

PENNRIDGE SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2011

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, each major fund and the aggregate remaining fund information of the Pennridge School District as of and for the year ended June 30, 2011, 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'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, each major fund and the aggregate remaining fund information of the Pennridge School District as of June 30, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011, on our consideration of the Pennridge School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison information on pages 49 and 50 and postemployment benefits other than pension funding progress on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pennridge School District's basic financial statements. The 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 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. The combining schedule of fiduciary net assets and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Maillo Falcone + Company, LLP

Oaks, Pennsylvania
December 13, 2011

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

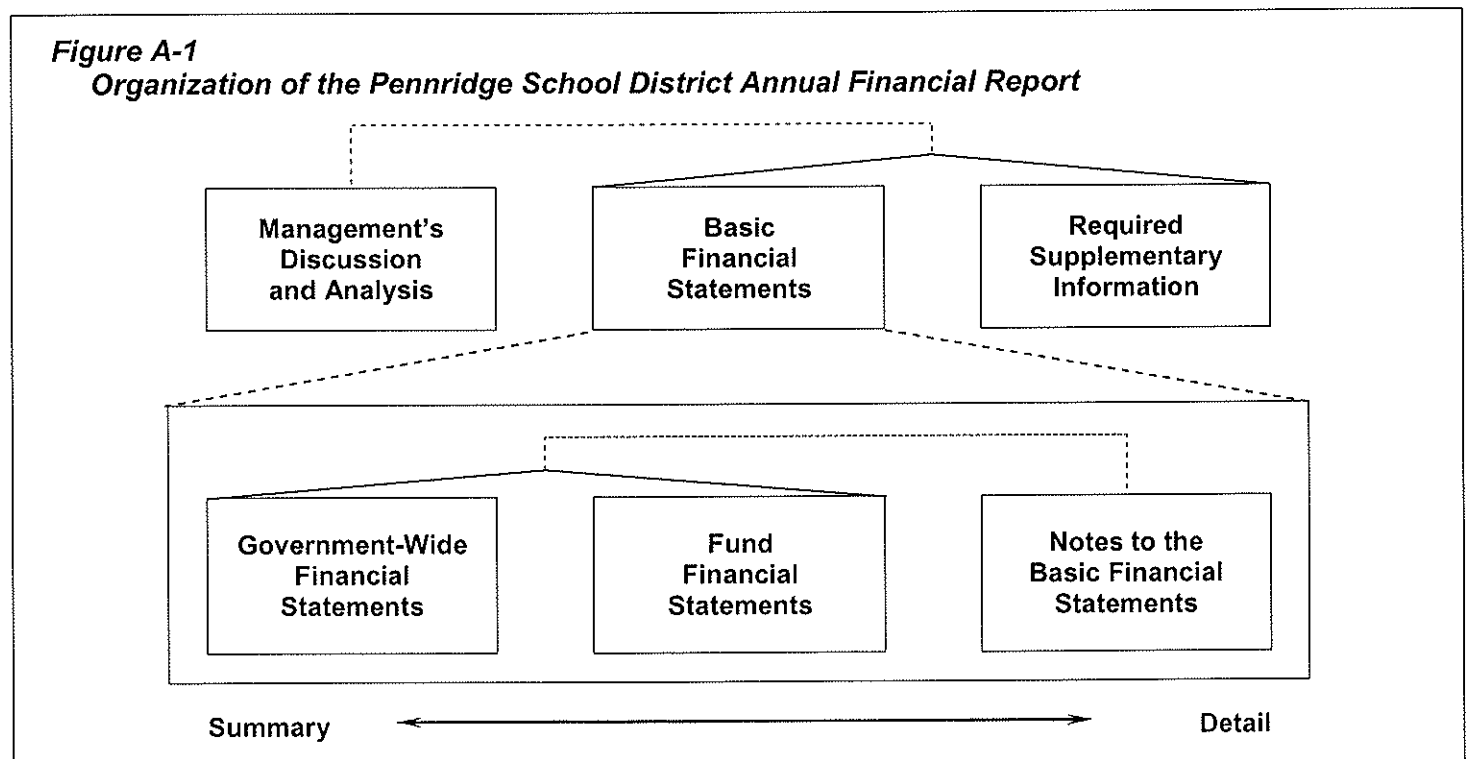
This section of the Pennridge School District's annual financial report presents its discussion and analysis of the School District's financial performance during the fiscal year ending June 30, 2011. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Pennridge School District exceeded its liabilities at the close of the most recent fiscal year by \$71,767,650 (net assets).
- The School District's total net assets increased by \$12,272,457.
- As of the close of the current fiscal year, the Pennridge School District's Governmental Funds reported combined ending fund balances of \$31,357,406, an increase of \$788,560 in comparison with the prior year. Approximately half of this fund balance is restricted or committed for specific capital projects and expenditures.
- The unassigned fund balance of the General Fund is \$4,457,225 or 4.4% of total General Fund expenditures.
- The Pennridge School District's general obligation debt decreased by \$7,844,283.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

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.

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

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

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

The Pennridge School District maintains three 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 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.

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 \$71,767,650 at the close of the fiscal year.

The amount of net assets invested in capital assets, net of related debt increased over the prior year. This is the result of payment of debt associated with the recently completed High School and Middle School addition and renovation projects.

PENNRIDGE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2011

Table A-1
Net Assets
June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current and other assets	\$ 62,397,050	\$ 65,783,893	\$ 1,063,496	\$ 841,705	\$ 63,460,546	\$ 66,625,598
Capital assets	165,853,959	163,366,451	83,653	82,332	165,937,612	163,448,783
TOTAL ASSETS	<u>228,251,009</u>	<u>229,150,344</u>	<u>1,147,149</u>	<u>924,037</u>	<u>229,398,158</u>	<u>230,074,381</u>
LIABILITIES						
Current and other liabilities	17,510,713	23,216,181	24,331	1,381	17,535,044	23,217,562
Long-term liabilities	140,057,996	147,324,025	37,468	37,601	140,095,464	147,361,626
TOTAL LIABILITIES	<u>157,568,709</u>	<u>170,540,206</u>	<u>61,799</u>	<u>38,982</u>	<u>157,630,508</u>	<u>170,579,188</u>
NET ASSETS						
Invested in capital assets, net of related debt	33,090,056	22,963,701	83,653	82,332	33,173,709	23,046,033
Restricted	2,782,871	-	-	-	2,782,871	-
Unrestricted	34,809,373	35,646,437	1,001,697	802,723	35,811,070	36,449,160
TOTAL NET ASSETS	<u>\$ 70,682,300</u>	<u>\$ 58,610,138</u>	<u>\$ 1,085,350</u>	<u>\$ 885,055</u>	<u>\$ 71,767,650</u>	<u>\$ 59,495,193</u>

Changes in Net Assets

The results of this year's operations as a whole are reported in the Statement of Activities on page 16. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2011

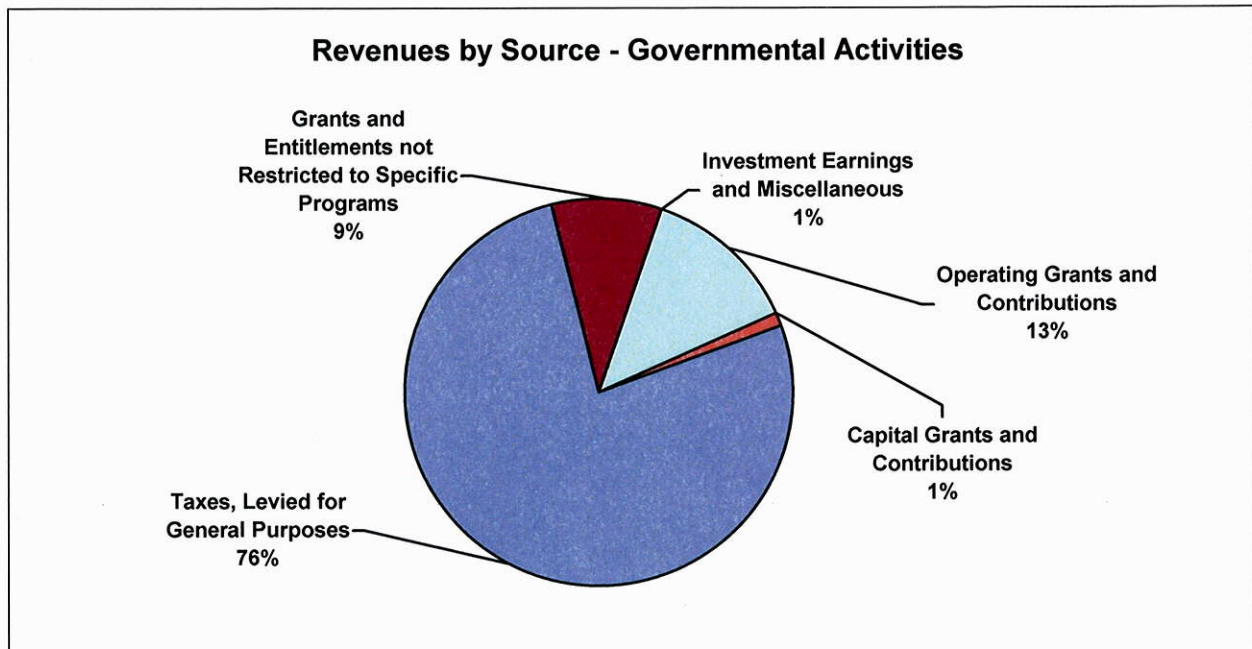
Table A-2
Changes in Net Assets
June 30, 2011 and 2010

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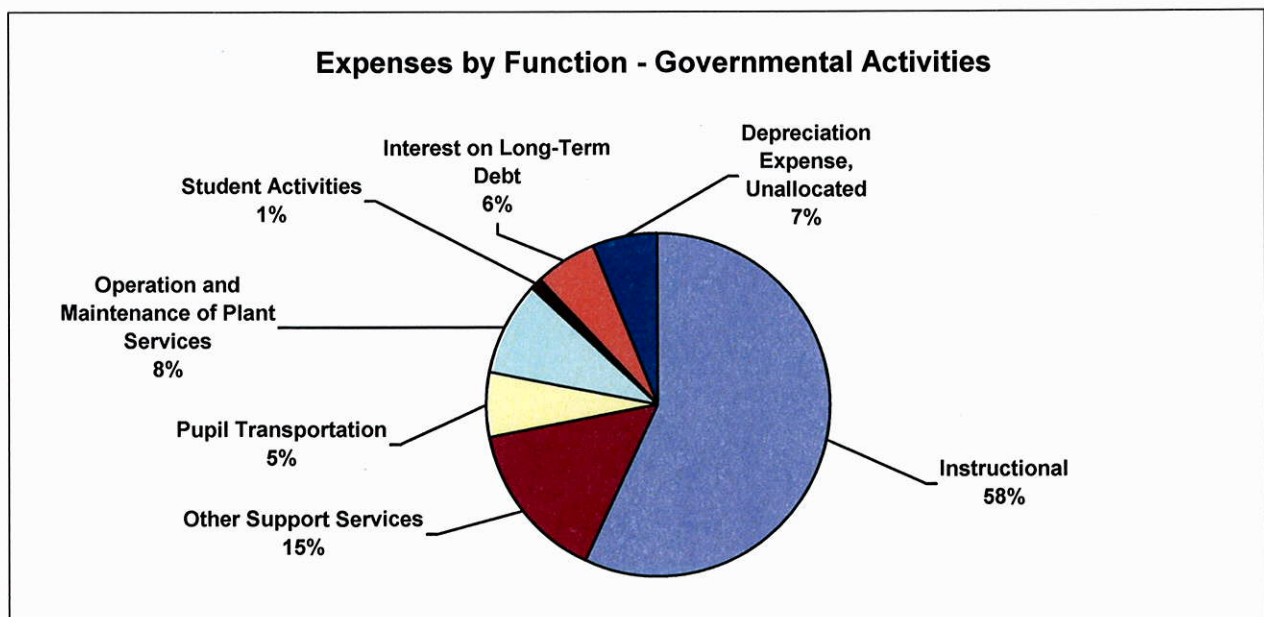
PENNRIDGE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2011

Governmental Activities

Governmental activities increased the Pennridge School District's net assets by \$12,072,162. 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 76% of the total revenues, while operating grants and contributions are 13%. Investment earnings, miscellaneous revenues and other unrestricted grants and subsidies account for 11%.



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 58% of all governmental activities.



PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

Business-Type Activities

Business-type activities increased the Pennridge School District's net assets by \$200,295. The District food service operation has reversed the downward progression and shows a net income increase for five sequential years. The department has had its net assets increase (decrease) as follows:

	<u>Net Income (Loss)</u>	<u>Ending Net Assets</u>
2010 to 2011	\$ 200,295	\$ 1,085,350
2009 to 2010	182,141	885,055
2008 to 2009	78,129	702,914
2007 to 2008	15,783	624,785
2006 to 2007	45,945	609,002
2005 to 2006	40,525	563,057
2004 to 2005	(95,944)	522,532
2003 to 2004	(123,726)	618,476
2002 to 2003*	(157,845)	742,202

*There was a prior period adjustment that increased net 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 \$31,357,406, an increase of \$788,560 in comparison with the prior year. A large portion of ending fund balance is in our Capital Projects Fund (\$18,203,938). The fund balance in the Capital Projects Fund is restricted and committed funding for building renovations and equipment purchases identified in the District's Five-Year Capital Plan.

The General Fund is the chief operating fund of the Pennridge School District. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$4,457,225, while the total fund balance was \$13,103,489. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures. The General Fund's unassigned fund balance represents 4.4% of General Fund expenditures, while total General Fund fund balance represents 12.8% of General Fund expenditures. The fund balance of the Pennridge School District's General Fund increased by \$5,932,259 during the current fiscal year.

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

The Pennridge School District, in accordance with the requirements of GASB Statement No. 54, has reclassified its Capital Reserve Fund and combined it with its Capital Projects Fund, effective July 1, 2010.

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 were revenues of \$65,360 supporting this fund. The fund balance increased by \$12,601 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 and transfers from the General Fund used to fund large capital projects and equipment purchases. The District was involved in litigation with contractors responsible for the Fifth Street Campus project during the fiscal year ending 2010; however, the matter was settled July 2011. The ending fund balance for the fiscal year ended June 30, 2011, was \$18,203,938.

Proprietary Funds

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

Total net assets of the Food Service Fund at the end of the year amounted to \$1,085,350. 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 profit of \$200,295.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Pennridge School District's actual revenues exceeded the budget amounts by \$1,741,611. Actual revenues exceeded estimated revenues because real estate collection rates exceeded the 96% rate used to prepare the budget. The following table identifies the specific revenue sources that reflect this situation:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Current real estate taxes	\$ <u>69,199,148</u>	\$ <u>71,242,166</u>	\$ <u>2,043,018</u>

The decreasing short-term interest rate market has caused the District to realize less than the amount budgeted for investment earnings. The actual interest earnings amounted to \$112,911 or \$587,089 less than the amount budgeted.

The actual expenditures were less than the budgeted expenditures by \$7,244,930 or 6.6% of the final budget. Reasons for this variance relate to the number of retirees occurring after the budget was finalized, administrative salaries as well as professional staff salaries were frozen and actual healthcare benefit costs being less than the amount budgeted.

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

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 \$165,937,612 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, construction in progress and furniture, equipment and vehicles. Major capital asset events during the current fiscal year included the following:

- Currently, there is \$1,651,669 of construction in progress.

Long-Term Debt

At the end of the current fiscal year, the Pennridge School District had total bonded debt outstanding of \$135,344,337. Of this debt, \$63,924,337 is variable rate; the remaining debt includes a fixed interest rate. All of the debt is general obligation debt and is backed by the full faith and credit of the School District. The District's debt decreased by \$7,844,283 from \$143,188,620.

The District, through the Bucks County Area Vocational Technical School, issued refunding bonds for a total of \$1,745,424 to refund all of the School District's outstanding General Obligation Notes, Series of 2005, and to pay costs of issuing the refunding notes.

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 \$282,804,999.

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

- In past years, Pennridge School District experienced significant residential growth. This growth has slowed, and the District does not expect real estate assessed values to grow at the pace they had in previous years.
- The District saw an increase in the number of assessment appeals by homeowners that resulted in the reduction of real estate assessed values. The District expects this trend to continue for the 2011/2012 fiscal year.
- The District has entered into a 24-month agreement with AMEREX to provide the electrical generation and expects our costs to remain relatively stable over the period.
- Short-term interest rates continue to be at historically low levels. This has had an adverse effect on the District's investment earnings.
- Healthcare costs have remained level over the past three fiscal years. We expect this to continue into the next fiscal year.

PENNRIDGE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

- The District's contribution to the Pennsylvania Schools Employee Retirement System is projected to increase at a very high rate over the next several years. The current economic condition suggests that the contribution rate will continue to increase for the foreseeable future.
- The contract with the Pennridge Education Support Professional Association expired. The District and the Association reached an agreement in October 2011 for a two-year contract.

All of these factors have been considered in preparing the Pennridge School District's budget in the 2011-2012 fiscal year.

In 2005, the District, concerned with the rise in short-term interest rates because of our high value of variable rate debt, entered into a nine-year swap agreement that effectively fixes our variable rate debt at approximately 4.10%.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Pennridge School District's finances for all those with interest in the District's finances. Questions concerning any of the information provided in this report should be addressed to the Business Administrator, Pennridge School District, Pennridge District Education Center, 1200 North Fifth Street, Perkasie, PA 18944-2295.

PENNRIDGE SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 46,531,172	\$ 732,457	\$ 47,263,629
Investments	3,894,261	204,532	4,098,793
Taxes receivable, net	2,013,836	-	2,013,836
Internal balances	103,695	(103,695)	-
Due from Fiduciary Funds	3,670	-	3,670
Due from other governments	1,061,096	114,862	1,175,958
Other receivables, net	409,624	7,512	417,136
Inventories	426,711	107,828	534,539
Prepaid expenses	191,783	-	191,783
Deferred charges, net of accumulated amortization	1,129,504	-	1,129,504
Unamortized bond discount	1,924,435	-	1,924,435
Deferred outflow of resources	4,336,230	-	4,336,230
Other assets	371,033	-	371,033
Capital assets			
Land and land improvements	950,176	-	950,176
Buildings and building improvements	206,412,829	-	206,412,829
Furniture, equipment and vehicles	20,837,282	1,935,683	22,772,965
Construction in progress	1,651,669	-	1,651,669
Accumulated depreciation	(63,997,997)	(1,852,030)	(65,850,027)
TOTAL ASSETS	\$ 228,251,009	\$ 1,147,149	\$ 229,398,158

	Governmental Activities	Business-Type Activities	Totals
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 4,496,886	\$ 4,486	\$ 4,501,372
Accrued salaries and benefits	6,884,238	-	6,884,238
Accrued interest	1,132,378	-	1,132,378
Deferred revenue	660,981	19,845	680,826
Interest hedge swap	4,336,230	-	4,336,230
Long-term liabilities			
Portion due or payable within one year			
Bonds/notes payable	8,502,489	-	8,502,489
Portion due or payable after one year			
Unamortized bond premium	473,505	-	473,505
Bonds/notes payable	126,841,848	-	126,841,848
Compensated absences	1,900,104	37,468	1,937,572
Other postemployment benefits	2,340,050	-	2,340,050
TOTAL LIABILITIES	157,568,709	61,799	157,630,508
NET ASSETS			
Invested in capital assets, net of related debt	33,090,056	83,653	33,173,709
Restricted	2,782,871	-	2,782,871
Unrestricted	34,809,373	1,001,697	35,811,070
TOTAL NET ASSETS	70,682,300	1,085,350	71,767,650
TOTAL LIABILITIES AND NET ASSETS	\$ 228,251,009	\$ 1,147,149	\$ 229,398,158

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

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	\$ 40,633,784	\$ 179,703	\$ 5,639,167	\$ -	\$ (34,814,914)	\$ -	\$ (34,814,914)
Special programs	14,515,941	-	6,312,783	-	(8,203,158)	-	(8,203,158)
Vocational education	2,936,502	-	3,548	-	(2,932,954)	-	(2,932,954)
Other instructional programs	502,394	22,145	-	-	(480,249)	-	(480,249)
Adult education programs	58,281	60,898	-	-	2,617	-	2,617
Support services							
Pupil personnel services	3,450,390	-	-	-	(3,450,390)	-	(3,450,390)
Instructional staff services	3,199,260	-	-	-	(3,199,260)	-	(3,199,260)
Administration services	5,805,416	-	-	-	(5,805,416)	-	(5,805,416)
Pupil health services	962,677	-	818,716	-	(143,961)	-	(143,961)
Business services	664,982	-	-	-	(664,982)	-	(664,982)
Operation and maintenance of plant services	8,463,611	132,059	-	-	(8,331,552)	-	(8,331,552)
Student transportation services	4,890,301	7,433	1,512,358	-	(3,370,510)	-	(3,370,510)
Central services	603,502	-	-	-	(603,502)	-	(603,502)
Other services	488,606	-	-	-	(488,606)	-	(488,606)
Operation of non-instructional services							
Student activities	1,232,787	113,148	-	-	(1,119,639)	-	(1,119,639)
Community services	75,953	-	-	-	(75,953)	-	(75,953)
Depreciation expense, unallocated	7,318,990	-	-	-	(7,318,990)	-	(7,318,990)
Interest on long-term debt	5,950,201	-	-	821,401	(5,128,800)	-	(5,128,800)
TOTAL GOVERNMENTAL ACTIVITIES	<u>101,753,578</u>	<u>515,386</u>	<u>14,286,572</u>	<u>821,401</u>	<u>(86,130,219)</u>	<u>-</u>	<u>(86,130,219)</u>
BUSINESS-TYPE ACTIVITIES							
Food service	<u>2,302,461</u>	<u>1,765,253</u>	<u>731,034</u>	<u>-</u>	<u>-</u>	<u>193,826</u>	<u>193,826</u>
TOTAL SCHOOL DISTRICT ACTIVITIES	<u>\$ 104,056,039</u>	<u>\$ 2,280,639</u>	<u>\$ 15,017,606</u>	<u>\$ 821,401</u>	<u>(86,130,219)</u>	<u>193,826</u>	<u>(85,936,393)</u>
GENERAL REVENUES							
Taxes							
Property taxes, levied for general purposes					73,860,227	-	73,860,227
Public utility taxes					115,691	-	115,691
Earned income taxes					11,479,720	-	11,479,720
Real estate transfer taxes					931,583	-	931,583
Other taxes					243,619	-	243,619
Grants and contributions not restricted to specific programs					10,716,776	-	10,716,776
Investment earnings					114,151	6,469	120,620
Gain on sale of capital assets					57	-	57
Self-insurance reimbursements					650,395	-	650,395
Miscellaneous					90,162	-	90,162
TOTAL GENERAL REVENUES					<u>98,202,381</u>	<u>6,469</u>	<u>98,208,850</u>
CHANGE IN NET ASSETS					12,072,162	200,295	12,272,457
NET ASSETS AT BEGINNING OF YEAR					<u>58,610,138</u>	<u>885,055</u>	<u>59,495,193</u>
NET ASSETS AT END OF YEAR					<u>\$ 70,682,300</u>	<u>\$ 1,085,350</u>	<u>\$ 71,767,650</u>

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Special Revenue Fund Athletic Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 18,691,218	\$ 15,917,380	\$ 50,388	\$ 34,658,986
Investments	3,133,000	761,261	-	3,894,261
Taxes receivable, net	2,013,836	-	-	2,013,836
Due from other funds	107,365	2,370,039	-	2,477,404
Due from other governments	1,061,096	-	-	1,061,096
Other receivables	381,862	-	-	381,862
Inventories	426,711	-	-	426,711
Prepaid items	95,748	1,724	-	97,472
TOTAL ASSETS	\$ 25,910,836	\$ 19,050,404	\$ 50,388	\$ 45,011,628
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,471,403	\$ 846,466	\$ 201	\$ 2,318,070
Due to other funds	2,370,039	-	-	2,370,039
Deferred revenue	2,081,667	-	208	2,081,875
Accrued salaries and benefits	6,884,238	-	-	6,884,238
TOTAL LIABILITIES	12,807,347	846,466	409	13,654,222
FUND BALANCES				
Nonspendable				
Inventories	426,711	-	-	426,711
Prepaid expenses	95,748	1,724	-	97,472
Restricted for capital projects	-	2,782,871	-	2,782,871
Committed to				
Capital projects	-	15,419,343	-	15,419,343
Debt service	1,000,000	-	-	1,000,000
E-Finance software costs	155,000	-	-	155,000
Future retirement rate increases	4,917,780	-	-	4,917,780
Future salary increases	2,051,025	-	-	2,051,025
Assigned to Athletic Fund	-	-	49,979	49,979
Unassigned	4,457,225	-	-	4,457,225
TOTAL FUND BALANCES	13,103,489	18,203,938	49,979	31,357,406
TOTAL LIABILITIES AND FUND BALANCES	\$ 25,910,836	\$ 19,050,404	\$ 50,388	\$ 45,011,628

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, 2011

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 31,357,406

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	206,412,829
Furniture, equipment and vehicles	20,837,282
Construction in progress	1,651,669
Accumulated depreciation	(63,997,997)

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

Deferred charges	1,507,727
Accumulated amortization on deferred charges	(378,223)

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	1,924,435
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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.

10,084,198

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	(1,132,378)
Bonds/notes payable	(135,344,337)
Unamortized bond premium	(473,505)
Compensated absences	(1,900,104)
Other postemployment benefits	(2,340,050)

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.

1,523,172

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 70,682,300

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, 2011

	General Fund	Capital Projects Fund	Special Revenue Fund Athletic Fund	Total Governmental Funds
REVENUES				
Local sources	\$ 88,648,460	\$ 1,240	\$ 65,360	\$ 88,715,060
State sources	20,832,452	-	-	20,832,452
Federal sources	3,041,329	-	-	3,041,329
TOTAL REVENUES	112,522,241	1,240	65,360	112,588,841
EXPENDITURES				
Instruction	59,257,481	305,076	-	59,562,557
Support services	28,149,285	1,942,944	-	30,092,229
Operation of non-instructional services	1,264,512	-	52,759	1,317,271
Facilities acquisition, construction and improvement services	-	7,164,474	-	7,164,474
Debt service	13,663,807	-	-	13,663,807
TOTAL EXPENDITURES	102,335,085	9,412,494	52,759	111,800,338
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,187,156	(9,411,254)	12,601	788,503
OTHER FINANCING SOURCES (USES)				
Transfers in	-	4,254,954	-	4,254,954
Transfers out	(4,254,954)	-	-	(4,254,954)
Proceeds from sale of fixed assets	57	-	-	57
TOTAL OTHER FINANCING SOURCES (USES)	(4,254,897)	4,254,954	-	57
NET CHANGE IN FUND BALANCES	5,932,259	(5,156,300)	12,601	788,560
FUND BALANCES AT BEGINNING OF YEAR	7,171,230	23,360,238	37,378	30,568,846
FUND BALANCES AT END OF YEAR	\$ 13,103,489	\$ 18,203,938	\$ 49,979	\$ 31,357,406

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, 2011

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
FORWARD**

\$ 788,560

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 (\$9,806,498) exceed depreciation (\$7,318,990) in the current period.

2,487,508

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 amortization and disposals exceed deferred charge outlays in the current period.

(16,102)

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 decreased by this amount this year.

586,347

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

7,926,087

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

(81,804)

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.

1,838

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 amortization exceeds capital outlays in the current period.

(191,172)

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

74,759

SUBTOTAL ADJUSTMENTS FORWARD

\$ 10,787,461

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, 2011

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARDED	\$ 788,560
SUBTOTAL ADJUSTMENTS FORWARDED	10,787,461
In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) and other postemployment benefits--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.	(29,043)
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.	1,076,233
The net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.	<u>(551,049)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>12,072,162</u>

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT**STATEMENT OF NET ASSETS****PROPRIETARY FUNDS***June 30, 2011*

	Enterprise Fund <u>Food Service Fund</u>	Internal Service Fund <u>Self- Insurance Fund</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 732,457	\$ 11,872,186
Investments	204,532	-
Due from other governments	114,862	-
Other receivables	7,512	27,762
Inventories	107,828	-
Prepaid expenses	-	94,311
Other assets	-	371,033
	<u>1,167,191</u>	<u>12,365,292</u>
TOTAL CURRENT ASSETS		
CAPITAL ASSETS		
Machinery and equipment	1,935,683	-
Accumulated depreciation	(1,852,030)	-
TOTAL CAPITAL ASSETS	<u>83,653</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,250,844</u>	<u>\$ 12,365,292</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to other funds	\$ 103,695	\$ -
Accounts payable	4,486	2,178,816
Deferred revenue	19,845	102,278
	<u>128,026</u>	<u>2,281,094</u>
TOTAL CURRENT LIABILITIES		
COMPENSATED ABSENCES	<u>37,468</u>	<u>-</u>
NET ASSETS		
Invested in capital assets, net of related debt	83,653	-
Unrestricted	1,001,697	10,084,198
TOTAL NET ASSETS	<u>1,085,350</u>	<u>10,084,198</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,250,844</u>	<u>\$ 12,365,292</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, 2011**

	Enterprise Fund Food Service Fund	Internal Service Fund Self- Insurance Fund
OPERATING REVENUES		
Premiums transferred from General Fund	\$ -	\$ 9,197,294
Stop-loss reimbursements	-	650,420
Other reimbursements	-	781,987
Charges for services	<u>1,765,253</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>1,765,253</u>	<u>10,629,701</u>
OPERATING EXPENSES		
Salaries	931,318	-
Employee benefits	239,422	9,553,468
Purchased professional and technical service	9,587	-
Purchased property service	16,100	-
Other purchased service	12,248	-
Supplies	1,054,454	-
Depreciation	34,620	-
Other operating expenses	<u>4,712</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>2,302,461</u>	<u>9,553,468</u>
OPERATING INCOME (LOSS)	<u>(537,208)</u>	<u>1,076,233</u>
NONOPERATING REVENUES		
Earnings on investments	6,469	-
State sources	73,226	-
Federal sources	<u>657,808</u>	<u>-</u>
TOTAL NONOPERATING REVENUES	<u>737,503</u>	<u>-</u>
CHANGE IN NET ASSETS	200,295	1,076,233
NET ASSETS AT BEGINNING OF YEAR	<u>885,055</u>	<u>9,007,965</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,085,350</u>	<u>\$ 10,084,198</u>

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT**STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS***Year Ended June 30, 2011*

	Enterprise Fund <u>Food Service Fund</u>	Internal Service Fund <u>Self- Insurance Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,776,492	\$ -
Cash transferred from General Fund for insurance premiums	-	9,131,179
Cash received from other reimbursements	-	1,568,225
Payments to employees	(945,603)	-
Payments to suppliers	<u>(1,230,409)</u>	<u>(10,244,961)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(399,520)</u>	<u>454,443</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal sources	570,124	-
State sources	<u>72,712</u>	<u>-</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>642,836</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition, construction and improvements of capital assets	<u>(35,941)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,638)	-
Earnings on investments	<u>6,469</u>	<u>-</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,831</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	210,206	454,443
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>522,251</u>	<u>11,417,743</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 732,457</u>	<u>\$ 11,872,186</u>

PENNRIDGE SCHOOL DISTRICT**STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS***Year Ended June 30, 2011*

	<u>Enterprise Fund</u> <u>Food Service Fund</u>	<u>Internal Service Fund</u> <u>Self- Insurance Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (537,208)	\$ 1,076,233
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	34,620	-
Donated foods	102,249	-
(Increase) decrease in		
Accounts receivable	11,239	-
Other receivables	-	135,818
Inventories	760	-
Prepaid expenses	-	(94,311)
Increase (decrease) in		
Interfund balances	(14,152)	-
Accounts payable	3,105	(691,493)
Compensated absences	(133)	-
Deferred insurance premiums	<u>-</u>	<u>28,196</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u>(399,520)</u>	\$ <u>454,443</u>
SUPPLEMENTAL DISCLOSURES		
Noncash activities		
Donated foods	\$ 102,249	\$ -

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 328,403
Investments	66,983
Other receivables	<u>24,175</u>
TOTAL ASSETS	\$ <u>419,561</u>
LIABILITIES	
Due to other funds	\$ 3,670
Due to students	92,298
Due to student organizations	<u>323,593</u>
TOTAL LIABILITIES	\$ <u>419,561</u>

See accompanying notes to the basic financial statements.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

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

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

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

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

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

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

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.

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 Fund - This fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The School District's Athletic Fund is accounted for in this fund type.

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
June 30, 2011

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.

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, 2011, 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.

PENNRIDGE SCHOOL DISTRICT
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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, 2011, 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.

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 foods received from the federal government. Donated foods are valued at their fair market value in accordance with the *Manual of Accounting for Pennsylvania School Systems - Food Service Fund*. Food and supplies are carried at cost using the first-in, first-out method.

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

PENNRIDGE SCHOOL DISTRICT
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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.

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.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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*.

GASB Statement No. 53

The School District adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, for the year ended June 30, 2010. Upon implementation of this statement, the School District was required to record derivative instruments in the government-wide financial statements.

In order to implement this statement, the School District had to evaluate its derivatives to determine if the financial instruments effectively hedge risks utilizing the methods defined under GASB Statement No. 53. The accounting for recording these derivative instruments is different for derivative instruments that are determined to be effective versus those that are determined to be ineffective. For those derivative instruments that are determined to be effective, the derivative asset or liability is recorded in the statement of net assets, and a corresponding deferred inflow or outflow will be recorded in the statement of net assets as well. For those derivative instruments that are determined to be ineffective, the derivative asset or liability is recorded in the statement of net assets; however, the change in fair value of the instrument will be reported in the investment revenue (expense) classification in the statement of activities.

Hedge accounting under GASB Statement No. 53 terminates if the hedge is no longer effective based on the qualitative and quantitative methods. If the hedged asset or liability is sold or retired or if the government entity is re-exposed to the hedged financial risk, hedge accounting will no longer apply. Once the hedge no longer qualifies for hedge accounting, the fair value changes are recorded as investment gain or loss.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

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.

Fund Balance and GASB Statement No. 54

Beginning with the year ended June 30, 2011, the School District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the School District's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** - Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- ***Restricted Fund Balance*** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation.
- ***Committed Fund Balance*** - Amounts constrained to specific purposes by the School District itself, using its highest level of decision-making authority (the Board of School Directors). To be reported as committed, amounts cannot be used for any other purpose unless the School District takes the same highest level action to remove or change the constraint.
- ***Assigned Fund Balance*** - Amounts the School District intends to use for a specific purpose. Intent can be expressed by the Board of School Directors or by an official or body to which the Board of School Directors delegates the authority.
- ***Unassigned Fund Balance*** - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

Beginning fund balances for the School District's Governmental Funds have been restated to reflect the reclassification of the Capital Reserve Fund into the Capital Projects Fund in the amount of \$16,630,018.

The Board of School Directors establishes (and modifies or rescinds) fund balance commitments and assignments by passage of a resolution. Assigned fund balance is intended to be used by the School District for specific purposes but does not meet the criteria to be classified as restricted or committed.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The School District will typically use restricted fund balances first, followed by committed resources and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

In the General Fund, the School District has committed funds for the payment of debt service, the purchase of software, future salary increases and future retirement rate increases. The details of the fund balances are included in the Governmental Funds balance sheet (page 17).

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, 2011, \$49,578,219 of the School District's bank balance of \$49,828,219 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>49,578,219</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, 2011, 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	\$ 3,894,261	\$ 3,894,261
Certificates of deposit	271,515	271,515

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, 2011, 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	\$ 760,790
Certificate of deposit with Pennsylvania	
School District Liquid Asset Fund	\$ 3,133,000

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, 2011, were as follows:

Real estate taxes	123.0169 mills
Real estate transfer taxes	1%
Earned income tax.....	1%

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

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

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

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

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE D ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2011, 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:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Self- Insurance Fund</u>	<u>Agency Funds</u>
Real estate taxes	\$ 1,730,863	\$ -	\$ -	\$ -
Earned income taxes	172,433	-	-	-
Real estate transfer taxes	110,540	-	-	-
Due from other governments	1,061,096	114,862	-	-
Other receivables	<u>381,862</u>	<u>7,512</u>	<u>27,762</u>	<u>24,175</u>
	<u>\$ 3,456,794</u>	<u>\$ 122,374</u>	<u>\$ 27,762</u>	<u>\$ 24,175</u>

NOTE E INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from Other Funds

The composition of interfund balances as of June 30, 2011, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects Fund	General Fund	\$ 2,370,039
General Fund	Food Service Fund	103,695
General Fund	Agency Funds	<u>3,670</u>
		<u>\$ 2,477,404</u>

The amounts between the General Fund and Food Service Fund are for payroll reimbursements.

Interfund Transfers

Transfer In	Transfer Out	Amount
Capital Projects Fund	General Fund	\$ 4,254,954

The Board approves a transfer of excess fund balance above the subsequent year's budget from the General Fund to the Capital Projects Fund.

NOTE F CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land and land improvements	\$ 950,176	\$ -	\$ -	\$ 950,176
Construction in progress	1,096,061	1,651,669	(1,096,061)	1,651,669
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	2,046,237	1,651,669	(1,096,061)	2,601,845
Capital assets being depreciated				
Buildings and building improvements	199,674,718	6,738,111	-	206,412,829
Furniture, equipment and vehicles	18,324,503	2,512,779	-	20,837,282
TOTAL CAPITAL ASSETS BEING DEPRECIATED	217,999,221	9,250,890	-	227,250,111
Accumulated depreciation				
Buildings and building improvements	(42,495,357)	(5,105,557)	-	(47,600,914)
Furniture, equipment and vehicles	(14,183,650)	(2,213,433)	-	(16,397,083)
TOTAL ACCUMULATED DEPRECIATION	(56,679,007)	(7,318,990)	-	(63,997,997)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	161,320,214	1,931,900	-	163,252,114
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	163,366,451	3,583,569	(1,096,061)	165,853,959
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	1,899,742	35,941	-	1,935,683
Accumulated depreciation	(1,817,410)	(34,620)	-	(1,852,030)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	82,332	1,321	-	83,653
CAPITAL ASSETS, net	\$ 163,448,783	\$ 3,584,890	\$ (1,096,061)	\$ 165,937,612

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE G LEASES

The School District leased various photocopy machines and accessories under a noncancelable three-year operating lease that expired in December 2010. The lease operated on a month-to-month basis through June 30, 2011, and was renewed as a rental agreement, whereby the School District pays a set cost per copy made. Total costs for such leases were \$374,453 for the year ended June 30, 2011.

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 and to refund previous debt issuances in order to obtain more favorable repayment terms. Due to favorable interest rates during the year, general obligation notes totaling \$1,745,424 were issued in July 2010 to refund, through the Upper Bucks County Area Vocational Technical School, the School District's portion of previously issued and outstanding general obligation notes. Debt refunded included \$1,663,620 of the School District's portion of the General Obligation Note, Series of 2005. The issuances included a bond premium in the amount of \$25,392 and bond issue costs of \$66,977, which are being amortized over the life of the related bonds. As a result of the refunding, the School District did not reduce its aggregate debt service payments to maturity and, therefore, did not obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) from the defeasance.

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>
2012	\$ 8,502,489	\$ 3,071,358
2013	8,889,860	2,825,457
2014	9,327,232	2,723,569
2015	9,664,603	2,615,468
2016	10,101,975	2,499,758
2017 to 2021	55,769,419	9,864,248
2022 to 2026	23,858,759	3,956,499
2027 to 2031	<u>9,230,000</u>	<u>781,663</u>
	<u>\$ 135,344,337</u>	<u>\$ 28,338,020</u>

NOTE I CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011, 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 2003	February 15, 2026	3.05% to 5.25%	\$ 17,595,000	\$ -	\$ (1,005,000)	\$ 16,590,000	\$ 1,040,000
Series A of 2003	August 15, 2010	2.50% to 5.25%	765,000	-	(765,000)	-	-
Series of 2006	February 15, 2029	3.75% to 4.20%	9,960,000	-	(15,000)	9,945,000	25,000
Series of 2007	February 15, 2027	3.70% to 4.15%	9,875,000	-	(50,000)	9,825,000	55,000
Series A of 2007	January 1, 2012	3.75% to 4.50%	6,750,000	-	(2,935,000)	3,815,000	3,815,000
Series of 2008	February 15, 2029	3.50% to 4.13%	7,830,000	-	(290,000)	7,540,000	300,000
Series of 2009	February 15, 2021	2.50% to 4.00%	15,635,000	-	(75,000)	15,560,000	75,000
Series of 2010	February 15, 2024	2.25% to 3.50%	8,395,000	-	(250,000)	8,145,000	540,000
General obligation notes							
Series of 1999	February 1, 2018	Variable, currently 0.3%	3,125,000	-	(335,000)	2,790,000	350,000
Series of 2000	February 1, 2021	Variable, currently 0.3%	6,895,000	-	(480,000)	6,415,000	510,000
Series A of 2003	June 1, 2024	Variable, currently 0.3%	25,500,000	-	(100,000)	25,400,000	100,000
Series A of 2004	August 1, 2020	Variable, currently 0.3%	19,200,000	-	(1,600,000)	17,600,000	1,600,000
Series C of 2004	August 1, 2023	Variable, currently 0.3%	10,000,000	-	-	10,000,000	-
Series of 2005	November 15, 2025	Variable	1,663,620	-	(1,663,620)	-	-
Series of 2010	November 15, 2025	Variable, currently 0.3%	-	1,745,424	(26,087)	1,719,337	92,489
TOTAL GENERAL OBLIGATION							
BONDS AND NOTES			143,188,620	1,745,424	(9,589,707)	135,344,337	8,502,489
Compensated absences (Note M)			1,871,061	29,043	-	1,900,104	-
Other postemployment benefits (Note P)			1,789,001	551,049	-	2,340,050	-
Unamortized bond premium			475,343	25,392	(27,230)	473,505	-
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES			\$ 147,324,025	\$ 2,350,908	\$ (9,616,937)	\$ 140,057,996	\$ 8,502,489
BUSINESS-TYPE ACTIVITIES							
Compensated absences (Note M)			\$ 37,601	\$ -	\$ (133)	\$ 37,468	\$ -

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE J INTEREST RATE SWAP

Objective

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

Terms

The School District entered into the Swap Agreement with Deutsch Bank on October 15, 2005, that matures on August 14, 2014. The executed transaction is a nine-year amortizing fixed-to-floating interest rate swap. The notional amount of the swap is \$74,370,000. The School District pays the counterparty a fixed rate of 3.25%. The counterparty pays the School District a computed rate of 67% of the one-month London Interbank Offered Rate (LIBOR). The LIBOR was 1.87% as of June 30, 2011.

Fair Value

As of June 30, 2011, the Swap had a negative fair value of \$4,336,230. The change in fair value for the fiscal period ending June 30, 2011, was an increase of \$776,267. 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, 2011, 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 Aa3 by Moody's, AA- by Fitch and A+ by Standard & Poor's.

Termination Risk

The School District or the counterparty may terminate the Swap if the other party fails to perform under the terms of the agreement. If, at the time of termination, the Swap has a negative fair value, the School District would be liable to the counterparty for a payment equal to the Swap's negative fair value of \$4,336,230.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

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, 2011, General Fund deferred revenue consisted of delinquent taxes receivable of \$1,523,172, deferred grant revenues of \$512,600, deferred summer school revenues of \$26,071 and deferred fees of \$19,824.

NOTE L PENSIONS

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

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

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

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

Plan Description

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

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

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

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

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.

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, 2011, the rate of employer's contribution was 5.64% of covered payroll. The 5.64% rate is composed of a pension contribution rate of 5.00% for pension benefits and .64% for healthcare insurance premium assistance.

The School District's contribution to PSERS for the years ended June 30, 2011, 2010 and 2009, was \$3,076,899, \$2,809,537 and \$2,685,750, respectively, equal to the required contribution for each year.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

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 \$143,373 at June 30, 2011, is recorded in compensated absences on the statement of net assets.

Most School District employees are credited with a minimum of ten days of sick leave annually to an unlimited maximum and two personal leave days annually to a limit up to five days. Upon retirement or termination and after ten years of service to the School District, such employees are compensated for each day of accumulated sick leave. Rates of compensation and limits on accumulations are dependent on job classification. Sick leave compensation payable in future years, which was \$1,794,199 at June 30, 2011, is recorded in compensated absences on 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 Bucks County from the decisions of the Board of Assessment Appeals. Legal counsel for the School District cannot give an opinion on the outcome of these appeals nor can they reasonably estimate the financial impact.

As of June 30, 2011, several suits and claims were in progress dealing with various subject matters. In these actions, indicated amounts are either not material or management is of the opinion that insurance coverage is adequate to cover the applicable claim. Management believes no adverse financial decisions of a material amount against the School District would result from these legal proceedings.

As required by law, the Board of School Directors set the elected tax collectors' compensation for 2010, 2011, 2012 and 2013 on February 9, 2009. The tax collectors were not satisfied with the amount of compensation approved and initiated a preliminary injunction to restrict the School District from initiating the new compensation plan. The Bucks County Court of Common Pleas ruled that the resolution establishing the compensation is void and invalid. The Board of School Directors has agreed to appeal this decision to the Pennsylvania Commonwealth Court. The School District prevailed; however, the tax collectors filed an appeal with the State Supreme Court. To date, the appeal has not been accepted by the Supreme Court. If accepted, and the School District does not prevail, the School District would be required to compensate the tax collectors at a higher rate than anticipated, with the change taking effect in 2013. This is not expected to have a material effect on the financial statements of the School District.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

On July 22, 2010, the School District settled the claims related to the project delays associated with the construction of additions and renovations to the Pennridge High School in the amount of \$1,453,000. No further legal action is anticipated.

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.

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.

NOTE P OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

Funding Policy

The School District negotiates the contribution percentage between the School District and employees through union contracts and its personnel policy. The required contribution rates of the employer and the members vary depending on the applicable agreement. The School District currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the School District.

Annual OPEB Cost and Net OPEB Obligation

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

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

Normal cost	\$	289,801
Amortization of unfunded actuarial accrued liability		800,156
Interest		13,041
ANNUAL REQUIRED CONTRIBUTION (ARC)		1,102,998
Interest on net OPEB obligation		80,505
Adjustment to ARC		(271,229)
ANNUAL OPEB EXPENSE		912,274
Net OPEB contributions during the year		(361,225)
INCREASE IN NET OPEB OBLIGATION		551,049
Net OPEB obligation at beginning of year		1,789,001
NET OPEB OBLIGATION AT END OF YEAR	\$	<u>2,340,050</u>

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 1,348,097	28%	\$ 970,258
2010	1,244,659	34%	1,789,001
2011	912,274	40%	2,340,050

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

Funded Status and Funding Progress

As of July 1, 2010, the actuarial accrued liability for benefits was \$5,277,747 and the actuarial value of assets was \$0, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$45,582,174, and the ratio of the unfunded actuarial accrued liability (UAAL) to covered payroll was 11.58%.

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

The schedule of funding progress on page 51, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

In the July 1, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements of .5% per year to an ultimate rate of 5.5% in 2014. Rates gradually decrease from 5.3% in 2015 to 4.2% in 2099 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. Both rates included a 3.0% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2010, was 28 years.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE Q DONATED FOODS

The Food Service Fund contains inventories which consist of both food commodities donated by the federal government and other food and supply inventories. Donated foods represent \$16,940 of the Proprietary Funds' inventory balance at June 30, 2011. 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, 2011

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
			GAAP Basis	Positive
				(Negative)
REVENUES				
Local sources	\$ 85,449,091	\$ 85,449,091	\$ 88,648,460	\$ 3,199,369
State sources	24,110,539	24,110,539	20,832,452	(3,278,087)
Federal sources	1,221,000	1,221,000	3,041,329	1,820,329
TOTAL REVENUES	110,780,630	110,780,630	112,522,241	1,741,611
EXPENDITURES				
Instruction	61,647,500	63,388,646	59,257,481	4,131,165
Support services	31,249,784	31,097,353	28,149,285	2,948,068
Operation of non-instructional services	203,439	1,079,728	1,264,512	(184,784)
Debt service	14,014,288	14,014,288	13,663,807	350,481
TOTAL EXPENDITURES	107,115,011	109,580,015	102,335,085	7,244,930
EXCESS OF REVENUES OVER EXPENDITURES	3,665,619	1,200,615	10,187,156	8,986,541
OTHER FINANCING SOURCES (USES)				
Transfers out	(2,748,645)	(1,884,915)	(4,254,954)	(2,370,039)
Proceeds from sale of fixed assets	-	-	57	57
TOTAL OTHER FINANCING SOURCES (USES)	(2,748,645)	(1,884,915)	(4,254,897)	(2,369,982)
NET CHANGE IN FUND BALANCE	916,974	(684,300)	5,932,259	6,616,559
FUND BALANCE AT BEGINNING OF YEAR	7,171,230	7,171,230	7,171,230	-
FUND BALANCE AT END OF YEAR	\$ 8,088,204	\$ 6,486,930	\$ 13,103,489	\$ 6,616,559

See accompanying note to the budgetary comparison schedule.

PENNRIDGE SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2011

NOTE A BUDGETARY INFORMATION

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

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

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

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

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

PENNRIDGE SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN PENSION
FUNDING PROGRESS
Year Ended June 30, 2011

SCHEDULE OF FUNDING PROGRESS

Valuation Date July 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a % of Covered Payroll (c)/(e)
2010	\$ -	\$ 5,277,747	\$ 5,277,747	0%	\$ 45,582,174	11.58%
2008	-	6,349,505	6,349,505	0%	45,319,427	14.01%

SUPPLEMENTARY INFORMATION SECTION

PENNRIDGE SCHOOL DISTRICT**COMBINING SCHEDULE OF FIDUCIARY NET ASSETS****FIDUCIARY FUNDS***June 30, 2011*

	Agency Funds		
	<u>Student Loan Fund</u>	<u>Student Activities Fund</u>	<u>Total Fiduciary Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,140	\$ 327,263	\$ 328,403
Investments	66,983	-	66,983
Other receivables	<u>24,175</u>	<u>-</u>	<u>24,175</u>
TOTAL ASSETS	<u>\$ 92,298</u>	<u>\$ 327,263</u>	<u>\$ 419,561</u>
LIABILITIES			
Due to other funds	\$ -	\$ 3,670	\$ 3,670
Due to students	92,298	-	92,298
Due to student organizations	<u>-</u>	<u>323,593</u>	<u>323,593</u>
TOTAL LIABILITIES	<u>\$ 92,298</u>	<u>\$ 327,263</u>	<u>\$ 419,561</u>



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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, each major fund and the aggregate remaining fund information of the Pennridge School District as of and for the year ended June 30, 2011, which collectively comprise the Pennridge School District's basic financial statements and have issued our report thereon dated December 13, 2011. 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'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pennridge School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pennridge School District's financial statements are free 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 Falcone + Company, LLP

Oaks, Pennsylvania
December 13, 2011



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**Independent Auditors' Report on Compliance With Requirements
That Could Have a Direct and Material Effect on 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 Pennridge School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Pennridge School District's major federal programs for the year ended June 30, 2011. Pennridge School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. 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's management. Our responsibility is to express an opinion on the Pennridge School District'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'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's compliance with those requirements.

In our opinion, the Pennridge School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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

INTERNAL CONTROL OVER COMPLIANCE

Management of the Pennridge School District 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's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pennridge School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

Maillo Falconese + Company, LLP

Oaks, Pennsylvania
December 13, 2011

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

PENNRIDGE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2010	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2011
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education										
Title I Improving Basic Programs	I	84.010	13-100328	July 1, 2009 to September 30, 2010	\$ 393,697	\$ 28,121	\$ 26,988	\$ 1,133	\$ 1,133	\$ -
Title I Improving Basic Programs	I	84.010	13-110328	July 1, 2010 to September 30, 2011	334,642	334,642	-	315,447	315,447	(19,195)
Title II Improving Teacher Quality	I	84.367	20-100328	July 1, 2009 to September 30, 2010	196,899	56,257	52,796	3,461	3,461	-
Title II Improving Teacher Quality	I	84.367	20-110328	July 1, 2010 to September 30, 2011	197,980	184,781	-	195,937	195,937	11,156
Title III Language Instruction LEP/Immigrant Students	I	84.365	10-090328	July 1, 2008 to September 30, 2009	19,861	10,694	10,694	-	-	-
Title III Language Instruction LEP/Immigrant Students	I	84.365	10-100328	July 1, 2009 to September 30, 2010	17,627	3,205	(2,631)	5,836	5,836	-
Title III Language Instruction LEP/Immigrant Students	I	84.365	10-110328	July 1, 2010 to September 30, 2011	23,889	-	-	3,835	3,835	3,835
Drug-Free Schools and Communities	I	84.186	100-100328	July 1, 2009 to March 31, 2011	21,453	15,282	(2,678)	17,960	17,960	-
Academic Achievement Award	I	84.367	077-090328	July 1, 2008 to September 30, 2009	5,000	500	500	-	-	-
Academic Achievement Award	I	84.367	077-100328	July 1, 2009 to September 30, 2010	12,200	9,760	7,179	2,581	2,581	-
Academic Achievement Award	I	84.367	077-110328	July 1, 2010 to September 30, 2011	5,000	-	-	-	-	-
ARRA - Fiscal Stabilization Basic Education	I	84.394*	126-100328	July 1, 2009 to June 30, 2010	1,167,620	97,302	97,302	-	-	-
ARRA - Fiscal Stabilization Basic Education	I	84.394*	126-110328	July 1, 2010 to June 30, 2011	1,139,364	1,139,364	-	1,139,364	1,139,364	-
Education Jobs Fund	I	84.410*	140-11790	August 10, 2010 to June 30, 2011	681,994	681,994	-	681,994	681,994	-
SUBTOTAL FORWARD						\$ 2,561,902	\$ 190,150	\$ 2,367,548	\$ 2,367,548	\$ (4,204)

PENNRIDGE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2011

<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, 2010</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2011</u>
U.S. DEPARTMENT OF EDUCATION										
SUBTOTAL FORWARDED						\$ 2,561,902	\$ 190,150	\$ 2,367,548	\$ 2,367,548	\$ (4,204)
Passed through the Bucks County Schools Intermediate Unit No. 22										
IDEA	I	84.027*		July 1, 2009 to September 30, 2010	\$ 1,232,928	364,089	364,089	-	-	-
IDEA	I	84.027*		July 1, 2010 to September 30, 2011	1,261,574	882,574	-	1,261,574	1,261,574	379,000
ARRA - IDEA	I	84.391*	128-100022	February 17, 2009 to September 30, 2011	1,434,812	<u>591,273</u>	<u>164,431</u>	<u>689,394</u>	<u>689,394</u>	<u>262,552</u>
TOTAL FORWARD						<u>4,399,838</u>	<u>718,670</u>	<u>4,318,516</u>	<u>4,318,516</u>	<u>637,348</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Passed through the Pennsylvania Department of Public Welfare										
Medical Assistance Reimbursements (ACCESS) - Administrative Claiming Program	I	93.778		July 1, 2010 to June 30, 2011	N/A	<u>8,542</u>	<u>-</u>	<u>8,542</u>	<u>8,542</u>	<u>-</u>
TOTAL FORWARD						<u>8,542</u>	<u>-</u>	<u>8,542</u>	<u>8,542</u>	<u>-</u>
U.S. DEPARTMENT OF AGRICULTURE										
Passed through the Pennsylvania Department of Education										
National School Lunch Program	I	10.555	N/A	July 1, 2009 to June 30, 2010	N/A	475,158	81,692	478,744	478,744	85,278
National School Lunch Program	I	10.555	N/A	July 1, 2010 to June 30, 2011	N/A	75,185	14,624	76,815	76,815	16,254
National School Lunch Program	S	N/A	N/A	July 1, 2009 to June 30, 2010	N/A	65,471	11,292	65,834	65,834	11,655
School Breakfast Program	S	N/A	N/A	July 1, 2009 to June 30, 2010	N/A	7,272	1,460	7,392	7,392	1,580
National School Lunch Program	I	10.555	N/A	July 1, 2010 to June 30, 2011	N/A	<u>101,699</u> (a)	<u>(17,490)</u> (b)	<u>102,249</u>	<u>102,249</u> (c)	<u>(16,940)</u> (d)
TOTAL FORWARD						<u>\$ 724,785</u>	<u>\$ 91,578</u>	<u>\$ 731,034</u>	<u>\$ 731,034</u>	<u>\$ 97,827</u>

PENNRIDGE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2011

<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, 2010</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2011</u>
U.S. DEPARTMENT OF EDUCATION										
TOTAL FORWARDED						\$ 4,399,838	\$ 718,670	\$ 4,318,516	\$ 4,318,516	\$ 637,348
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
TOTAL FORWARDED						8,542	-	8,542	8,542	-
U.S. DEPARTMENT OF AGRICULTURE										
TOTAL FORWARDED						<u>724,785</u>	<u>91,578</u>	<u>731,034</u>	<u>731,034</u>	<u>97,827</u>
TOTAL EXPENDITURES						5,133,165	810,248	5,058,092	5,058,092	735,175
LESS STATE SHARE						<u>(72,743)</u>	<u>(12,752)</u>	<u>(73,226)</u>	<u>(73,226)</u>	<u>(13,235)</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS						\$ <u><u>5,060,422</u></u>	\$ <u><u>797,496</u></u>	\$ <u><u>4,984,866</u></u>	\$ <u><u>4,984,866</u></u>	\$ <u><u>721,940</u></u>

Source Codes:

- D = Direct Funding
- I = Indirect Funding
- S = State Funding
- * = Major Program

Footnotes:

- (a) Total amount of foods received from the Department of Agriculture.
- (b) Beginning inventory at July 1, 2010.
- (c) Total amount of foods used.
- (d) Ending inventory at June 30, 2011.

PENNRIDGE SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
Year Ended June 30, 2011

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, Health and Human Services and Agriculture.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTE C PROGRAM OBJECTIVES

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

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

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

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, 2011

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 award programs are reported in the Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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 award programs for the Pennridge School District expresses an unqualified opinion.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

<u>Program</u>	<u>CFDA</u>
Special Education Cluster (IDEA)	
Special Education - Grants to States (IDEA, Part B)	84.027
Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (Education Stabilization Fund)	84.394
Education Jobs Fund	84.410

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.

PENNRIDGE SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

None.