \$157,650,410. Of this debt, \$69,440,000 is variable rate; the remaining debt includes a fixed interest rate. All of the debt is general obligation debt and is backed by the full faith and credit of the School District. The District's debt increased by \$2,595,100 from \$155,055,310.

The District issued refunding bonds for a total of \$7,165,000 to refund a portion of the School District's outstanding General Obligation Bonds, Series A of 2001, to advance refund a portion of the School District's outstanding General Obligation Bonds, Series A of 2002, and to pay costs of issuing the refunding bonds. The accounting of this advance refunding, consistent with prior years, is recorded in the Capital Projects Fund. Inclusion in the General Fund would skew any budget trend analysis by increasing the revenue and expenditures for the June 30, 2008 school year. Additionally, the District issued \$8,340,000 of bonds to finance a portion of the costs of the Five Year Capital Plan.

State law prohibits the School District from issuing general obligation bonds in excess of 250% of the annual arithmetic average of total revenues for the three fiscal years ended preceding the date of incurring the debt. The current borrowing limit is \$254,312,377.

Additional analysis of the District's debt is included in the accompanying notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The Pennridge School District continues to have significant residential growth. This growth has slowed considerably due to the downturn in the credit and housing markets.
- Inflationary trends continue to be favorable; however, there is some information that suggests that inflation may be on an upward trend especially in the cost of electric. Our largest electric provider's rate caps are expiring in 2010, and the cost of electric generation is expected to increase significantly.
- The District's cost for heating and fuel has increased significantly.
- Short-term interest rates have decreased over the past year. The interest earned on investments will be reduced.
- Healthcare costs have remained level over the past two fiscal years. We expect this to continue into the next fiscal year.

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2008

- The District's contribution to the Pennsylvania Schools Employee Retirement System is projected to increase at a very high rate over the next several years. The current economic condition suggests that the contribution rate will continue to increase for the foreseeable future.

All of these factors have been considered in preparing the Pennridge School District's budget in the 2008-2009 fiscal year.

In 2005, the District, concerned with the rise in short-term interest rates because of our high value of variable rate debt, entered into a nine-year swap agreement that effectively fixes our variable rate debt at approximately 3.8%.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Pennridge School District's finances for all those with interest in the District's finances. Questions concerning any of the information provided in this report should be addressed to the Business Administrator, Pennridge School District, Pennridge District Education Center, 1200 North Fifth Street, Perkasie, PA 18944.

PENNRIDGE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 32,196,189	\$ 262,781	\$ 32,458,970
Investments	20,620,323	-	20,620,323
Taxes receivable, net	2,473,468	-	2,473,468
Internal balances	12,446	(12,563)	(117)
Due from other governments	1,057,273	82,817	1,140,090
Other receivables, net	910,737	16,607	927,344
Inventories	522,208	110,314	632,522
Prepaid expenses	117,824	-	117,824
Other assets	476,254	-	476,254
Capital assets			
Land and land improvements	950,176	-	950,176
Buildings and building improvements	184,995,911	-	184,995,911
Furniture, equipment and vehicles	16,577,043	1,867,145	18,444,188
Construction in progress	1,505,570	-	1,505,570
Accumulated depreciation	(42,573,771)	(1,662,020)	(44,235,791)
Deferred charges, net of accumulated amortization	1,277,119	-	1,277,119
Unamortized bond discount	1,477,763	-	1,477,763
TOTAL ASSETS	\$ 222,596,533	\$ 665,081	\$ 223,261,614

	Governmental Activities	Business-Type Activities	Totals
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 7,437,700	\$ 494	\$ 7,438,194
Accrued salaries and benefits	6,585,417	-	6,585,417
Accrued interest	1,414,896	-	1,414,896
Deferred revenue	68,406	-	68,406
Long-term liabilities			
Portion due or payable within one year			
Bonds/notes payable	7,567,230	-	7,567,230
Portion due or payable after one year			
Unamortized bond premium	497,635	-	497,635
Bonds/notes payable	150,083,180	-	150,083,180
Compensated absences	2,381,352	39,802	2,421,154
TOTAL LIABILITIES	176,035,816	40,296	176,076,112
NET ASSETS			
Invested in capital assets, net of related debt	20,997,333	205,125	21,202,458
Unrestricted	25,563,384	419,660	25,983,044
TOTAL NET ASSETS	46,560,717	624,785	47,185,502
TOTAL LIABILITIES AND NET ASSETS	\$ 222,596,533	\$ 665,081	\$ 223,261,614

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
GOVERNMENTAL ACTIVITIES							
Instruction							
Regular programs	\$ 38,236,348	\$ 28,431	\$ 4,377,714	\$ -	\$ (33,830,203)	\$ -	\$ (33,830,203)
Special programs	12,412,171	-	6,503,074	-	(5,909,097)	-	(5,909,097)
Vocational education	2,686,170	-	3,833	-	(2,682,337)	-	(2,682,337)
Other instructional programs	46,979	15,120	43,420	-	11,561	-	11,561
Adult education programs	55,691	40,084	-	-	(15,607)	-	(15,607)
Support services							
Pupil personnel services	3,632,227	-	-	-	(3,632,227)	-	(3,632,227)
Instructional staff services	3,306,412	22,546	-	-	(3,283,866)	-	(3,283,866)
Administration services	5,324,428	-	-	-	(5,324,428)	-	(5,324,428)
Pupil health services	898,321	-	144,814	-	(753,507)	-	(753,507)
Business services	681,911	-	-	-	(681,911)	-	(681,911)
Operation and maintenance of plant services	8,376,616	126,988	-	-	(8,249,628)	-	(8,249,628)
Student transportation services	5,605,620	11,301	1,764,357	-	(3,829,962)	-	(3,829,962)
Central services	251,003	-	-	-	(251,003)	-	(251,003)
Other services	421,715	-	-	-	(421,715)	-	(421,715)
Operation of non-instructional services							
Food services	3,321	-	-	-	(3,321)	-	(3,321)
Student activities	994,599	90,089	29,471	-	(875,039)	-	(875,039)
Community services	44,852	-	-	-	(44,852)	-	(44,852)
Depreciation expense, unallocated	5,815,283	-	-	-	(5,815,283)	-	(5,815,283)
Interest on long-term debt	5,513,084	-	-	873,633	(4,639,451)	-	(4,639,451)
TOTAL GOVERNMENTAL ACTIVITIES	94,306,751	334,559	12,866,683	873,633	(80,231,876)	-	(80,231,876)
BUSINESS-TYPE ACTIVITIES							
Food service	2,403,623	1,851,460	553,225	-	-	1,062	1,062
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 96,710,374	\$ 2,186,019	\$ 13,419,908	\$ 873,633	(80,231,876)	1,062	(80,230,814)
GENERAL REVENUES							
Taxes							
Property taxes, levied for general purposes					67,319,905	-	67,319,905
Public utility taxes					98,791	-	98,791
Earned income taxes					11,657,851	-	11,657,851
Real estate transfer taxes					1,590,856	-	1,590,856
Other taxes					134,481	-	134,481
Refund of prior year property taxes					(1,258,006)	-	(1,258,006)
Grants and contributions not restricted to specific programs					9,192,427	-	9,192,427
Investment earnings					2,747,432	14,721	2,762,153
Gain on sale of capital assets					14,182	-	14,182
Miscellaneous					83,964	-	83,964
TOTAL GENERAL REVENUES					91,581,883	14,721	91,596,604
CHANGE IN NET ASSETS					11,350,007	15,783	11,365,790
NET ASSETS AT BEGINNING OF YEAR					35,210,710	609,002	35,819,712
NET ASSETS AT END OF YEAR					\$ 46,560,717	\$ 624,785	\$ 47,185,502

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Special Revenue Funds</u> <u>Capital Reserve Fund</u>	<u>Athletic Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 2,669,643	\$ 2,184,519	\$ 19,023,758	\$ -	\$ 23,877,920
Investments	9,034,279	11,586,044	-	-	20,620,323
Taxes receivable, net	2,473,468	-	-	-	2,473,468
Due from other funds	13,443	-	-	-	13,443
Due from other governments	1,057,273	-	-	-	1,057,273
Other receivables	903,859	-	-	880	904,739
Inventories	522,208	-	-	-	522,208
Prepaid items	20,010	1,724	-	-	21,734
TOTAL ASSETS	\$ 16,694,183	\$ 13,772,287	\$ 19,023,758	\$ 880	\$ 49,491,108
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 3,952,420	\$ 828,581	\$ 206,713	\$ -	\$ 4,987,714
Due to other funds	117	-	-	880	997
Deferred revenue	1,505,403	-	-	-	1,505,403
Accrued salaries and benefits	6,585,417	-	-	-	6,585,417
TOTAL LIABILITIES	12,043,357	828,581	206,713	880	13,079,531
FUND BALANCES					
Reserved for					
Inventories	522,208	-	-	-	522,208
Capital Projects Fund	-	-	(151,002)	-	(151,002)
Unreserved	4,128,618	12,943,706	18,968,047	-	36,040,371
TOTAL FUND BALANCES	4,650,826	12,943,706	18,817,045	-	36,411,577
TOTAL LIABILITIES AND FUND BALANCES	\$ 16,694,183	\$ 13,772,287	\$ 19,023,758	\$ 880	\$ 49,491,108

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2008

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 36,411,577

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

Land and land improvements	950,176
Buildings and building improvements	184,995,911
Furniture, equipment and vehicles	16,577,043
Construction in progress	1,505,570
Accumulated depreciation	(42,573,771)

Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Deferred charges	1,563,114
Accumulated amortization on deferred charges	(285,995)

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements but are reported in the governmental activities on the statement of net assets.

Unamortized bond discount	1,477,763
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The assets and liabilities of the Internal Service Fund are not included in the fund financial statements but are included in the governmental activities on the statement of net assets.

6,399,345

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued interest	(1,414,896)
Bonds/notes payable	(157,650,410)
Bond premium	(497,635)
Compensated absences	(2,381,352)

Some of the School District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

1,484,277

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 46,560,717

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Special Revenue Funds</u>		<u>Total Governmental Funds</u>
			<u>Capital Reserve Fund</u>	<u>Athletic Fund</u>	
REVENUES					
Local sources	\$ 83,814,672	\$ 417,588	\$ 236,311	\$ 90,089	\$ 84,558,660
State sources	20,211,854	-	-	29,471	20,241,325
Federal sources	<u>1,525,161</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,525,161</u>
TOTAL REVENUES	<u>105,551,687</u>	<u>417,588</u>	<u>236,311</u>	<u>119,560</u>	<u>106,325,146</u>
EXPENDITURES					
Instruction	55,876,147	872,643	718,444	-	57,467,234
Support services	28,316,200	264,108	1,003,078	-	29,583,386
Operation of non-instructional services	290,222	-	-	777,877	1,068,099
Facilities acquisition, construction and improvement services	-	6,897,251	564,842	-	7,462,093
Debt service	11,549,209	259,867	-	-	11,809,076
Refund of prior year receipts	<u>1,258,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,258,164</u>
TOTAL EXPENDITURES	<u>97,289,942</u>	<u>8,293,869</u>	<u>2,286,364</u>	<u>777,877</u>	<u>108,648,052</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>8,261,745</u>	<u>(7,876,281)</u>	<u>(2,050,053)</u>	<u>(658,317)</u>	<u>(2,322,906)</u>
OTHER FINANCING SOURCES (USES)					
Bond issue proceeds	-	8,340,000	-	-	8,340,000
Proceeds from refunding bonds	-	7,165,000	-	-	7,165,000
Payments to bond escrow agent	-	(7,165,000)	-	-	(7,165,000)
Transfers in	-	-	7,469,654	706,639	8,176,293
Transfers out	(8,176,293)	-	-	-	(8,176,293)
Proceeds from sale of fixed assets	<u>14,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,182</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(8,162,111)</u>	<u>8,340,000</u>	<u>7,469,654</u>	<u>706,639</u>	<u>8,354,182</u>
NET CHANGE IN FUND BALANCES	99,634	463,719	5,419,601	48,322	6,031,276
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	<u>4,551,192</u>	<u>12,479,987</u>	<u>13,397,444</u>	<u>(48,322)</u>	<u>30,380,301</u>
FUND BALANCES AT END OF YEAR	<u>\$ 4,650,826</u>	<u>\$ 12,943,706</u>	<u>\$ 18,817,045</u>	<u>\$ -</u>	<u>\$ 36,411,577</u>

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT

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

Year Ended June 30, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARD

\$ 6,031,276

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$10,347,311) exceed depreciation (\$5,815,283) in the current period.

4,532,028

Deferred charges are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the term lives of debt instruments as amortization expense. This is the amount by which capital outlays exceed amortization in the current period.

56,337

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues increased by this amount this year.

446,790

Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets.

12,909,900

New borrowings increase Governmental Funds balances; however, this is an increase to liabilities in the statement of net assets.

(15,505,000)

Bond premiums are reported in Governmental Funds as revenues; however, in the statement of activities, the revenues from bond premiums are allocated over the term lives of debt instruments as an offset to interest expense.

23,710

Bond discounts are reported in Governmental Funds as expenses; however, in the statement of activities, the expenses from bond discounts are allocated over the term lives of debt instruments as an increase to interest expense. This is the amount by which capital outlays exceed amortization in the current period.

101,779

SUBTOTAL ADJUSTMENTS FORWARD

\$ 2,565,544

PENNRIDGE SCHOOL DISTRICT

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

Year Ended June 30, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARDED	\$ 6,031,276
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SUBTOTAL ADJUSTMENTS FORWARDED	2,565,544
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the Governmental Funds:

Accrued interest not reflected in Governmental Funds	369,266
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In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used.

64,908

The Internal Service Fund is used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities.

<u>2,319,013</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>11,350,007</u></u>
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See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT**STATEMENT OF NET ASSETS****PROPRIETARY FUNDS***June 30, 2008*

	<u>Enterprise Fund</u> <u>Food Service Fund</u>	<u>Internal Service Fund</u> <u>Self- Insurance Fund</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 262,781	\$ 8,318,269
Due from other governments	82,817	-
Other receivables	16,607	5,998
Inventories	110,314	-
Prepaid expenses	-	96,090
Other assets	-	476,254
TOTAL CURRENT ASSETS	<u>472,519</u>	<u>8,896,611</u>
CAPITAL ASSETS		
Machinery and equipment	1,867,145	-
Accumulated depreciation	(1,662,020)	-
TOTAL CAPITAL ASSETS	<u>205,125</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 677,644</u>	<u>\$ 8,896,611</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to other funds	\$ 12,563	\$ -
Accounts payable	494	2,449,986
Deferred revenue	-	47,280
TOTAL CURRENT LIABILITIES	<u>13,057</u>	<u>2,497,266</u>
COMPENSATED ABSENCES	<u>39,802</u>	<u>-</u>
NET ASSETS		
Invested in capital assets, net of related debt	205,125	-
Unrestricted	419,660	6,399,345
TOTAL NET ASSETS	<u>624,785</u>	<u>6,399,345</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 677,644</u>	<u>\$ 8,896,611</u>

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2008

	Enterprise Fund <u>Food Service Fund</u>	Internal Service Fund <u>Self- Insurance Fund</u>
OPERATING REVENUES		
Premiums transferred from General Fund	\$ -	\$ 10,595,845
Charges for services	<u>1,851,460</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>1,851,460</u>	<u>10,595,845</u>
OPERATING EXPENSES		
Salaries	998,065	-
Employee benefits	242,805	8,405,636
Purchased professional and technical service	6,929	-
Purchased property service	29,842	-
Supplies	1,030,420	-
Depreciation	91,267	-
Other operating expenses	<u>4,295</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>2,403,623</u>	<u>8,405,636</u>
OPERATING INCOME (LOSS)	<u>(552,163)</u>	<u>2,190,209</u>
NONOPERATING REVENUES		
Earnings on investments	14,721	128,804
State sources	75,662	-
Federal sources	<u>477,563</u>	<u>-</u>
TOTAL NONOPERATING REVENUES	<u>567,946</u>	<u>128,804</u>
CHANGE IN NET ASSETS	15,783	2,319,013
NET ASSETS AT BEGINNING OF YEAR	<u>609,002</u>	<u>4,080,332</u>
NET ASSETS AT END OF YEAR	<u>\$ 624,785</u>	<u>\$ 6,399,345</u>

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT**STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS***Year Ended June 30, 2008*

	<u>Enterprise Fund Food Service Fund</u>	<u>Internal Service Fund Self- Insurance Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,848,722	\$ -
Cash transferred from General Fund for insurance premiums	-	10,547,035
Cash received from stop-loss insurance	-	36,866
Payments to employees	(1,073,378)	-
Payments to suppliers	<u>(1,323,454)</u>	<u>(10,015,138)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(548,110)</u>	<u>568,763</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal sources	425,907	-
State sources	<u>66,138</u>	<u>-</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>492,045</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition, construction and improvements of capital assets	<u>(8,690)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	<u>14,721</u>	<u>128,804</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(50,034)	697,567
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>312,815</u>	<u>7,620,702</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 262,781</u>	<u>\$ 8,318,269</u>

PENNRIDGE SCHOOL DISTRICT**STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS***Year Ended June 30, 2008*

	<u>Enterprise Fund Food Service Fund</u>	<u>Internal Service Fund Self- Insurance Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (552,163)	\$ 2,190,209
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	91,267	-
(Increase) decrease in		
Accounts receivable	(2,738)	-
Other receivables	-	36,866
Inventories	(3,557)	-
Deposits	-	(90,055)
Increase (decrease) in		
Interfund balances	(76,523)	-
Accounts payable	(5,606)	(1,519,447)
Accrued compensated absences	1,210	-
Prepaid insurance premiums	<u>-</u>	<u>(48,810)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u>(548,110)</u>	\$ <u>568,763</u>
SUPPLEMENTAL DISCLOSURES		
Noncash investing, capital and financing activities		
Change in medical plan reserve balance	\$ -	\$ 90,055

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 253,662
Investments	68,927
Other receivables	24,655
Due from other funds	<u>117</u>
TOTAL ASSETS	\$ <u>347,361</u>
LIABILITIES	
Accounts payable	\$ <u>347,361</u>

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pennridge School Board is the basic level of government which has oversight responsibility and control over all activities related to public school education in the Pennridge School District (the "School District"). The School District encompasses an area of approximately 94 square miles in upper Bucks County and operates under and pursuant to the Pennsylvania School Code and is classified as a School District of the Second Class under the code. The School District receives funding from local, state and federal government sources and must comply with the requirements of these funding sources. The School District is not included in any other governmental "reporting entity," as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14, since Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary accountability for fiscal matters.

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

Reporting Entity

The School District, for financial reporting purposes, includes all of the funds and account groups relevant to operations of the seven elementary schools, two middle schools and two high schools comprising the School District. The accompanying basic financial statements comply with the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. This report presents the activities of the Pennridge School District. The School District is not a component unit of another reporting entity nor does it have any component units.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

Basis of Presentation and Accounting

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

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

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

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

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

Proprietary Funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Funds' principal ongoing operations. The principal operating revenues of the School District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Trust Funds are reported using the economic resources measurement focus.

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

Fund Accounting

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

Governmental Funds

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

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and improvements in accordance with the applicable general obligation bond agreements.

Special Revenue Funds - These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The School District's Capital Reserve Fund is accounted for in this fund type as required by Section 29432 of the Municipal Code. The School District's Athletic Fund is also accounted for in this fund type.

Capital Reserve Fund - The Capital Reserve Fund is used to accumulate funds for large capital purchases and for replacement of capital equipment in the instructional and administrative technology and student transportation departments.

Athletic Fund - The Athletic Fund accounts for resources raised and used in support of the interscholastic sports program.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Proprietary Funds

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

Food Service Fund - The Food Service Fund is used to account for all financial transactions related to the food service operation.

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by an activity to other departments, funds, or component units of the School District on a cost-reimbursement basis. Because the principal users of the internal services are the School District's governmental activities, the financial statements of the Internal Service Fund are consolidated into the governmental activities column when presented in the government-wide financial statements.

Self-Insurance Fund - The Self-Insurance Fund is used to account for all financial transactions related to the administration of the School District's self-insured health plans.

Fiduciary Funds

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

Cash and Cash Equivalents

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

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

Investments

Statutes authorize the School District to invest in U.S. Treasury bills, time, or share accounts of institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation, or in certificates of deposit when they are secured by proper bond or collateral. Investments must be of a temporary nature. At June 30, 2008, the School District had investments in various certificates of deposit, Federal Agency securities, U.S. Treasury notes and trust accounts with the Pennsylvania Local Government Investment Trust and the Pennsylvania School District Liquid Asset Fund.

Pennsylvania Local Government Investment Trust Funds are invested in accordance with Section 440.1 of the School Code. Each school district owns a pro rata share of each investment or deposit which is held in the name of the fund.

Under Act No. 72, enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the various banks are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit. These may be bonds of the United States, any state of the United States, or bonds of any political subdivision of Pennsylvania or the general state authority or their authorities created by the General Assembly of the Commonwealth of Pennsylvania, or insured with the Federal Deposit Insurance Corporation. The market value of such bonds pledged must equal 120% of the funds deposited. The security pledged by the various depositories utilized during the year and at June 30, 2008, was in excess of the minimum requirements just described.

The School District has adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under GASB Statement No. 31, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Short-Term Interfund Receivables/Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues. Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in the Governmental Funds and as nonoperating revenues/expenses in the Proprietary Funds.

On the fund financial statements, short-term interfund loans are classified as "due from/to other funds." These amounts are eliminated in the statement of net assets, except for amounts due between governmental and business-type activities, which, when present, are shown as internal balances.

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. These advances are considered "available spendable resources."

Inventories and Prepaid Items

Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased.

Inventory of food and milk in the Food Service Fund consists of supplies purchased and donated commodities received from the federal government. The donated commodities are valued at their fair market value in accordance with the *Manual of Accounting for Pennsylvania School Systems - Food Service Fund*. Food and supplies are carried at cost using the first-in, first-out method.

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

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School District defines a capital asset as an asset with an initial, individual cost equal to or greater than \$5,000 or purchased with debt proceeds and must also have an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

General capital assets are those assets not specifically related to activities reported in the Proprietary Funds. These assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the Proprietary Funds are reported on both statement types.

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

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

	<u>Years</u>
Buildings and building improvements	50
Furniture, equipment and vehicles	5-20

Deferred Revenue

Deferred revenue arises when assets are recognized before the revenue recognition criteria have been satisfied. Such is the case in the General Fund, where deferred revenue has been established to offset real estate tax receivables. Deferred revenue also arises when resources are received by the School District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria are met or when the School District has a legal claim to the resources, the liability for deferred revenue is removed from the Governmental Funds balance sheet and revenue is recognized.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

Long-Term Obligations

In the government-wide financial statements and Proprietary Fund Types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Types statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Compensated Absences

It is the School District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The benefits are accrued when incurred in the government-wide, Proprietary and Fiduciary Funds financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The criteria for determining vacation and sick leave liability is derived from Board policy, negotiated agreements and state laws and is in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

GASB Statement No. 45

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as *other postemployment benefits* or OPEB.

GASB Statement No. 45 generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB Statement No. 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods.

GASB Statement No. 45 is effective in three phases based on a government's total annual revenues. The general provisions of GASB Statement No. 45 must be implemented by the School District no later than the fiscal year ending June 30, 2009.

Net Assets

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

The School District records reservations for portions of Governmental Funds balances which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriation. Reservations of fund balance are established for capital projects and supplies inventory. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

Use of Estimates

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

NOTE B CASH AND INVESTMENTS

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$3,347,759 of the School District's bank balance of \$33,520,488 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the School District's name	\$ <u>3,347,759</u>
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Interest Rate Risk - The School District's investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments

As of June 30, 2008, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less Than One Year</u>
State investment pools	\$ 11,586,048	\$ 11,586,048
Certificates of deposit	<u>9,103,202</u>	<u>9,103,202</u>
	<u>\$ 20,689,250</u>	<u>\$ 20,689,250</u>

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Credit Risk - State law permits the School District to invest funds in the following types of investments:

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

The School District's investment policy does not further limit its investment choices. As of June 30, 2008, the School District's investment in the state investment pool was rated AAAM by Standard & Poor's or AAA/VI+ by Fitch, Inc.

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

Certificates of deposit with Pennsylvania Local Government Investment Trust	\$ 6,017,716
Certificate of deposit with Pennsylvania School District Liquid Asset Fund	\$ 3,016,563

NOTE C TAXES - REAL ESTATE AND OTHER

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

Tax rates for the School District for the year ended June 30, 2008, were as follows:

Real estate taxes.....	111.70 mills
Real estate transfer taxes.....	0.50%
Earned income tax	1.00%

In addition to the above taxes, the School District levies a \$52 local services tax.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Taxes are levied on July 1 and payable in the following periods:

Discount period July 1 to August 30 - 2% of gross levy
 Face period August 31 to October 31
 Penalty period November 1 to December 31 - 10% of gross levy
 Lien date..... January 1

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

NOTE D ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008, consisted of taxes, interest, other receivables and intergovernmental grants and entitlements. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of accounts receivable by fund is as follows:

	General Fund	Athletic Fund	Food Service Fund	Self- Insurance Fund	Agency Funds
Real estate taxes	\$ 1,484,277	\$ -	\$ -	\$ -	\$ -
Earned income taxes	989,191	-	-	-	-
Due from other governments	1,057,273	-	82,817	-	-
Other receivables	<u>903,859</u>	<u>880</u>	<u>16,607</u>	<u>5,998</u>	<u>24,655</u>
	<u>\$ 4,434,600</u>	<u>\$ 880</u>	<u>\$ 99,424</u>	<u>\$ 5,998</u>	<u>\$ 24,655</u>

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE E INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from Other Funds

The composition of interfund balances as of June 30, 2008, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Student Activities Fund	General Fund	\$ 117
General Fund	Athletic Fund	880
General Fund	Food Service Fund	<u>12,563</u>
		<u>\$ 13,560</u>

The amounts between the Student Activities Fund and the General Fund and between the Athletic Fund and the General Fund are interfund borrowings to pay for normal operating expenditures. The amounts between the General Fund and Food Service Fund are for payroll.

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Reserve Fund	General Fund	\$ 7,469,654
Athletic Fund	General Fund	<u>706,639</u>
		<u>\$ 8,176,293</u>

The School District typically transfers funds from the General Fund to the Athletic Fund to cover normal operating expenditures. In addition, the Board approves a transfer of excess fund balance above the subsequent year's budget from the General Fund to the Capital Reserve Fund.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE F CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land and land improvements	\$ 950,176	\$ -	\$ -	\$ 950,176
Construction in progress	111,658,784	7,133,213	(117,286,427)	1,505,570
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	112,608,960	7,133,213	(117,286,427)	2,455,746
Capital assets being depreciated				
Buildings and building improvements	67,070,106	117,925,805	-	184,995,911
Furniture, equipment and vehicles	14,315,295	2,574,748	(313,000)	16,577,043
TOTAL CAPITAL ASSETS BEING DEPRECIATED	81,385,401	120,500,553	(313,000)	201,572,954
Accumulated depreciation	(37,071,488)	(5,815,283)	313,000	(42,573,771)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	44,313,913	114,685,270	-	158,999,183
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	156,922,873	121,818,483	(117,286,427)	161,454,929
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	1,858,455	8,690	-	1,867,145
Accumulated depreciation	(1,570,753)	(91,267)	-	(1,662,020)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	287,702	(82,577)	-	205,125
CAPITAL ASSETS, net	\$ 157,210,575	\$ 121,735,906	\$ (117,286,427)	\$ 161,660,054

The net book value of each capital asset category for governmental activities is as follows:

	Cost	Accumulated Depreciation	Net Book Value
CAPITAL ASSETS NOT BEING DEPRECIATED			
Land and land improvements	\$ 950,176	\$ -	\$ 950,176
Construction in progress	1,505,570	-	1,505,570
CAPITAL ASSETS BEING DEPRECIATED			
Buildings and building improvements	184,995,911	(32,698,054)	152,297,857
Furniture, equipment and vehicles	16,577,043	(9,875,717)	6,701,326
	\$ 204,028,700	\$ (42,573,771)	\$ 161,454,929

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE G LEASES

The School District leases various photocopy machines and accessories under a noncancelable three-year operating lease that expires in December 2010. Total costs for such leases were \$301,358 for the year ended June 30, 2008. Future minimum rental payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 258,638
2010	258,638
2011	<u>129,319</u>
	<u>\$ 646,595</u>

NOTE H LONG-TERM DEBT

General Obligation Bonds and Notes

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year.

The School District issues general obligation bonds and notes to provide funds for acquisition and construction of major capital facilities. The original amount of general obligation bonds and notes issued in prior years was \$81,525,000. Due to favorable interest rates during the year, general obligation bonds totaling \$7,165,000 were issued to advance refund the School District's previously issued and outstanding general obligation bonds. Debt refunded included \$4,375,000 of the Series A of 2001 and \$2,790,000 of the Series A of 2002. The issuances included a bond discount in the amount of \$193,885 and bond issue costs of \$(21,919) which are amortized over the life of the related bonds. Under the escrow reserve agreement, the Escrow Fund is irrevocably pledged to the payment of principal and interest on the refunded bonds. As a result, the \$7,165,000 of the refunded obligations is considered defeased, and the liability for those bonds has been removed from the School District's financial statements. As a result of the refunding, the School District reduced its aggregate debt service payments to maturity by \$193,885 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$193,885.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

The School District issued an additional \$8,340,000 in General Obligation Bonds, Series of 2008, for the funding of construction projects at Pennridge High School and Bedminster Elementary School.

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 7,567,230	\$ 5,580,924
2010	7,789,560	5,289,804
2011	8,126,890	5,075,965
2012	8,364,220	4,789,108
2013	8,756,550	4,724,319
2014 to 2018	49,939,010	17,197,718
2019 to 2023	45,833,860	8,527,893
2024 to 2028	18,073,090	2,581,413
2029	<u>3,200,000</u>	<u>133,973</u>
	<u>\$ 157,650,410</u>	<u>\$ 53,901,117</u>

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE I CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, was as follows:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
GOVERNMENTAL ACTIVITIES							
General obligation bonds							
Series of 2001	February 14, 2009	4.15 to 5.50%	\$ 865,000	\$ -	\$ (420,000)	\$ 445,000	\$ 445,000
Series A of 2001	February 15, 2012	4.05 to 4.65%	5,205,000	-	(5,205,000)	-	-
Series AA of 2001	February 15, 2010	2.50 to 4.00%	1,345,000	-	(435,000)	910,000	445,000
Series A of 2002	February 15, 2011	2.00 to 4.05%	2,790,000	-	(2,790,000)	-	-
Series of 2003	February 15, 2026	3.05 to 5.25%	19,500,000	-	-	19,500,000	940,000
Series A of 2003	August 15, 2010	2.50 to 5.25%	7,345,000	-	(1,115,000)	6,230,000	2,400,000
Series AA of 2003	February 15, 2009	2.00 to 4.35%	4,985,000	-	(5,000)	4,980,000	5,000
Series of 2004	February 15, 2021	2.00 to 4.25%	9,990,000	-	(5,000)	9,985,000	5,000
Series of 2005	February 15, 2024	2.20 to 4.20%	9,505,000	-	(425,000)	9,080,000	440,000
Series of 2006	February 15, 2029	3.75 to 4.20%	9,995,000	-	(5,000)	9,990,000	25,000
Series of 2007	February 15, 2027	3.70 to 4.15%	10,000,000	-	(25,000)	9,975,000	50,000
Series A of 2007	January 1, 2012	3.75 to 4.50%	-	7,165,000	(200,000)	6,965,000	170,000
Series of 2008	February 15, 2029	3.50 to 4.13%	-	8,340,000	-	8,340,000	230,000
TOTAL GENERAL OBLIGATION BONDS			<u>81,525,000</u>	<u>15,505,000</u>	<u>(10,630,000)</u>	<u>86,400,000</u>	<u>5,155,000</u>
General obligation notes							
Series of 1999	February 1, 2018	Variable, currently 3.00%	4,045,000	-	(295,000)	3,750,000	305,000
Series of 2000	February 1, 2021	Variable, currently 3.00%	8,205,000	-	(415,000)	7,790,000	435,000
Series A of 2003	June 1, 2024	Variable, currently 2.90%	25,800,000	-	(100,000)	25,700,000	100,000
Series A of 2004	August 1, 2020	Variable, currently 2.90%	23,600,000	-	(1,400,000)	22,200,000	1,500,000
Series C of 2004	August 1, 2023	Variable, currently 2.90%	10,000,000	-	-	10,000,000	-
Series of 2005	November 15, 2025	3.00 to 4.60%	1,880,310	-	(69,900)	1,810,410	72,230
TOTAL GENERAL OBLIGATION NOTES			<u>73,530,310</u>	<u>-</u>	<u>(2,279,900)</u>	<u>71,250,410</u>	<u>2,412,230</u>
Compensated absences (Note M)			<u>2,446,260</u>	<u>-</u>	<u>(64,908)</u>	<u>2,381,352</u>	<u>-</u>
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES			<u>\$ 157,501,570</u>	<u>\$ 15,505,000</u>	<u>\$ (12,974,808)</u>	<u>\$ 160,031,762</u>	<u>\$ 7,567,230</u>
BUSINESS-TYPE ACTIVITIES							
Compensated absences (Note M)			<u>\$ 38,592</u>	<u>\$ 1,210</u>	<u>\$ -</u>	<u>\$ 39,802</u>	<u>\$ -</u>

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE J INTEREST RATE SWAP

Objective

As a means to assist the School District in managing interest costs when compared against the School District's fixed-rate debt, the School District entered into an interest rate swap agreement (the "Swap") to take advantage of historically low interest rates without completing a refunding of any of its long-term debt.

Terms

The School District entered into the Swap Agreement with Deutsch Bank on October 15, 2005, that matures on August 14, 2014. The executed transaction is a nine-year amortizing fixed-to-floating interest rate swap. The notional amount of the swap is \$74,370,000. The School District pays the counterparty a fixed rate of 3.25%. The counterparty pays the School District a computed rate of 67% of the one-month London Interbank Offered Rate (LIBOR). The LIBOR was 4.44% as of June 30, 2008.

Fair Value

As of June 30, 2008, the Swap had a negative fair value of \$1,410,642. An interest rate swap is a financial instrument whose economic value will change over time. The economic value may be positive or negative, depending on interest rate movements after the initial trade date. The Swap's fair value was estimated by comparing the fixed rate set at the inception of the transaction and the "swap replacement rate," which represents the market rate for an offsetting interest rate swap with the same notional amount and final maturity date. The market value was then determined by calculating the present value interest differential between the contractual swap and the replacement swap.

Credit Risk

As of June 30, 2008, the School District was not exposed to credit risk because the Swap had a negative fair value. However, should interest rates change and the fair value of the Swap become positive, the School District would be exposed to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa1 by Moody's, AA- by Fitch and AA by Standard & Poor's.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

Termination Risk

The School District or the counterparty may terminate the Swap if the other party fails to perform under the terms of the agreement. If, at the time of termination, the Swap has a negative fair value, the School District would be liable to the counterparty for a payment equal to the Swap's negative fair value of \$1,410,642.

NOTE K DEFERRED REVENUE

General Fund

Real estate taxes collected within 60 days of the close of the fiscal year are recorded as current revenues. The noncurrent portion of real estate taxes receivable is recorded as deferred revenue until such time as it becomes available. Program grants received prior to the incurrence of qualifying expenditures are recorded as deferred revenue.

At June 30, 2008, General Fund deferred revenue consisted of delinquent taxes receivable of \$1,484,277, deferred grant revenues of \$7,931 and deferred summer school revenues of \$13,195.

NOTE L PENSIONS

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

The state matches the School District's contribution. The School District's contribution is made on a quarterly basis, and employee contributions are made on a monthly basis. The School District has no responsibility for operation and administration of the pension program. The employer and employee obligations to contribute are established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended).

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

A participant may retire with a normal retirement allowance at the age of 62 with one full year of service, age 60 with 30 or more years of service, or with 35 years of service regardless of age. The normal retirement allowance, paid monthly for life and then to beneficiaries if certain options are exercised, equals 2% of the average of the highest three years' earnings multiplied by the number of years of credited service.

Early retirement is permitted at age 55 or older with 25 years or more of credited service with a reduction of 3% per year of normal retirement benefits.

Plan Description

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

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

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

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

Annual Financial Report: The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, PO Box 125, Harrisburg, PA 17108-0125. This publication is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index.htm.

Funding Policy

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

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

Contribution Rates

Member Contributions

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2008, the rate of employer's contribution was 7.13% of covered payroll. The 7.13% rate is composed of a pension contribution rate of 6.44% for pension benefits and .69% for healthcare insurance premium assistance.

The School District's contribution to PSERS for the years ended June 30, 2008, 2007 and 2006, was \$3,667,680, \$3,104,707 and \$1,934,721, respectively, equal to the required contribution for each year.

NOTE M COMPENSATED ABSENCES

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

The liability to current employees is estimated and will change since unused vacation will be paid at the rate of pay in effect at the time of separation. These accumulated leaves are recorded as an expenditure in the period taken or as an accrued expenditure in the fiscal year of separation. Vacation compensation payable in future years, which was \$584,077 at June 30, 2008, is recorded in compensated absences in the statement of net assets.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

Most School District employees are credited with a minimum of ten days of sick leave and two personal leave days annually to an unlimited maximum. Upon retirement or termination and after ten years of service to the School District, such employees are compensated for each day of accumulated sick leave. Rates of compensation and limits on accumulations are dependent on job classification. Sick leave compensation payable in future years, which was \$1,837,077 at June 30, 2008, is recorded in compensated absences in the statement of net assets.

NOTE N COMMITMENTS AND CONTINGENCIES

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

Based on court history, the School District expects to incur a loss from a tax assessment appeal filed by a local taxpayer. Taxes expected to be refunded include amounts collected for the years ended June 30, 2003 through 2008, totaling \$1,575,175. This liability has been accrued in the General Fund, with the June 30, 2008 refund amount of \$317,169 recorded as an offset against current year real estate tax revenues and the remaining \$1,258,006 reported as a refund of prior year property taxes. The School District expects to pay the entire refund amount during the year ending June 30, 2009.

As of June 30, 2008, several suits and claims were in progress dealing with various subject matters (other than the Pennridge High School construction noted below). In these actions, indicated amounts are either not material or management is of the opinion that insurance coverage is adequate to cover the applicable claim. Management believes no adverse financial decisions of a material amount against the School District would result from these legal proceedings.

Additionally, the School District was involved in the construction of additions and renovations to the Pennridge High School. The project experienced delays in prior years. Claims have been filed against the School District for these delays and the School District has subsequently filed counterclaims. The claims filed against the School District were rejected by the project architect. An amended complaint is expected but has not yet been filed. The School District believes that there are strong defenses to the claims presented and intends to vigorously pursue such defenses and counterclaims. At this time, no estimate of probable loss or recovery can be made.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

The School District receives federal, state and local funding under a number of programs. Payments made by those sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. The School District officials do not expect any significant adjustment as a result of these examinations. The School District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of grant program expenditures.

The School District is undertaking additions and improvements to several schools and other buildings scheduled for completion over the next few years. Pursuant to these projects, the School District has contracted with various professional service and construction contractors and has undertaken a series of note and bond issues as a means of financing the projects. At June 30, 2008, approximately \$6,200,000 in School Board approved project costs are expected to be incurred.

NOTE O RISK MANAGEMENT

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

The School District is currently using the system of reimbursement financing to pay Pennsylvania unemployment compensation claims. Under this method, a liability occurs only when a former employee collects unemployment benefits. The School District must then reimburse the Commonwealth for these claims paid.

The School District is self-insured for its medical, dental and hospitalization benefits and prescription drug benefits. The monthly premium is revised annually in April for the upcoming fiscal year beginning July 1 and is based upon actual cost plus basis per third-party administrator.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE P POST-EMPLOYMENT BENEFITS

In addition to pension benefits described in Note L, the School District provides post-employment benefits for employees in the form of health insurance continuation. The contracted benefits apply only to certain administrative personnel who are eligible for early retirement, and both the School District and the employee contribute toward the annual premiums. Premiums are funded on a "pay-as-you-go" basis with co-pay percentages ranging between 50% and 100%. For the year ended June 30, 2008, total net premiums paid by the School District were approximately \$50,000 for the five covered retirees.

NOTE Q DONATED COMMODITIES

The Food Service Fund contains inventories which consist of both food commodities donated by the federal government and other food and supply inventories. Donated commodities represent \$16,583 of the Proprietary Funds' inventory balance at June 30, 2008. These inventories are valued at last unit cost in accordance with the recommendations of the Food and Nutrition Service of the Department of Agriculture and are expensed as used.

REQUIRED SUPPLEMENTARY INFORMATION

PENNRIDGE SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 80,384,075	\$ 80,384,075	\$ 83,814,672	\$ 3,430,597
State sources	20,540,692	20,540,692	20,211,854	(328,838)
Federal sources	1,000,000	1,000,000	1,525,161	525,161
TOTAL REVENUES	101,924,767	101,924,767	105,551,687	3,626,920
EXPENDITURES				
Instruction	59,407,281	59,407,281	55,876,147	3,531,134
Support services	29,657,929	29,657,929	28,316,200	1,341,729
Operation of non-instructional services	231,549	231,549	290,222	(58,673)
Debt service	12,568,539	12,568,539	11,549,209	1,019,330
Refund of prior year receipts	-	-	1,258,164	(1,258,164)
TOTAL EXPENDITURES	101,865,298	101,865,298	97,289,942	4,575,356
EXCESS OF REVENUES OVER EXPENDITURES	59,469	59,469	8,261,745	8,202,276
OTHER FINANCING SOURCES (USES)				
Transfers out	(2,366,470)	(2,366,470)	(8,176,293)	(5,809,823)
Proceeds from sale of fixed assets	-	-	14,182	14,182
TOTAL OTHER FINANCING SOURCES (USES)	(2,366,470)	(2,366,470)	(8,162,111)	(5,795,641)
NET CHANGE IN FUND BALANCE	(2,307,001)	(2,307,001)	99,634	2,406,635
FUND BALANCE AT BEGINNING OF YEAR	4,551,192	4,551,192	4,551,192	-
FUND BALANCE AT END OF YEAR	\$ 2,244,191	\$ 2,244,191	\$ 4,650,826	\$ 2,406,635

See accompanying note to the required supplementary information.

PENNRIDGE SCHOOL DISTRICT

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2008

NOTE A BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for the Capital Projects Fund. All transactions of this fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.

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

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

PENNRIDGE SCHOOL DISTRICT

NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2008

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

Included in the General Fund budget are program budgets as approved by the state and federal agencies funding the program. Program budgets normally cover fiscal periods different from the School District's. Therefore, for financial statement presentation, program budgets are adjusted, based on expenditures, to reflect a 12-month budget which corresponds to the School District.

SUPPLEMENTARY INFORMATION SECTION

PENNRIDGE SCHOOL DISTRICT
COMBINING SCHEDULE OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

	Agency Funds		
	Student Loan Fund	Student Activities Fund	Totals
ASSETS			
Cash and cash equivalents	\$ -	\$ 253,662	\$ 253,662
Investments	68,927	-	68,927
Other receivables	24,655	-	24,655
Due from other funds	-	117	117
TOTAL ASSETS	\$ 93,582	\$ 253,779	\$ 347,361
LIABILITIES			
Accounts payable	\$ 93,582	\$ 253,779	\$ 347,361



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**Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance With
Government Auditing Standards**

To the Board of School Directors
Pennridge School District
Perkasie, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Pennridge School District, Perkasie, Pennsylvania, as of and for the year ended June 30, 2008, which collectively comprise the Pennridge School District, Perkasie, Pennsylvania's basic financial statements and have issued our report thereon dated November 12, 2008. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Pennridge School District, Perkasie, Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pennridge School District, Perkasie, Pennsylvania's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pennridge School District, Perkasie, Pennsylvania's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Pennridge School District, Perkasie, Pennsylvania's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pennridge School District, Perkasie, Pennsylvania's financial statements that is more than inconsequential will not be prevented or detected by the Pennridge School District, Perkasie, Pennsylvania's internal control.

To the Board of School Directors
Pennridge School District
Perkasie, Pennsylvania

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pennridge School District, Perkasie, Pennsylvania's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pennridge School District, Perkasie, Pennsylvania's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of School Directors, the Commonwealth of Pennsylvania and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maille Falconero & Company, LLP

Oaks, Pennsylvania
November 12, 2008



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Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of School Directors
Pennridge School District
Perkasie, Pennsylvania

COMPLIANCE

We have audited the compliance of the Pennridge School District, Perkasie, Pennsylvania, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Pennridge School District, Perkasie, Pennsylvania's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Pennridge School District, Perkasie, Pennsylvania's management. Our responsibility is to express an opinion on the Pennridge School District, Perkasie, Pennsylvania's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Pennridge School District, Perkasie, Pennsylvania'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. Our audit does not provide a legal determination of the Pennridge School District, Perkasie, Pennsylvania's compliance with those requirements.

In our opinion, the Pennridge School District, Perkasie, Pennsylvania, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

To the Board of School Directors
Pennridge School District
Perkasie, Pennsylvania

INTERNAL CONTROL OVER COMPLIANCE

The management of the Pennridge School District, Perkasie, Pennsylvania, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Pennridge School District, Perkasie, Pennsylvania's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pennridge School District, Perkasie, Pennsylvania's internal control over compliance.

A *control deficiency* in a entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of School Directors, the Commonwealth of Pennsylvania and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maillie Falconier & Company, LLP

Oaks, Pennsylvania
November 12, 2008

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

PENNRIDGE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2007</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2008</u>
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education										
Title I Improving Basic Programs	I	84.010	13-070326	August 9, 2006 to September 30, 2007	\$ 490,343	\$ -	\$ (2,376)	\$ 2,376	\$ 2,376	\$ -
Title I Improving Basic Programs	I	84.010	13-080328	July 1, 2007 to September 30, 2008	544,911	400,040	-	544,911	544,911	144,871
Title II Improving Teacher Quality	I	84.367	20-070328	August 9, 2006 to September 30, 2007	200,925	71,654	49,540	22,114	22,114	-
Title II Improving Teacher Quality	I	84.367	20-080328	August 9, 2007 to September 30, 2008	203,364	135,576	-	184,497	184,497	48,921
Title III Language Instruction LEP/Immigrant Students	I	84.365	10-060328	August 29, 2005 to September 30, 2006	16,519	-	(676)	676	676	-
Title III Language Instruction LEP/Immigrant Students	I	84.365	10-070328	August 9, 2006 to September 30, 2007	20,992	13,091	2,060	11,031	11,031	-
Title III Language Instruction LEP/Immigrant Students	I	84.365	10-080328	August 9, 2007 to September 30, 2008	12,687	5,921	-	4,553	4,553	(1,368)
Title V Innovative Education	I	84.298	11-070328	August 9, 2006 to September 30, 2007	6,807	1,945	1,945	-	-	-
Title V Innovative Education	I	84.298	11-080328	August 9, 2007 to September 30, 2008	6,802	3,174	-	2,125	2,125	(1,049)
Drug-Free Schools and Communities	I	84.186	100-060328	July 1, 2005 to September 30, 2006	23,257	-	1,010	(1,010)	(1,010)	-
Drug-Free Schools and Communities	I	84.186	100-070328	August 9, 2006 to September 30, 2007	18,266	11,241	(5,055)	16,296	16,296	-
Drug-Free Schools and Communities	I	84.186	100-080328	July 1, 2007 to September 30, 2008	20,009	7,276	-	1,762	1,762	(5,514)
Academic Achievement Award	I	84.367	077-070328	August 9, 2006 to September 30, 2008	12,456	<u>10,677</u>	<u>-</u>	<u>11,693</u>	<u>11,693</u>	<u>1,016</u>
SUBTOTAL FORWARD						<u>\$ 660,595</u>	<u>\$ 46,448</u>	<u>\$ 801,024</u>	<u>\$ 801,024</u>	<u>\$ 186,877</u>

PENNRIDGE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2007</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2008</u>
U.S. DEPARTMENT OF EDUCATION										
SUBTOTAL FORWARDED						\$ 660,595	\$ 46,448	\$ 801,024	\$ 801,024	\$ 186,877
Passed through the Bucks County Schools Intermediate Unit No. 22										
IDEA	I	84.027		July 1, 2006 to September 30, 2007	\$ 776,296	321,414	321,414	-	-	-
IDEA	I	84.027		July 1, 2007 to September 30, 2008	1,188,803	<u>839,533</u>	<u>-</u>	<u>1,188,803</u>	<u>1,188,803</u>	<u>349,270</u>
TOTAL FORWARD						<u>1,821,542</u>	<u>367,862</u>	<u>1,989,827</u>	<u>1,989,827</u>	<u>536,147</u>
U.S. DEPARTMENT OF AGRICULTURE										
Passed through the Pennsylvania Department of Education										
National School Lunch Program	I	10.555	N/A	July 1, 2006 to June 30, 2007	N/A	16,733	16,733	-	-	-
National School Lunch Program	I	10.555	N/A	July 1, 2007 to June 30, 2008	N/A	287,150	-	346,593	346,593	59,443
National School Lunch Program	S	N/A	N/A	July 1, 2006 to June 30, 2007	N/A	3,146	3,146	-	-	-
National School Lunch Program	S	N/A	N/A	July 1, 2007 to June 30, 2008	N/A	57,078	-	68,671	68,671	11,593
School Breakfast Program	I	10.553	N/A	July 1, 2006 to June 30, 2007	N/A	2,339	2,339	-	-	-
School Breakfast Program	I	10.553	N/A	July 1, 2007 to June 30, 2008	N/A	40,370	-	50,737	50,737	10,367
School Breakfast Program	S	N/A	N/A	July 1, 2006 to June 30, 2007	N/A	338	338	-	-	-
School Breakfast Program	S	N/A	N/A	July 1, 2007 to June 30, 2008	N/A	5,575	-	6,989	6,989	1,414
Food Distribution - donated commodities	I	10.550	N/A	July 1, 2007 to June 30, 2008	N/A	<u>75,753</u> (a)	<u>(18,812)</u> (b)	<u>77,982</u>	<u>77,982</u> (c)	<u>(16,583)</u> (d)
TOTAL FORWARD						<u>\$ 488,482</u>	<u>\$ 3,744</u>	<u>\$ 550,972</u>	<u>\$ 550,972</u>	<u>\$ 66,234</u>

PENNRIDGE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Date</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2007</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2008</u>
U.S. DEPARTMENT OF EDUCATION										
TOTAL FORWARDED						\$ 1,821,542	\$ 367,862	\$ 1,989,827	\$ 1,989,827	\$ 536,147
U.S. DEPARTMENT OF AGRICULTURE										
TOTAL FORWARDED						<u>488,482</u>	<u>3,744</u>	<u>550,972</u>	<u>550,972</u>	<u>66,234</u>
TOTAL EXPENDITURES						2,310,024	371,606	2,540,799	2,540,799	602,381
LESS STATE SHARE						<u>(66,137)</u>	<u>(3,484)</u>	<u>(75,660)</u>	<u>(75,660)</u>	<u>(13,007)</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS						<u>\$ 2,243,887</u>	<u>\$ 368,122</u>	<u>\$ 2,465,139</u>	<u>\$ 2,465,139</u>	<u>\$ 589,374</u>

Source Codes:

D = Direct Funding
I = Indirect Funding
S = State Funding

Footnotes:

(a) Total amount of commodities received from the Department of Agriculture.
(b) Beginning inventory at July 1, 2007.
(c) Total amount of commodities used.
(d) Ending inventory at June 30, 2008.

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

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
Year Ended June 30, 2008

NOTE A ORGANIZATION AND SCOPE

The schedule of expenditures of federal and state awards is a listing of the total federal financial assistance received, both directly and/or indirectly, from the U.S. Departments of Education and Agriculture.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTE C PROGRAM OBJECTIVES

Title I Grants to Local Educational Agencies - To provide funding to local educational agencies (LEAs) to meet the special needs of educationally deprived children in attendance areas with high concentrations of children from low-income families.

National School Lunch Program - To (1) assist states through cash grants and donations in making lunch available to school children and (2) encourage the domestic consumption of agricultural commodities and other foods.

Food Distribution - To improve the diets of school children in need of food assistance and to increase the market for domestically produced foods acquired under surplus removal or price support operations.

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

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
Year Ended June 30, 2008

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

Title V Innovative Programs - To provide financial assistance in the areas of educational reform and effective schools.

PENNRIDGE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Pennridge School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Pennridge School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major awards programs for the Pennridge School District expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs include:

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

8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. Pennridge School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

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

None.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.