

PENNSBURY SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2012

INTRODUCTORY SECTION

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FINANCIAL SECTION



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Independent Auditors' Report

To the Board of Directors
Pennsbury School District
Bucks County, 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 Pennsbury School District as of and for the year ended June 30, 2012, which collectively comprise the Pennsbury School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pennsbury 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 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Pennsbury School District as of June 30, 2012, 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 (GAAP).

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2012, on our consideration of the Pennsbury 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
Pennsbury School District
Bucks County, Pennsylvania

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11, budgetary comparison information on pages 43 and 44 and postemployment benefits other than pension funding progress on page 45 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 evidence sufficient 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 Pennsbury School District's financial statements. The schedule of expenditures of federal and state awards, required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relates 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 financial statements and certain other 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 schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the financial statements as a whole.

Maillie Falconiero + Company, LLP

Oaks, Pennsylvania
December 6, 2012

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

PURPOSE

This section of the Pennsbury School District's (the "District") basic financial statements is intended to provide an overview and an objective analysis of the Pennsbury School District's financial activities for the year ended June 30, 2012. This analysis is based on currently known facts, decisions and conditions.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis introduces the District's basic financial statements. The basic financial statements include three kinds of reports. The first part contains District-wide financial statements. The second part contains fund financial statements. The third contains notes to the basic financial statements. The District also includes additional information to supplement the basic financial statements, such as this discussion and analysis.

The title and a brief description of each of the basic financial statements follow. Page number references for respective statements are also shown.

The Statement of Net Assets reports assets, liabilities and net assets for the District, including governmental activities and business-type activities (page 12).

The Statement of Activities reports the District's expenses, revenues, depreciation and other changes in net assets during the year. This report focuses on the net cost of individual functions with reconciliation between the beginning net assets and the ending net assets (page 13).

The Balance Sheet, Governmental Funds, reports assets, liabilities and fund balance for the General Fund and Capital Projects Fund (page 14).

The Reconciliation of Total Governmental Funds Balances to Net Deficit of Governmental Activities explains the differences in Governmental Funds balances reported on the Balance Sheet, Governmental Funds, and the total net assets reported on the Statement of Net Assets and Statement of Activities (page 15).

The Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds, reports the revenues, expenditures and changes in fund balances for the General Fund and Capital Projects Fund (page 16).

The Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities provides a reconciliation of the changes in fund balances reported on the Statement of Revenues, Expenditures and Changes in Fund Balances to the changes in net assets as reported on the Statement of Activities (pages 17 and 18).

The Statement of Net Assets, Proprietary Funds, reports assets, liabilities and net assets for Proprietary Funds (page 19).

The Statement of Revenues, Expenses and Changes in Net Assets, Proprietary Funds, reports the revenues, expenditures and changes in net assets for the Food Service Fund, Community Service Fund and the Aquatics Fund (page 20).

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

CONDENSED FINANCIAL INFORMATION

A few financial statistics are addressed below to provide a snapshot overview of the District's finances for the year ended June 30, 2012. Prior year data and changes are included in order to provide some perspective on the current year data.

Assets

Assets are the things of value owned by the District. Examples of these would include cash, investments, equipment and real property.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Difference</u>
ASSETS			
Capital	\$ 114,432,575	\$ 108,772,023	\$ 5,660,552
Other	<u>56,855,501</u>	<u>56,116,717</u>	<u>738,784</u>
TOTAL ASSETS	<u>\$ 171,288,076</u>	<u>\$ 164,888,740</u>	<u>\$ 6,399,336</u>

Capital assets are reported at acquisition cost less accumulated depreciation in the District-wide financial statements. The accumulated depreciation and resulting asset value do not, in most cases, reflect the current market economic value of capital assets. Asset values are often higher, especially in the case of real property like school buildings and major equipment like school buses.

The increase in capital assets is attributed primarily to building improvements.

The increase in other assets is attributed primarily to an increase in cash and cash equivalents..

Liabilities

Liabilities are the financial obligations of the District. Examples of liabilities are accounts payable, accrued salaries and benefits, long-term debt and accrued compensated absences.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Difference</u>
LIABILITIES			
Long-term	\$ 159,086,787	\$ 155,377,612	\$ 3,709,175
Other	<u>31,834,092</u>	<u>27,497,319</u>	<u>4,336,773</u>
TOTAL LIABILITIES	<u>\$ 190,920,879</u>	<u>\$ 182,874,931</u>	<u>\$ 8,045,948</u>

The increase in long-term debt is attributed to the issuance of General Obligation Bonds, Series of 2011.

The increase in other liabilities is primarily due to increased accounts payable and accrued salaries and benefits at year end.

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

Net Assets

The difference between total assets and total liabilities results in a number which is total net assets in the District-wide statement of net assets.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Difference</u>
NET ASSETS	\$ <u>(19,632,803)</u>	\$ <u>(17,986,191)</u>	\$ <u>(1,646,612)</u>

A few points should be kept in mind when considering the value of net assets.

First, the accumulated depreciation of fixed assets, mostly school buildings, amounts to \$134,185,058, up from \$125,299,892 in the previous year. This number reflects the fact that some of the District's older school buildings are fully depreciated. While all Pennsbury schools are serviceable and safe, capital investment is necessary to extend the useful lives of some schools. The School Board has embarked upon a program to do just that. Renovations have been completed at Quarry Hill Elementary School, Penn Valley Elementary School, Manor Elementary School, Walt Disney Elementary School, Oxford Valley Elementary School, Makefield Elementary School, Eleanor Roosevelt Elementary School and Pennsbury High School West. Also, renovations are being considered for Pennwood Middle School and Charles Boehm Middle School.

Second, almost all capital assets are funded by the proceeds of a bond issue or a short-term note. Bond issues are normally amortized over a 20-year period. Short-term notes are generally amortized over a five- to ten-year period. When capital assets are acquired, they are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. The years of depreciation vary depending on the classification of the asset. Land improvements, buildings and building improvements are depreciated over 20 years.

Furniture, fixtures and equipment are depreciated between 5 and 20 years, depending on the estimated useful life of the assets. Vehicles are depreciated over eight years using a salvage value of 10%. The depreciation time period of capital assets typically matches the amortization period of the borrowed capital used for their purchase. This is done to prevent the obligation of paying for assets after they have been fully depreciated. In some cases, however, our fixed assets are depreciating quicker than the repayment of principal. This is occurring for most of the fixed assets purchased with the proceeds from the 2004 Bond Issue and the 2004A Emmaus Variable Rate Issue. The bulk of the principal payments on these two issues is scheduled to be paid in future years, beginning in 2022. This debt structure was implemented in order to maintain overall level debt service for the District. We anticipate that assets purchased with these proceeds will continue to depreciate quicker than the repayment of debt principal until after the large principal payments are made.

Third, assets in the form of cash and cash equivalents amount to \$44,242,972. This must be viewed in light of intended uses of this cash, such as payment of salaries, contracted services and construction. This cash should not be confused with unassigned fund balance.

Fourth, although net assets are reported as a deficit of (\$19,632,803), Pennsbury remains in good financial condition. The year-end General Fund unreserved fund balance of \$4,188,943, is considered ample to guard against revenue shortfalls and the need for emergency expenditures. The District has also committed and assigned an additional \$10.1 million for contingencies for PSERS, Capital Projects and Self Insurance. Another indication of the District's financial health is this year's Moody's rating of Aa2. This rating reflects the District's very strong wealth and income indicators, good well-embedded management policies and moderate debt levels.

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

Total Program Revenue

General Fund revenue is categorized as being from three major sources. Specifically, these categories are local, state, federal and other. A summary of these revenue sources follows.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Difference</u>
Local	\$ 133,418,572	\$ 132,903,006	\$ 515,566
State	35,068,269	32,889,851	2,178,418
Federal	1,913,494	5,471,314	(3,557,820)

The primary source of revenue for the year ended June 30, 2012 remains local, which was 78.3% of the total revenue budget. The largest single source of revenue is Real Estate Taxes, which is about 93.6% of the total local revenue budget.

The state share of revenue amounted to 20.6% of the revenue budget for the year ended June 30, 2012, and the federal share of revenue was 1.1%. The significant change in state and federal revenue was primarily due to the classification of state basic education funding, which was funded by federal ARRA funds in the prior year.

The District's capital projects and capital equipment needs are supported primarily by debt capital and interest on invested cash.

Proprietary Fund revenue is generated primarily from the sale of meals and services.

Program Expenditures

General Fund expenditures can be categorized in terms of major programs, that is, the general purposes of the expenditures. The two major examples are instruction and support services. A summary of General Fund major program expenditures follows.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Difference</u>
Instruction	\$ 107,840,548	\$ 107,054,189	\$ 786,359
Support services	46,636,800	46,691,369	(54,569)
Non-instructional services	1,305,175	1,264,095	41,080
Debt service	12,130,253	12,342,206	(211,953)
Other	13,471	33,417	(19,946)

The primary purpose of expenditures was for instruction at 64.2%. Most of the instructional expenditures were for the salary and benefits of instructional staff, about 53.3% of total expenditures.

Expenditures for capital projects were provided almost entirely from the Capital Projects Fund, primarily the 2009A and the 2010 bond issues.

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

Fund Balance

Fund balance in the balance sheet (Governmental Funds) is the difference between revenue and expenditures at the end of the year, combined with the fund balance from the beginning of the year. In other words, fund balance is the accumulated savings in a fund. Nonspendable fund balance reflects funds that are legally earmarked for a specific future use and are not available for appropriation. Restricted fund balance reflects funds that are earmarked for a specific purpose because of state or federal laws or externally imposed conditions by a grantor or creditor and are not available for appropriation. Committed fund balance reflects funds that the Board has taken formal action to earmark for a specific purpose and are not available for appropriation. Assigned fund balance reflects amounts that the Board or Administration has informally earmarked for a specific purpose. Although committed fund balance and assigned fund balance represent planned needs or actions, they are not legally or contractually required and can be changed by the Board if the need arises. Unassigned fund balance represents funds that have not been included in Nonspendable, Restricted, Committed, or Assigned Fund Balance and is available for appropriation. A more detailed reporting of the General Fund - Fund Balance is noted below.

	June 30,	
	<u>2012</u>	<u>2011</u>
Nonspendable	\$ 567,766	\$ 589,013
Committed	7,802,000	6,550,000
Assigned	2,322,451	1,252,000
Unassigned	<u>4,188,943</u>	<u>4,167,696</u>
TOTAL FUND BALANCE	\$ <u>14,881,160</u>	\$ <u>12,558,709</u>

For the year ended June 30, 2012, the fund balance increased \$2,322,451 compared to the prior year. Expressed as a percentage of the 2011-2012 budget, total fund balance was 8.6%, and unassigned fund balance was 2.4%. The increase in fund balance is primarily due to favorable health benefit claims experience, salary savings from staff turnover, savings from energy conservation and unanticipated state revenues. The District has developed a financial strategy for fund balance and attempts to maintain a reasonable fund balance to protect against revenue receipt shortfalls and/or emergency expenditure needs.

Significant Events and Risks

During the upcoming fiscal years, there are several events and risks, which may have a significant financial impact on the District.

The Taxpayer Relief Act (Act 1) enacted in June 2006 is still in effect. In accordance with Act 1, property tax increases are limited to an inflationary index that is determined and reported by the Pennsylvania Department of Education (PDE) in September of each year. The District cannot increase the tax rate beyond the index unless either the increase is approved by the voters in the school district at a public referendum or allowable exceptions outlined in the Act are approved by the PDE or Court of Common Pleas. The District does not currently levy an earned or personal income tax, but under the law, may consider placing a referendum question on the general election ballot in November of each odd-numbered year seeking approval to levy such tax for the purpose of funding homestead and farmstead exclusions as allowable under the law. For the last several years of Act 1, the District's tax rate increase has been below the index even though approved exceptions under the Act would have allowed tax rate increases above the index. Last year the District did not apply for exceptions or increase real estate taxes.

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

The real estate tax installment payments required under Act 1 have had virtually no effect on the District's cash flow. This is due primarily to the low participation in installment payments, low interest rates and the forfeit of the 2% discount if the installment plan is selected.

The District insures employee health care on a self-funded basis. Costs associated with this arrangement have been significantly lower than a premium-based plan, and the District has had good claims experience the past few years. There still is, however, an increased expenditure risk associated with high cost cases. In other words, if there is an unusually high number of such cases, the District will have unusually high medical benefits costs. While stop loss insurance provides some protection, the risk still remains.

Energy costs have been very volatile over the past few years and have been a budgetary challenge. In addition, deregulation of electricity began January 1, 2011, in Pennsylvania. In an attempt to manage future energy costs, the District has contracted with an energy consultant to advise and assist the District with locking-in future energy prices. This action, coupled with energy conservation and joint purchasing of diesel fuel, gasoline and heating oil through the Bucks County Intermediate Unit enable the District to better manage this expenditure.

The Public School Employees Retirement System (PSERS) is a defined benefit pension plan for Pennsylvania school employees. The employers' share of retirement contributions has traditionally been funded half by the Commonwealth and half by the District. PSERS projections indicate that if the established process for funding retirement contributions continues, significant increases in the employers' contribution rates will be required beginning in 2012-2013. Significant increases in the employers' rates will result in significant increases in District expenditures.

The following table shows recent year employer's contribution rates and amounts and the projection for the upcoming year.

<u>Fiscal Year</u>	<u>Rate*</u>	<u>Amount</u>
2008-2009	4.76%	\$ 4,496,567 (actual)
2009-2010	4.78%	4,498,483 (actual)
2010-2011	5.64%	5,239,176 (actual)
2011-2012	8.65%	7,945,117 (actual)
2012-2013	12.36% (budgeted)	11,361,637 (budgeted)

*Percent of PSERS qualified salaries and wages.

Interest rate risk remains a consideration because the District depends on interest earnings on invested cash. Interest rates over the last year have made the projection of this revenue riskier than in years past. Due to the fact that interest rates have remained at a low level for an extended period of time, we have again reduced the upcoming year's budget for this revenue item. It is our hope that the investment rates will improve and investment earnings will increase in the future.

PENNSBURY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

The Keystone Opportunity Improvement Zone (KOIZ) that was established at the former U.S. Steel Fairless Works site, now known as the Keystone Industrial Port Complex (KIPC), was designated as an eco-industrial park by the Environmental Protection Agency. This designation brought together a wide variety of manufacturing and service-oriented businesses, all of which are looking to enhance their environmental and economic performances by collaborating with each other and KIPC on the management of waste, energy, water and raw materials. We anticipate a strong, vital tax base when these properties become taxable in the 2019-2020 school year.

We are beginning to see development of the MATRIX property in Lower Makefield Township. A bank and a pharmacy have been constructed and both opened in 2010. The first phase of an age restricted development consisting of 279 homes has been completed and additional phases are expected to follow.

There is a significant risk of increased expenditures to support unfunded federal and state mandates. The No Child Left Behind Act has created requirements for remedial instruction, new instructional programs and increased assessments of students. These programs and their costs are likely to increase. Additionally, the Individuals with Disabilities Education Improvement Act has created increased demands on the District's Special Education expenditure budget.

The collective bargaining agreement with the Pennsbury Education Association, an employee group consisting of approximately 830 professional staff members, expired on June 30, 2010. Negotiations began in 2009-2010 and are currently ongoing.

The collective bargaining agreement with the Pennsbury Educational Support Professionals Association, an employee group consisting of approximately 700 support staff members, expired on June 30, 2011. Negotiations began in 2010-2011 and are currently ongoing.

The District is typically faced with the challenge of complying with mandated cost increases and generating adequate revenue to cover those costs. This challenge has become increasingly more difficult in light of all the uncertainties in today's economy. Nevertheless, the District is committed to improving the efficiency of school operations where they are administratively feasible and educationally prudent.

Finally, the District's School Board, administration and staff remain strongly committed to the District's long traditions of high quality education and sound financial management.

PENNSBURY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 44,069,274	\$ 173,698	\$ 44,242,972
Taxes receivable, net	3,302,519	-	3,302,519
Internal balances	29,086	(29,086)	-
Due from other governments	3,924,003	136,921	4,060,924
Other receivables, net	860,851	15,260	876,111
Inventories	492,431	99,029	591,460
Other assets	889,159	-	889,159
Deferred debt expenses	1,026,047	-	1,026,047
Deferred amount on refunding	1,866,309	-	1,866,309
Capital assets			
Land and site improvements	9,920,466	-	9,920,466
Buildings and building improvements	184,133,196	-	184,133,196
Furniture and equipment	52,227,969	2,336,002	54,563,971
Accumulated depreciation	(132,183,509)	(2,001,549)	(134,185,058)
TOTAL ASSETS	\$ 170,557,801	\$ 730,275	\$ 171,288,076
LIABILITIES AND NET ASSETS (DEFICIT)			
LIABILITIES			
Accounts payable	\$ 4,767,887	\$ -	\$ 4,767,887
Accrued salaries and benefits	17,627,315	-	17,627,315
Deferred revenue	362,869	59,614	422,483
Other current liabilities	6,435,654	59,864	6,495,518
Accrued interest	2,520,889	-	2,520,889
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	6,250,000	-	6,250,000
Compensated absences	228,204	-	228,204
Lease purchase obligations	361,986	-	361,986
Portion due or payable after one year			
Bonds payable	127,225,000	-	127,225,000
Bond premiums and discounts, net	1,970,898	-	1,970,898
Notes payable	20,000,000	-	20,000,000
Compensated absences	2,531,133	-	2,531,133
Lease purchase obligations	165,273	-	165,273
Net OPEB obligation	354,293	-	354,293
TOTAL LIABILITIES	190,801,401	119,478	190,920,879
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	(38,982,679)	334,453	(38,648,226)
Unrestricted	18,739,079	276,344	19,015,423
TOTAL NET ASSETS (DEFICIT)	(20,243,600)	610,797	(19,632,803)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 170,557,801	\$ 730,275	\$ 171,288,076

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

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	\$ 72,668,397	\$ 517,119	\$ 5,899,964	\$ -	\$ (66,251,314)	\$ -	\$ (66,251,314)
Special programs	28,683,177	-	8,306,429	-	(20,376,748)	-	(20,376,748)
Vocational education	6,147,147	-	137,993	-	(6,009,154)	-	(6,009,154)
Other instructional programs	855,483	-	377,920	-	(477,563)	-	(477,563)
Support services							
Pupil personnel services	5,877,528	-	324,149	-	(5,553,379)	-	(5,553,379)
Instructional staff services	4,161,898	-	139,951	-	(4,021,947)	-	(4,021,947)
Administration services	9,090,326	-	453,441	-	(8,636,885)	-	(8,636,885)
Pupil health services	2,777,184	-	350,299	-	(2,426,885)	-	(2,426,885)
Business services	1,552,794	-	83,942	-	(1,468,852)	-	(1,468,852)
Operation and maintenance of plant services	14,464,784	183,070	536,503	-	(13,745,211)	-	(13,745,211)
Student transportation services	8,220,665	-	2,350,985	-	(5,869,680)	-	(5,869,680)
Central services	2,216,816	-	109,048	-	(2,107,768)	-	(2,107,768)
Other services	123,467	-	-	-	(123,467)	-	(123,467)
Operation of non-instructional services							
Student activities	1,154,991	56,261	51,968	-	(1,046,762)	-	(1,046,762)
Community services	200,094	-	-	-	(200,094)	-	(200,094)
Facilities acquisition, construction and improvement services	7,649,320	-	-	-	(7,649,320)	-	(7,649,320)
Debt service	6,038,306	-	-	731,185	(5,307,121)	-	(5,307,121)
TOTAL GOVERNMENTAL ACTIVITIES	<u>171,882,377</u>	<u>756,450</u>	<u>19,122,592</u>	<u>731,185</u>	<u>(151,272,150)</u>	<u>-</u>	<u>(151,272,150)</u>
BUSINESS-TYPE ACTIVITIES							
Food service	3,490,008	2,352,951	1,078,460	-	-	(58,597)	(58,597)
Community services	198,260	257,757	-	-	-	59,497	59,497
TOTAL BUSINESS-TYPE ACTIVITIES	<u>3,688,268</u>	<u>2,610,708</u>	<u>1,078,460</u>	<u>-</u>	<u>-</u>	<u>900</u>	<u>900</u>
TOTAL DISTRICT ACTIVITIES	<u>\$ 175,570,645</u>	<u>\$ 3,367,158</u>	<u>\$ 20,201,052</u>	<u>\$ 731,185</u>	<u>(151,272,150)</u>	<u>900</u>	<u>(151,271,250)</u>
GENERAL REVENUES							
Taxes							
Property taxes, levied for general purposes					130,175,858	-	130,175,858
Public utility taxes					181,192	-	181,192
Grants and contributions not restricted to specific programs					18,788,840	-	18,788,840
Investment earnings					135,862	-	135,862
Loss on sale of capital assets					(70,493)	-	(70,493)
Miscellaneous					413,379	-	413,379
TRANSFERS					2,004	(2,004)	-
TOTAL GENERAL REVENUES AND TRANSFERS					<u>149,626,642</u>	<u>(2,004)</u>	<u>149,624,638</u>
CHANGE IN NET ASSETS					(1,645,508)	(1,104)	(1,646,612)
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR					(18,598,092)	611,901	(17,986,191)
NET ASSETS (DEFICIT) AT END OF YEAR					<u>\$ (20,243,600)</u>	<u>\$ 610,797</u>	<u>\$ (19,632,803)</u>

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT**BALANCE SHEET****GOVERNMENTAL FUNDS***June 30, 2012*

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 34,854,326	\$ 9,214,948	\$ 44,069,274
Taxes receivable, net	3,302,519	-	3,302,519
Due from other funds	110,516	188,000	298,516
Due from other governments	3,924,003	-	3,924,003
Other receivables	859,612	1,239	860,851
Inventories	492,431	-	492,431
Other assets	889,159	-	889,159
	<u>44,432,566</u>	<u>9,404,187</u>	<u>53,836,753</u>
TOTAL ASSETS	\$ 44,432,566	\$ 9,404,187	\$ 53,836,753
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 2,610,964	\$ 2,156,923	\$ 4,767,887
Due to other funds	188,000	81,430	269,430
Deferred revenue	2,689,473	-	2,689,473
Accrued salaries and benefits	17,627,315	-	17,627,315
Other payables	6,435,654	-	6,435,654
	<u>29,551,406</u>	<u>2,238,353</u>	<u>31,789,759</u>
TOTAL LIABILITIES	29,551,406	2,238,353	31,789,759
FUND BALANCES			
Nonspendable			
Inventories	492,431	-	492,431
Prepaid expenses	75,335	-	75,335
Committed to			
PSERS contingency	3,652,000	-	3,652,000
Self-insurance contingency	500,000	-	500,000
Capital projects	500,000	-	500,000
Fund balance appropriation	3,150,000	-	3,150,000
Assigned to			
PSERS contingency	1,322,451	-	1,322,451
Self-insurance contingency	500,000	-	500,000
Capital projects	500,000	7,165,834	7,665,834
Unassigned	4,188,943	-	4,188,943
	<u>14,881,160</u>	<u>7,165,834</u>	<u>22,046,994</u>
TOTAL FUND BALANCES	14,881,160	7,165,834	22,046,994
	<u>44,432,566</u>	<u>9,404,187</u>	<u>53,836,753</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 44,432,566	\$ 9,404,187	\$ 53,836,753

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT

**RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET DEFICIT OF GOVERNMENTAL ACTIVITIES**

June 30, 2012

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 22,046,994
 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 site improvements	9,920,466
Buildings and building improvements	184,133,196
Furniture and equipment	52,227,969
Accumulated depreciation	(132,183,509)
Deferred debt expenses	1,026,047
Deferred amount on refunding	1,866,309
 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	(2,520,889)
Bonds payable	(133,475,000)
Bond premiums and discounts	(1,970,898)
Notes payable	(20,000,000)
Compensated absences	(2,759,337)
Lease purchase obligations	(527,259)
Net OPEB obligation	(354,293)
 Some of the District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	
	<u>2,326,604</u>
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	<u>\$ (20,243,600)</u>

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Local sources	\$ 133,418,572	\$ 39,743	\$ 133,458,315
State sources	35,068,269	-	35,068,269
Federal sources	<u>1,913,495</u>	<u>-</u>	<u>1,913,495</u>
TOTAL REVENUES	<u>170,400,336</u>	<u>39,743</u>	<u>170,440,079</u>
EXPENDITURES			
Instruction	107,840,548	59,334	107,899,882
Support services	46,636,800	1,592,139	48,228,939
Operation of non-instructional services	1,305,175	-	1,305,175
Facilities acquisition, construction and improvement services	-	13,986,154	13,986,154
Debt service	12,130,253	135,226	12,265,479
Refund of prior year revenues	13,471	-	13,471
TOTAL EXPENDITURES	<u>167,926,247</u>	<u>15,772,853</u>	<u>183,699,100</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,474,089</u>	<u>(15,733,110)</u>	<u>(13,259,021)</u>
OTHER FINANCING SOURCES (USES)			
Bond issue proceeds	-	10,000,000	10,000,000
Bond discount	-	(22,919)	(22,919)
Transfers in	38,000	192,800	230,800
Transfers out	(192,800)	(35,996)	(228,796)
Proceeds from sale of fixed assets	<u>3,162</u>	<u>-</u>	<u>3,162</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(151,638)</u>	<u>10,133,885</u>	<u>9,982,247</u>
NET CHANGE IN FUND BALANCES	2,322,451	(5,599,225)	(3,276,774)
FUND BALANCES AT BEGINNING OF YEAR	<u>12,558,709</u>	<u>12,765,059</u>	<u>25,323,768</u>
FUND BALANCES AT END OF YEAR	<u>\$ 14,881,160</u>	<u>\$ 7,165,834</u>	<u>\$ 22,046,994</u>

See accompanying notes to the basic financial statements.

PENNSBURY 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, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARD

\$ (3,276,774)

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 (\$15,252,799) exceed depreciation (\$9,487,518) in the current period.

5,765,281

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

(134,722)

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

5,960,000

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the statement of net assets. This is the amount of bond proceeds received in the current period.

(10,000,000)

Bond premiums provide current financial resources to Governmental Funds, while discounts and costs of issuance are uses of current financial resources in Governmental Funds. In the statement of net assets, bond premiums and costs of issuance are deferred and amortized.

126,304

In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave), special termination benefits (early retirement) 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 (essentially, the amounts paid).

(19,243)

Interest on long-term debt in the statement of activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

(49,190)

SUBTOTAL ADJUSTMENTS FORWARD

\$ 1,648,430

PENNSBURY 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, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARDED	\$ (3,276,774)
SUBTOTAL ADJUSTMENTS FORWARDED	1,648,430
The net effect of various transactions involving capital assets (i.e., sales, gains on dispositions) is to decrease net assets.	(73,655)
Repayment of capital lease principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets.	348,205
The net change in the asset for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.	<u>(291,714)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,645,508)</u>

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT**STATEMENT OF NET ASSETS****PROPRIETARY FUNDS***June 30, 2012*

	<u>Enterprise Funds</u>		
	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	<u>Total Proprietary Funds</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 45,092	\$ 128,606	\$ 173,698
Due from other governments	136,921	-	136,921
Other receivables	15,260	-	15,260
Inventories	99,029	-	99,029
	<u>296,302</u>	<u>128,606</u>	<u>424,908</u>
TOTAL CURRENT ASSETS			
CAPITAL ASSETS			
Furniture and equipment	2,336,002	-	2,336,002
Accumulated depreciation	(2,001,549)	-	(2,001,549)
	<u>334,453</u>	<u>-</u>	<u>334,453</u>
TOTAL CAPITAL ASSETS			
TOTAL ASSETS	<u>\$ 630,755</u>	<u>\$ 128,606</u>	<u>\$ 759,361</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Due to other funds	\$ 27,373	\$ 1,713	\$ 29,086
Deferred revenue	59,614	-	59,614
Other current liabilities	59,864	-	59,864
	<u>146,851</u>	<u>1,713</u>	<u>148,564</u>
TOTAL CURRENT LIABILITIES			
NET ASSETS			
Invested in capital assets, net of related debt	334,453	-	334,453
Unrestricted	149,451	126,893	276,344
	<u>483,904</u>	<u>126,893</u>	<u>610,797</u>
TOTAL NET ASSETS			
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 630,755</u>	<u>\$ 128,606</u>	<u>\$ 759,361</u>

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	<u>Enterprise Funds</u>		<u>Total Proprietary Funds</u>
	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	
OPERATING REVENUES			
Charges for services	\$ 2,352,951	\$ 257,757	\$ 2,610,708
OPERATING EXPENSES			
Salaries	1,295,581	161,040	1,456,621
Employee benefits	349,807	13,203	363,010
Purchased professional and technical service	-	11,385	11,385
Purchased property service	91,492	-	91,492
Other purchased service	131,041	9,551	140,592
Supplies	1,552,342	3,081	1,555,423
Depreciation	60,505	-	60,505
Other operating expenses	9,240	-	9,240
TOTAL OPERATING EXPENSES	<u>3,490,008</u>	<u>198,260</u>	<u>3,688,268</u>
OPERATING INCOME (LOSS)	<u>(1,137,057)</u>	<u>59,497</u>	<u>(1,077,560)</u>
NONOPERATING REVENUES			
Federal sources	988,557	-	988,557
State sources	89,903	-	89,903
TOTAL NONOPERATING REVENUES	<u>1,078,460</u>	<u>-</u>	<u>1,078,460</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(58,597)</u>	<u>59,497</u>	<u>900</u>
TRANSFERS IN	35,996	-	35,996
TRANSFERS OUT	<u>-</u>	<u>(38,000)</u>	<u>(38,000)</u>
CHANGE IN NET ASSETS	<u>(22,601)</u>	<u>21,497</u>	<u>(1,104)</u>
NET ASSETS AT BEGINNING OF YEAR	<u>506,505</u>	<u>105,396</u>	<u>611,901</u>
NET ASSETS AT END OF YEAR	<u>\$ 483,904</u>	<u>\$ 126,893</u>	<u>\$ 610,797</u>

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2012

	<u>Enterprise Funds</u>		<u>Total Proprietary Funds</u>
	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 2,345,400	\$ 257,757	\$ 2,603,157
Payments to employees	(1,638,713)	(174,243)	(1,812,956)
Payments to suppliers	(2,101,313)	(63,806)	(2,165,119)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(1,394,626)</u>	<u>19,708</u>	<u>(1,374,918)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	-	(38,000)	(38,000)
Transfers from other funds	35,996	-	35,996
Federal sources	845,466	-	845,466
State sources	89,903	-	89,903
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>971,365</u>	<u>(38,000)</u>	<u>933,365</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition, construction and improvements of capital assets	(29,431)	-	(29,431)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(452,692)	(18,292)	(470,984)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>497,784</u>	<u>146,898</u>	<u>644,682</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 45,092</u>	<u>\$ 128,606</u>	<u>\$ 173,698</u>

PENNSBURY SCHOOL DISTRICT**STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS***Year Ended June 30, 2012*

	<u>Enterprise Funds</u>		
	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	<u>Total Proprietary Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (1,137,057)	\$ 59,497	\$ (1,077,560)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	60,505	-	60,505
Donated foods	143,091	-	143,091
(Increase) decrease in			
Due from other governments	3,468	-	3,468
Other receivables	(416)	-	(416)
Inventories	6,689	-	6,689
Prepaid expenses	-	1,660	1,660
Increase (decrease) in			
Due to other funds	(470,446)	(41,449)	(511,895)
Deferred revenue	(7,135)	-	(7,135)
Other current liabilities	6,675	-	6,675
	<u> </u>	<u> </u>	<u> </u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u>(1,394,626)</u>	\$ <u>19,708</u>	\$ <u>(1,374,918)</u>
 SUPPLEMENTAL DISCLOSURES			
Noncash activities			
Donated foods	\$ 143,091	\$ -	\$ 143,091

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

	<u>Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 38,422	\$ <u>1,143,299</u>
LIABILITIES		
Due to student groups	<u>-</u>	<u>\$ 1,143,299</u>
NET ASSETS		
Held in trust for benefits and other purposes	<u>\$ 38,422</u>	

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2012

	<u>Trust Fund</u>
ADDITIONS	
Contributions	\$ 13,945
Investment earnings	<u>10</u>
TOTAL ADDITIONS	13,955
DEDUCTIONS	
Scholarships awarded	<u>8,400</u>
CHANGE IN NET ASSETS	5,555
NET ASSETS AT BEGINNING OF YEAR	<u>32,867</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 38,422</u></u>

See accompanying notes to the basic financial statements.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Pennsbury School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The 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 District's accounting policies are described below.

Reporting Entity

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 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 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 District. This report presents the activities of the Pennsbury School District. The District is not a component unit of another reporting entity nor does it have any component units.

Bucks County Technical School (the "Technical School") is a joint venture of the District. The Technical School is a separate legal entity that unites six school districts located in Bucks County, Pennsylvania, and is not reported as part of the District's reporting entity. The purpose of the joint venture is to provide job training to students located in the Bucks County area and to share the costs associated with providing such training. Through a contractual arrangement with other participants, the District pays the Technical School for training given to District students. The financial report of the Technical School may be obtained by contacting the Technical School.

Basis of Presentation and Accounting

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary 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.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

The 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 District finances and meets the cash flow needs of its proprietary activities.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

The 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 District's Enterprise Funds are charges to customers for sales and services. Operating expenses of the Enterprise Funds 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 District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting

The 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 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 District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

General Fund - This is the general operating fund of the District. All activities of the District are accounted for through this fund except for those required to be accounted for in another fund. This fund is reported as a major fund.

Capital Projects Fund - This fund accounts for financial resources used to acquire or construct major capital projects. The revenue in this fund comes from the sale of bonds/notes or from capital appropriations from the General Fund under the Capital Reserve Fund provisions of the Pennsylvania School Code. This fund is reported as a major fund.

Proprietary Funds

Food Service Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The fund accounts for all revenues, food purchases and costs and expenses for the food service program. This fund is reported as a major fund.

Community Service Fund and Aquatics Fund - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The funds account for all revenues and costs and expenses of the community service program and the aquatics program.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Cash and Cash Equivalents

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

Short-Term Interfund Receivables/Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the Governmental Funds balance sheet. Short-term interfund loans are classified as "interfund receivables/payables." 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.

Inventories and Prepaid Items

Inventories of the General Fund, which consist primarily of supplies, are valued at cost on the first-in, first-out basis. Inventories of the Food Service Fund are valued at the lower of cost, determined by the first-in, first-out method, or market except for donated inventories, which are valued at average fair market value.

Prepaid expenses record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventory and prepaid expenses are similarly reported in government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The District defines a capital asset as an asset with an initial, individual cost equal to or greater than \$500 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.

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 District are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements, building and building improvements	20
Furniture, fixtures and equipment	5-20
Vehicles (salvage = 10%)	8

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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

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

Compensated Absences

District employees accumulate sick time in accordance with their applicable contracts. Compensated absences are reported as accrued in the government-wide, Proprietary Funds and Fiduciary Fund financial statements. Governmental Funds report only matured compensated absences payable to currently terminated employees and are included in accrued salaries and benefits.

The District has a contractual agreement whereby unused vacation of administrative staff up to a maximum of seven days is placed into a tax-sheltered annuity account for each employee at the end of each fiscal year. Deposits are calculated by multiplying unused vacation days by the employee's per diem rate. Undesignated employee deposits of \$181,902 at June 30, 2012, are included in other payables of the General Fund.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

GASB Statement No. 54

As of June 30, 2012, the District has adopted GASB Statement No. 54, which redefined how fund balances of the Governmental Funds are presented in the financial statements. Fund balances are classified as follows:

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- ***Restricted*** - Amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by grantors or creditors.
- ***Committed*** - Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors. This includes the budget reserve account.
- ***Assigned*** - Amounts that are intended to be used for a specific purpose, as expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.
- ***Unassigned*** - All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds balance sheet (page 14). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of Directors. The District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

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 when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE B CASH

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2012, \$30,526,943 of the District's bank balance of \$45,747,641 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the District's name; however, these funds are collateralized in accordance with Act 72	\$ <u>30,526,943</u>
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Interest Rate Risk - The 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.

NOTE C TAXES - REAL ESTATE AND OTHER

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

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

Discount period.....	July 1 to September 4 - 2% of gross levy
Face period.....	September 5 to November 1
Penalty period.....	November 2 to collection - 10% of gross levy
Lien date.....	January 15

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

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE D ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012, consisted of taxes, interest, other revenue 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>Capital Projects Fund</u>	<u>Food Service Fund</u>
Real estate taxes	\$ 3,302,519	\$ -	\$ -
Due from other governments	3,924,003	-	136,921
Other receivables	<u>859,612</u>	<u>1,239</u>	<u>15,260</u>
	<u>\$ 8,086,134</u>	<u>\$ 1,239</u>	<u>\$ 152,181</u>

NOTE E INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2012, is as follows:

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 27,373
General Fund	Other Enterprise Funds	1,713
General Fund	Capital Projects Fund	81,430
Capital Projects Fund	General Fund	<u>188,000</u>
		<u>\$ 298,516</u>

The amounts between the Food Service Fund and the General Fund are General Fund monies used to pay the expenditures of the Food Service Fund.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Enterprise Funds	\$ 38,000
Food Service Fund	Capital Projects Fund	35,996
Capital Projects Fund	General Fund	<u>192,800</u>
		<u>\$ 266,796</u>

The District typically uses General Fund and Capital Projects Fund monies to purchase equipment for the Food Service Fund.

NOTE F CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land and site improvements	\$ 9,703,950	\$ 216,516	\$ -	\$ 9,920,466
Capital assets being depreciated				
Buildings and building improvements	170,623,200	13,509,996	-	184,133,196
Furniture and equipment	51,438,194	1,526,287	(736,512)	52,227,969
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>222,061,394</u>	<u>15,036,283</u>	<u>(736,512)</u>	<u>236,361,165</u>
Accumulated depreciation				
Buildings and building improvements	(80,262,656)	(2,436,228)	-	(82,698,884)
Furniture and equipment	(43,096,192)	(7,051,290)	662,857	(49,484,625)
TOTAL ACCUMULATED DEPRECIATION	<u>(123,358,848)</u>	<u>(9,487,518)</u>	<u>662,857</u>	<u>(132,183,509)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>98,702,546</u>	<u>5,548,765</u>	<u>(73,655)</u>	<u>104,177,656</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>108,406,496</u>	<u>5,765,281</u>	<u>(73,655)</u>	<u>114,098,122</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	2,306,571	29,431	-	2,336,002
Accumulated depreciation	(1,941,044)	(60,505)	-	(2,001,549)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	<u>365,527</u>	<u>(31,074)</u>	<u>-</u>	<u>334,453</u>
CAPITAL ASSETS, net	<u>\$ 108,772,023</u>	<u>\$ 5,734,207</u>	<u>\$ (73,655)</u>	<u>\$ 114,432,575</u>

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Depreciation expense was charged to governmental functions as follows:

INSTRUCTION	
Regular programs	\$ 210,188
Special programs	10,651
Vocational education	5,196
Other instructional programs	625
SUPPORT SERVICES	
Pupil personnel services	2,405
Instructional staff services	1,082,051
Library services	7,337
Administration services	11,630
Pupil health services	4,206
Business services	9,992
Operation and maintenance of plant services	212,776
Student transportation services	620,101
Central services	18,276
NON-INSTRUCTIONAL SERVICES	
Athletics	53,686
Site acquisitions	915
Existing site improvements	186,193
Building acquisitions, new	13,057
Building acquisitions, replacement	<u>7,038,233</u>
	 <u>\$ 9,487,518</u>

NOTE G LEASES

Capital Leases

The District has entered into a lease agreement as lessee for financing the acquisition of technology equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Technology equipment	\$ 1,139,012
Transportation equipment	961,457
Accumulated depreciation	<u>(1,571,425)</u>
	 <u>\$ 529,044</u>

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

<u>Year Ending June 30,</u>	
2013	\$ 381,860
2014	<u>170,810</u>
	552,670
Amount representing interest	<u>(25,411)</u>
 PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
	 <u>\$ 527,259</u>

NOTE H LONG-TERM DEBT

General Obligation Bonds and Notes

The District has issued various general obligation serial bonds and notes to finance capital projects and for advance refundings of bonds.

The District has \$133,475,000 of bonds payable at June 30, 2012. During the year, the District made principal payments of \$5,960,000 and interest payments of \$5,788,394 related to the bond issues outstanding.

Series of 2011 Bond Issuance - The District issued \$10,000,000 of general obligation bonds to provide funds for capital improvements.

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

<u>Year Ending June 30,</u>	<u>Face Value</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 6,250,000	\$ 6,250,000	\$ 5,784,231
2014	6,505,000	6,505,000	5,530,993
2015	6,785,000	6,785,000	5,249,826
2016	7,055,000	7,055,000	4,983,984
2017	7,370,000	7,370,000	4,665,318
2018 to 2022	39,720,000	39,720,000	18,054,998
2023 to 2027	30,945,000	30,945,000	10,315,960
Thereafter	<u>28,845,000</u>	<u>28,845,000</u>	<u>2,161,426</u>
	 <u>\$ 133,475,000</u>	 <u>\$ 133,475,000</u>	 <u>\$ 56,746,736</u>

The District has \$20,000,000 of notes payable at June 30, 2012.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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

Year Ending June 30,	Principal	Interest
2013	\$ -	\$ 800,000
2014	-	800,000
2015	-	800,000
2016	-	800,000
2017	-	800,000
2018 to 2022	-	3,918,667
2023 to 2025	<u>20,000,000</u>	<u>428,000</u>
	<u>\$ 20,000,000</u>	<u>\$ 8,346,667</u>

NOTE I CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Interest Rate	Maturity Date	Beginning Balance	Additions	Accreted Discount	Reductions	Ending Balance	Due Within One Year
GENERAL OBLIGATION BONDS AND NOTES								
Bonds								
Series of 2002	4.000% to 4.400%	6/30/2012	\$ 1,275,000	\$ -	\$ -	\$ (1,275,000)	\$ -	\$ -
Series of 2004	2.625% to 5.250%	8/1/2025	38,755,000	-	-	(1,540,000)	37,215,000	1,615,000
Series of 2006	3.500% to 5.250%	6/30/2022	42,085,000	-	-	(250,000)	41,835,000	1,580,000
Series of 2008	2.000% to 4.550%	8/1/2025	8,755,000	-	-	(485,000)	8,270,000	505,000
Series of 2009	2.500% to 5.000%	8/15/2014	10,210,000	-	-	(2,400,000)	7,810,000	2,505,000
Series A of 2009	1.050% to 4.125%	8/1/2029	9,995,000	-	-	(5,000)	9,990,000	5,000
Series of 2010	.900% to 4.000%	8/1/2030	18,360,000	-	-	(5,000)	18,355,000	5,000
Series of 2011	.450% to 3.750%	8/1/2031	-	10,000,000	-	-	10,000,000	35,000
TOTAL GENERAL OBLIGATION BONDS			<u>129,435,000</u>	<u>10,000,000</u>	<u>-</u>	<u>(5,960,000)</u>	<u>133,475,000</u>	<u>6,250,000</u>
Notes, Series of 2004	Variable	8/1/2023	20,000,000	-	-	-	20,000,000	-
Deferred amount, bond premium and discounts, net			2,264,476	(22,919)	-	(270,659)	1,970,898	-
TOTAL GENERAL OBLIGATION BONDS AND NOTES			<u>151,699,476</u>	<u>9,977,081</u>	<u>-</u>	<u>(6,230,659)</u>	<u>155,445,898</u>	<u>6,250,000</u>
COMPENSATED ABSENCES			<u>2,740,093</u>	<u>236,957</u>	<u>-</u>	<u>(217,713)</u>	<u>2,759,337</u>	<u>228,204</u>
CAPITAL LEASES			<u>875,464</u>	<u>-</u>	<u>-</u>	<u>(348,205)</u>	<u>527,259</u>	<u>361,986</u>
NET OPEB OBLIGATION			<u>62,579</u>	<u>291,714</u>	<u>-</u>	<u>-</u>	<u>354,293</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES			<u>\$ 155,377,612</u>	<u>\$ 10,505,752</u>	<u>\$ -</u>	<u>\$ (6,796,577)</u>	<u>\$ 159,086,787</u>	<u>\$ 6,840,190</u>

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE J NONCANCELABLE LEASE OBLIGATION

In November 1995, the Bucks County Technical School Authority (the "Authority") issued school revenue bonds in the aggregate amount of \$27,260,000 for a new technical school and renovations on the old technical school. The bonds are secured under a trust indenture between the Authority and Wachovia National Bank by a pledge of, and are payable solely from, lease rentals payable by the Authority's member school districts, which includes the District, under an assignment of the lease. Thus, the District is obligated for a portion of the above amount. Each member school district's portion of the debt is based on a calculation of the apportionment of the lease rental among the member school districts made to create an equal millage impact upon all member school districts, which is effective for five years. This apportionment is then adjusted every five years thereafter until the lease expires or all payments are made. The Authority refinanced the bonds in 2005. The District made rental payments of \$857,078 for the year ended June 30, 2012, of which \$613,453 represented principal payments.

Shown below are the District's lease payments for the next five years and thereafter based on the apportionment that is binding through fiscal year 2016:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fees</u>	<u>Totals</u>
2013	\$ 641,839	\$ 216,577	\$ 6,308	\$ 864,724
2014	668,648	189,781	6,308	864,737
2015	698,611	158,943	6,308	863,862
2016	734,882	123,106	6,308	864,296
2017 to 2020	<u>2,400,194</u>	<u>101,048</u>	<u>18,924</u>	<u>2,520,166</u>
	<u>\$ 5,144,174</u>	<u>\$ 789,455</u>	<u>\$ 44,156</u>	<u>\$ 5,977,785</u>

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, 2012, deferred revenue consisted of delinquent taxes receivable and federal and state subsidies of \$2,689,473.

Food Service Fund

Deferred revenue of \$59,614 in the Food Service Fund consists of federal subsidies.

NOTE L PENSIONS

The Government Accounting Standards Board (GASB) requires that state and local governmental employers disclose in their notes to financial statements, certain information about the public employee retirement systems to which they contribute. PSERS is providing the following information in accordance with GASB to assist the employers in the preparation of their annual financial statements.

Plan Description

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

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

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

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

Annual Financial Report: The System issues a Comprehensive Annual Financial Report (CAFR) 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. The CAFR is also available on the publications page of the PSERS website.

Funding Policy

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

Contribution Rates

Member Contributions

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2012, the rate of employer's contribution was 8.65% of covered payroll. The 8.65% rate is composed of a pension contribution rate of 8.00% for pension benefits and .65% for healthcare insurance premium assistance.

The District's contribution to PSERS for the years ended June 30, 2012, 2011 and 2010, was \$7,945,117, \$5,239,176 and \$4,498,483, respectively, equal to the required contribution for each year.

NOTE M OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The District provides medical and dental 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 District Board Members and can be amended by the 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 District does not have any current contracts that offer postemployment benefits. The activity of the plan is reported in the District's General Fund.

Funding Policy

The District negotiates the contribution percentage between the 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 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 District.

Annual OPEB Cost and Net OPEB Obligation

The 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.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan are as follows:

Normal cost	\$ 580,064
Amortization of unfunded actuarial accrued liability	716,733
Interest	<u>26,103</u>
ANNUAL REQUIRED CONTRIBUTION (ARC)	1,322,900
Interest on net OPEB obligation	2,816
Adjustment to ARC	<u>(3,842)</u>
ANNUAL OPEB EXPENSE	1,321,874
Net OPEB contributions during the year	(1,030,160)
Net OPEB obligation at beginning of year	<u>62,579</u>
NET OPEB OBLIGATION AT END OF YEAR	<u><u>\$ 354,293</u></u>

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 1,582,066	97%	\$ (7,640)
2011	1,579,660	96%	62,579
2012	1,321,874	78%	354,293

Funded Status and Funding Progress

As of July 1, 2011, the actuarial accrued liability for benefits was \$11,674,790 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 \$82,935,959, and the ratio of the UAAL to the covered payroll was 14.08%.

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, presented as required supplementary information on page 45, 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.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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, 2011 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 8.0% initially, reduced by decrements of .5% to an ultimate rate of 5.5% after five years. 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, 2011, was 14 years.

NOTE N NONSPENDABLE FUND BALANCE

At June 30, 2012, the District segregated the ending fund balance of the General Fund for standard fund balance reserves as follows:

Inventories	\$ 492,431
Prepaid expenses	<u>75,335</u>
	<u>\$ 567,766</u>

NOTE O RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance except for employee health care, which is insured by the District as explained below.

The District insures for employee health care on a cost-plus basis. The District also has commercial insurance for health care claims that exceed \$100,000 on any one individual in any one plan year.

PENNSBURY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Liabilities for health care cost are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The claims liability is calculated based on management's judgment of reasonable reserves for payment lags and catastrophic events. The claims liability is reported as part of other payables in the General Fund.

Changes in the program's claims liability for the year ended June 30, 2012, are presented below:

<u>Balance June 30, 2011</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance June 30, 2012</u>
\$ <u>6,022,303</u>	\$ <u>17,298,133</u>	\$ <u>(17,298,133)</u>	\$ <u>6,022,303</u>

Independence Blue Cross is the administrator of the District's healthcare plan. The District also maintains \$813,824 in an escrow account to indemnify Blue Cross in the event that the District terminates the plan or does not pay its claims. This escrow amount is reported as a prepaid asset in the General Fund.

NOTE P POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

In addition to the pension benefits described in Note L, the District provided early retirement incentives to all professional and administrative employees who met specific age and year of service requirements through June 30, 2003. The benefits were adopted as part of the employment contracts negotiated between the unions and the School Board. The benefits offered are cash bonus payments to be applied to health insurance coverage. For the fiscal year ended June 30, 2012, there were 30 participants, and the expense related to the benefits totaled approximately \$284,280.

NOTE Q LITIGATION AND OTHER MATTERS

The District is a defendant in several actions related to tax billings, assessment valuations and labor grievances. In the opinion of the District's officials, the ultimate outcome of these actions will not have a material adverse effect on the District's financial statements.

NOTE R SUBSEQUENT EVENT

In August 2012, the District approved the issuance of General Obligation Bonds, Series of 2012, in the aggregate amount not to exceed \$31,730,000. Bond proceeds are to be used to advanced refund a portion of the 2004 Bond issue.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSBURY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 133,585,130	\$ 133,585,130	\$ 133,418,572	\$ (166,558)
State sources	34,260,870	34,260,870	35,068,269	807,399
Federal sources	1,807,000	1,807,000	1,913,495	106,495
TOTAL REVENUES	<u>169,653,000</u>	<u>169,653,000</u>	<u>170,400,336</u>	<u>747,336</u>
EXPENDITURES				
Instruction	108,565,419	109,182,399	107,840,548	1,341,851
Support services	49,518,493	49,823,265	46,636,800	3,186,465
Operation of non-instructional services	1,325,818	1,349,676	1,305,175	44,501
Debt service	13,388,470	12,254,860	12,130,253	124,607
Refund of prior year revenues	-	-	13,471	(13,471)
TOTAL EXPENDITURES	<u>172,798,200</u>	<u>172,610,200</u>	<u>167,926,247</u>	<u>4,683,953</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,145,200)</u>	<u>(2,957,200)</u>	<u>2,474,089</u>	<u>5,431,289</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	38,000	38,000
Transfers out	(4,800)	(192,800)	(192,800)	-
Proceeds from sale of fixed assets	-	-	3,162	3,162
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,800)</u>	<u>(192,800)</u>	<u>(151,638)</u>	<u>41,162</u>
NET CHANGE IN FUND BALANCE	<u>(3,150,000)</u>	<u>(3,150,000)</u>	<u>2,322,451</u>	<u>5,472,451</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>12,558,709</u>	<u>12,558,709</u>	<u>12,558,709</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 9,408,709</u>	<u>\$ 9,408,709</u>	<u>\$ 14,881,160</u>	<u>\$ 5,472,451</u>

See accompanying note to the budgetary comparison schedule.

PENNSBURY SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2012

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.

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

1. Prior to May 31, the District Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
2. A public hearing is conducted to obtain taxpayer comments.
3. On or before June 30, the budget is legally enacted through passage of a resolution.
4. Legal budgetary control is maintained by the School Board at the department level. Transfers between departments, whether between funds or within a fund, or revisions that alter total revenues and expenditures of any fund must be approved by the School Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control.
5. Budgetary data are included in the District's management information system and are employed as a management control device during the year.
6. The budget for the General Fund is adopted substantially on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

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).

PENNSBURY SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
Year Ended June 30, 2012

SCHEDULE OF FUNDING PROGRESS

<u>Valuation Date</u> <u>July 1,</u>	<u>(a)</u> <u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>(b)</u> <u>Entry Age</u> <u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u>	<u>(c)</u> <u>Unfunded</u> <u>AAL (UAAL)</u> <u>(b)-(a)</u>	<u>(d)</u> <u>Funded</u> <u>Ratio</u> <u>(a)/(b)</u>	<u>(e)</u> <u>Covered</u> <u>Payroll</u>	<u>(f)</u> <u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>(c)/(e)</u>
2007	\$ -	\$ 12,250,333	\$ 12,250,333	0%	\$ 76,532,119	16.01%
2009	-	11,243,782	11,243,782	0%	84,776,986	13.26%
2011		11,674,790	11,674,790	0%	82,935,959	14.08%



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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 Directors
Pennsbury School District
Bucks County, Pennsylvania

We have audited the basic financial statements of the Pennsbury School District as of and for the year ended June 30, 2012, and have issued our report thereon dated December 6, 2012. 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

Management of the Pennsbury School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Pennsbury School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pennsbury School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pennsbury 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 the 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 Directors
Pennsbury School District
Bucks County, Pennsylvania

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pennsbury 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 Directors, the Commonwealth of Pennsylvania and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maillie Falconiero + Company, LLP

Oaks, Pennsylvania
December 6, 2012



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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 Directors
Pennsbury School District
Bucks County, Pennsylvania

COMPLIANCE

We have audited the compliance of the Pennsbury School District with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Pennsbury School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the entity's management. Our responsibility is to express an opinion on the Pennsbury 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and 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 Pennsbury 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 on the Pennsbury School District's compliance with those requirements.

In our opinion, the Pennsbury 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, 2012.

To the Board of Directors
Pennsbury School District
Bucks County, Pennsylvania

INTERNAL CONTROL OVER COMPLIANCE

The management of the Pennsbury 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 Pennsbury School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 Pennsbury 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 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.

Maclle Falcone + Company, LLP

Oaks, Pennsylvania
December 6, 2012

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

PENNSBURY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster 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, 2011</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2012</u>
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education										
Title I	I	84.010	013-110331	July 1, 2010 to September 30, 2011	\$ 577,692	\$ -	\$ (69,063)	\$ 69,063	\$ 69,063	\$ -
Title I - Academic Achievement Award	I	84.010	077-110331	July 1, 2010 to September 30, 2011	5,000	4,000	2,341	1,535	1,535	(124)
Title I	I	84.010	013-120331	July 21, 2011 to September 30, 2012	484,876	387,790	-	464,542	464,542	76,752
Title II	I	84.367	020-110331	July 1, 2010 to September 30, 2011	319,394	84,953	63,778	21,175	21,175	-
Title II	I	84.367	020-120331	July 1, 2011 to September 30, 2012	271,338	181,323	-	217,405	217,405	36,082
Title III	I	84.365	010-110331	January 31, 2011 to September 30, 2011	45,359	45,359	6,012	39,347	39,347	-
Title III	I	84.365	010-120331	July, 21, 2011 to September 30, 2012	53,720	30,450	-	39,793	39,793	9,343
Public Library Improvement Services	I	45.310	202-110070	July 1, 2011 to June 30, 2012	5,000	5,000	-	4,995	4,995	(5)
Public Library Improvement Services	I	45.310	202-110071	July 1, 2011 to June 30, 2012	5,000	5,000	-	4,996	4,996	(4)
Public Library Improvement Services	I	45.310	202-110072	July 1, 2011 to June 30, 2012	5,000	5,000	-	4,993	4,993	(7)
Drug Free Schools and Communities Act	I	84.186	100-100585	May 5, 2011 to September 30, 2011	10,000	6,000	3,410	2,590	2,590	-
Education Jobs Fund	I	84.410	S410A10039	July 1, 2011 to June 30, 2012	15,832	-	-	15,832	15,832	15,832
ARRA - Fiscal Stabilization - Basic Ed	I	84.394	126-110331	July 1, 2010 to June 30, 2011	1,723,269	574,423	574,423	-	-	-
Passed through the Bucks County Intermediate Unit										
IDEA	I	84.027	062-11-0-022	July 1, 2010 to June 30, 2011	1,927,949	590,429	590,429	-	-	-
IDEA	I	84.027*	062-12-0-022-B1	July 1, 2011 to June 30, 2012	1,916,944	<u>760,526</u>	<u>-</u>	<u>1,916,944</u>	<u>1,916,944</u>	<u>1,156,418</u>
SUBTOTAL FORWARD						<u>\$ 2,680,253</u>	<u>\$ 1,171,330</u>	<u>\$ 2,803,210</u>	<u>\$ 2,803,210</u>	<u>\$ 1,294,287</u>

PENNSBURY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster 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, 2011</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2012</u>
U.S. DEPARTMENT OF EDUCATION										
SUBTOTAL FORWARDED						\$ 2,680,253	\$ 1,171,330	\$ 2,803,210	\$ 2,803,210	\$ 1,294,287
Passed through the Bucks County Intermediate Unit										
ARRA - IDEA-B Grants to States	I	84.391*	128-100022	February 17, 2009 to September 30, 2011	\$ 2,180,671	199,100	199,100	-	-	-
IDEA - Section 619	I	84.173*	131-110022D	July 1, 2011 to June 30, 2012	10,611	-	-	10,611	10,611	10,611
Passed through the County of Bucks: Pennsylvania Commission on Crime & Delinquency										
T.R.A.C.K.	I	16.523	2008-JB-13-19829	July 1, 2010 to June 30, 2011	10,000	10,000	500	9,500	9,500	-
TOTAL FORWARD						2,889,353	1,370,930	2,823,321	2,823,321	1,304,898
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Passed through the Pennsylvania Department of Public Welfare										
Medical Assistance ACCESS	I	93.778	N/A	July 1, 2010 to June 30, 2011	4,380	4,380	-	4,380	4,380	-
TOTAL FORWARD						4,380	-	4,380	4,380	-
U.S. DEPARTMENT OF AGRICULTURE										
Passed through the Pennsylvania Department of Education										
Breakfast Program	I	10.553	N/A	July 1, 2010 to June 30, 2011	N/A	17,548	17,548	-	-	-
National School Lunch Program	I	10.555	N/A	July 1, 2010 to June 30, 2011	N/A	106,259	106,259	-	-	-
National School Lunch Program - FFVP	I	10.582	N/A	July 1, 2010 to June 30, 2011	N/A	881	881	-	-	-
National School Lunch Program	I	N/A	N/A	July 1, 2010 to June 30, 2011	N/A	13,929	13,929	-	-	-
Breakfast Program	I	N/A	N/A	July 1, 2010 to June 30, 2011	N/A	1,774	1,774	-	-	-
Breakfast Program	I	10.553	N/A	July 1, 2011 to June 30, 2012	N/A	90,627	-	109,292	109,292	18,665
National School Lunch Program	I	10.555	N/A	July 1, 2011 to June 30, 2012	N/A	607,521	-	709,777	709,777	102,256
SUBTOTAL FORWARD						\$ 838,539	\$ 140,391	\$ 819,069	\$ 819,069	\$ 120,921

PENNSBURY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster 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, 2011</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2012</u>
U.S. DEPARTMENT OF EDUCATION										
TOTAL FORWARDED						\$ 2,889,353	\$ 1,370,930	\$ 2,823,321	\$ 2,823,321	\$ 1,304,898
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
TOTAL FORWARDED						4,380	-	4,380	4,380	-
U.S. DEPARTMENT OF AGRICULTURE										
Passed through the Pennsylvania Department of Education										
SUBTOTAL FORWARDED						838,539	140,391	819,069	819,069	120,921
National School Lunch Program - FFVP	I	10.582	N/A	July 1, 2011 to June 30, 2012	N/A	12,443	-	13,859	13,859	1,416
National School Lunch Program	I	N/A	N/A	July 1, 2011 to June 30, 2012	N/A	68,154	-	81,065	81,065	12,911
National School Lunch Program	I	10.555	N/A	July 1, 2011 to June 30, 2012	N/A	11,415	-	11,415	11,415	-
Breakfast Program	I	N/A	N/A	July 1, 2011 to June 30, 2012	N/A	7,165	-	8,838	8,838	1,673
Breakfast Program	I	10.553	N/A	July 1, 2011 to June 30, 2012	N/A	1,123	-	1,123	1,123	-
Passed through the Commonwealth of Pennsylvania Department of Agriculture										
National School Lunch Program	I	10.555	N/A	July 1, 2011 to June 30, 2012	N/A	135,955 (a)	(66,749) (b)	143,091 (c)	143,091 (c)	(59,613) (d)
TOTAL U.S. DEPARTMENT OF AGRICULTURE						1,074,794	73,642	1,078,460	1,078,460	77,308
TOTAL FEDERAL AND STATE AWARDS						3,968,527	1,444,572	3,906,161	3,906,161	1,382,206
LESS STATE SHARE						(75,319)	-	(89,903)	(89,903)	(14,584)
TOTAL FEDERAL AWARDS						\$ 3,893,208	\$ 1,444,572	\$ 3,816,258	\$ 3,816,258	\$ 1,367,622

Footnotes:

- (a) Total amount of foods received from the Department of Agriculture.
- (b) Beginning inventory at July 1, 2011.
- (c) Total amount of foods used.
- (d) Ending inventory at June 30, 2012.

Source Codes:

- I = Indirect Funding
- * = Major Program

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

PENNSBURY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

NOTE A GENERAL

The accompanying schedule of expenditures of federal and state awards presents the activity of all federal financial assistance programs of the Pennsbury School District. The District reporting entity is defined in Note A to the District's basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

NOTE B BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal and state awards is presented using the modified accrual basis of accounting, which is described in Note A to the District's basic financial statements.

NOTE C RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The following is a reconciliation of revenue per the schedule of expenditures of federal and state awards to the basic financial statements:

GENERAL FUND		
Local sources*		\$ 1,937,055
Federal sources		890,646
FOOD SERVICE FUND		
Federal sources		<u>988,557</u>
TOTAL FEDERAL ASSISTANCE		<u>3,816,258</u>
FOOD SERVICE FUND		
State sources		<u>89,903</u>
TOTAL FEDERAL AND STATE AWARDS		<u>\$ 3,906,161</u>

*IDEA, T.R.A.C.K. grants

PENNSBURY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Pennsbury 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 Pennsbury 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 Pennsbury 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:

Program	CFDA
Special Education Cluster (IDEA)	
Special Education - Grants to States (IDEA, Part B)	84.027
Special Education - Preschool Grants (IDEA Preschool)	84.173

8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. Pennsbury 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.

PENNSBURY SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

None.