

**PENNSBURY SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

*Year Ended June 30, 2009*

## **INTRODUCTORY SECTION**

TABLE OF CONTENTS

	<u>Page No.</u>
INTRODUCTORY SECTION	
Table of Contents .....	1
FINANCIAL SECTION	
Independent Auditors' Report.....	4
Management's Discussion and Analysis (Unaudited) .....	6
Basic Financial Statements	
<b><i>Government-Wide Financial Statements</i></b>	
Statement of Net Assets (Deficit).....	15
Statement of Activities .....	16
<b><i>Fund Financial Statements</i></b>	
<i>Governmental Funds</i>	
Balance Sheet.....	17
Reconciliation of Total Governmental Funds Balances to Net Deficit of Governmental Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balances .....	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities .....	20

TABLE OF CONTENTS

	<u>Page No.</u>
<i>Proprietary Funds</i>	
Statement of Net Assets.....	22
Statement of Revenues, Expenses and Changes in Net Assets.....	23
Statement of Cash Flows .....	24
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Assets .....	26
Statement of Changes in Fiduciary Net Assets .....	27
<b>Notes to the Basic Financial Statements</b> .....	<b>28</b>
Required Supplementary Information	
Budgetary Comparison Schedule .....	53
Note to the Budgetary Comparison Schedule.....	54
Postemployment Benefits Other Than Pension Funding Progress .....	55
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.....	56
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	58

TABLE OF CONTENTS

	<u>Page No.</u>
ADDITIONAL INFORMATION - MAJOR FEDERAL AWARD PROGRAMS AUDIT	
Schedule of Expenditures of Federal and State Awards .....	61
Notes to the Schedule of Expenditures of Federal and State Awards.....	64
Schedule of Findings and Questioned Costs .....	65

## **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, Bucks County, Pennsylvania, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pennsbury School District, Bucks County, Pennsylvania's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Pennsbury School District, Bucks County, Pennsylvania, as of June 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2009, on our consideration of the Pennsbury School District, Bucks County, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6 through 14, budgetary comparison information on pages 53 and 54 and postemployment benefits other than pension funding progress on page 55 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Maillie Falcone & Company, LLP*

Oaks, Pennsylvania  
November 30, 2009



**PENNSBURY SCHOOL DISTRICT**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
*June 30, 2009*

## **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, 2009. 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 (Deficit) reports assets, liabilities and net assets for the District, including governmental activities and business-type activities (Page 15).

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 16).

The Balance Sheet, Governmental Funds, reports assets, liabilities and fund balance for the General Fund and Capital Projects Fund (Page 17).

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 (Deficit) and Statement of Activities (Page 18).

The Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds, reports the revenues, expenditures and changes in fund balance for the General Fund and Capital Projects Fund (Page 19).

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 20 and 21).

# PENNSBURY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2009

The Statement of Net Assets, Proprietary Funds, reports assets, liabilities and net assets for Proprietary Funds (Page 22).

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 23).

### 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, 2009. 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, 2009</u>	<u>June 30, 2008</u>	<u>Difference</u>
ASSETS			
Capital	\$ 107,079,080	\$ 108,429,543	\$ (1,350,463)
Other	<u>38,471,923</u>	<u>34,302,308</u>	<u>4,169,615</u>
TOTAL ASSETS	<u>\$ 145,551,003</u>	<u>\$ 142,731,851</u>	<u>\$ 2,819,152</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 decrease in capital assets is attributed to the depreciation of existing assets.

The increase in other assets is attributed primarily to an increase in cash and cash equivalents, which was used to finance capital improvements.

**PENNSBURY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*June 30, 2009*

**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, 2009</u>	<u>June 30, 2008</u>	<u>Difference</u>
LIABILITIES			
Long-term	\$ 139,438,868	\$ 131,207,210	\$ 8,231,658
Other	<u>23,996,741</u>	<u>25,279,873</u>	<u>(1,283,132)</u>
TOTAL LIABILITIES	<u>\$ 163,435,609</u>	<u>\$ 156,487,083</u>	<u>\$ 6,948,526</u>

The increase in long-term debt is attributed to a capital lease financing and the issuance of General Obligation Bonds, Series of 2008 and Series of 2009.

The decrease in other liabilities is primarily due to reduced accounts payable liabilities at year-end.

**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 (deficit).

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Difference</u>
NET ASSETS	<u>\$ (17,884,606)</u>	<u>\$ (13,755,232)</u>	<u>\$ 4,129,374</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 \$108,725,107, up from \$101,257,744 in the previous year. This number reflects the fact that 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 and Pennsbury High School West. Also, renovations of Makefield Elementary School are in progress and renovations to Eleanor Roosevelt Elementary School are being planned.

# PENNSBURY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2009

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 8 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 \$17,309,019. 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 unrestricted fund balance.

Fourth, although net assets are reported as a deficit of \$(17,884,606), Pennsbury remains in good financial condition. The year-end General Fund unreserved fund balance of \$5,388,651 is considered ample to guard against revenue shortfalls and the need for emergency expenditures. Another indication of the District's financial health is this year's upgrade from Moody's underlying rating of A1 to Standard & Poors underlying rating of AA-. This rating reflects the District's very strong wealth and income indicators, good well-embedded management policies and moderate debt levels.

### 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, 2009</u>	<u>June 30, 2008</u>	<u>Difference</u>
Local	\$ 131,459,606	\$ 131,778,578	\$ (318,972)
State	35,801,343	32,593,921	3,207,422
Federal	1,372,284	1,350,407	21,877
Other	75,983	4,000	71,983

# PENNSBURY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2009

The primary source of revenue for the year ended June 30, 2009, remains local, which was 77.9% of the total. The largest part of local revenue, about 71.5% of the entire revenue budget, is from real estate tax.

The state share of revenue amounted to 21.2% of the revenue budget for the year ended June 30, 2009. The federal share of revenue was less than one percent (.8%).

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

Proprietary Funds revenue was 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, 2009</u>	<u>June 30, 2008</u>	<u>Difference</u>
Instruction	\$ 107,656,849	\$ 107,922,082	\$ (265,233)
Support services	48,274,962	46,176,278	2,098,684
Non-instructional services	1,378,009	1,413,352	(35,343)
Debt service	11,871,426	11,687,555	183,871
Other	18,160	91,098	(72,938)

The primary purpose of expenditures was for instruction at 63.6%. Most of the instructional expenditures were for the salary and benefits of instructional staff, about 53.1% of the total expenditure budget.

Expenditures for capital projects were provided almost entirely from the Capital Projects Fund, most importantly the 2004 and 2008 bond issues.

**PENNSBURY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*June 30, 2009*

**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. Fund balance consists of two components--reserved and unreserved. Reserved fund balance reflects funds that are legally earmarked for a specific future use and are not available for appropriation. Unreserved fund balance reflects current financial resources that are available for appropriation. Unreserved fund balance may be designated or undesignated. Unreserved designated fund balance is a designation that reflects tentative plans to use financial resources in a future period. Since designations represent planned actions and not actual commitments, funds may be appropriated for other uses if plans change and the need arises. A more detailed reporting of fund balance is noted below.

	June 30,	
	2009	2008
Reserved fund balance	\$ 675,451	\$ 751,128
Unreserved designated fund balance	5,190,000	4,608,583
Unreserved undesignated fund balance	198,651	1,194,581
TOTAL FUND BALANCE	\$ 6,064,102	\$ 6,554,292

For the year ended June 30, 2009, the fund balance decreased \$490,190 compared to the prior year. Expressed as a percentage of the 2008-2009 budget, total fund balance was 3.5% and unreserved undesignated fund balance was .1%. 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 expenditures needs.

**Special or Extraordinary Items and Transfers**

The deficit operation of the Food Service Fund has been addressed over the last several years and nine of the last ten years have been profitable. Improved management and marketing have proven successful as evidenced by the unrestricted deficit decreasing from \$97,716 last year to \$63,927 this year.

After several profitable years, the deficit operation of the community services program has been eliminated. This program had encompassed the aquatics program, community adult school, summer sports camps and summer recreation programs. Measures taken over the last seven years to reorganize the aquatics program, summer recreation, summer sports camps and the community school have resulted in profitability of the community services program. These measures have proven successful as evidenced by the elimination of last year's unrestricted deficit of \$16,250 and this year's unrestricted surplus of \$28,622.

# **PENNSBURY SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

*June 30, 2009*

### **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 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 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 first three 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.

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 and the forfeit of the 2% discount if the installment plan is selected.

The District self-insures medical and prescription benefits for almost all its employees. Although the costs associated with self-insurance have been significantly lower than a premium-based plan, costs are still increasing. In general, the cost of health benefits is rising to reflect the increasing costs of medical care and medicine. In recent years, the District has increased the level of employee contributions required to share in the cost of health benefits. 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.

Significant increases in energy costs have been experienced over recent years and are likely to continue. The District has partnered with Aramark to help minimize the impact of these rising costs on the District. Aramark is providing Energy Management services to improve efficiencies and reduce consumption District-wide. The District also has some protection against high energy costs through joint purchasing of diesel fuel, heating oil and gasoline through the Bucks County Schools Intermediate Unit. Nevertheless, energy costs are expected to be an increasing expenditure challenge.

# PENNSBURY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2009

The Public School Employees Retirement System (PSERS) is a defined benefit pension plan for Pennsylvania school employees. The employer's 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 employer's contribution rate will be required beginning in 2012-2013. Significant increases in the employer's rate 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>
2006-2007	6.46%	\$ 5,396,848 (actual)
2007-2008	7.13%	6,344,577 (actual)
2008-2009	4.76%	4,706,937 (actual)
2009-2010	7.13% (budgeted)	6,917,322 (budgeted)

\*Percent of PSERS qualified salaries and wages.

Interest rate risk remains a consideration because the District depends on interest earnings on invested cash. Fluctuating interest rates over the last year have made the projection of this revenue riskier than in years past. Interest earnings in the current year are better than anticipated due to the current economic climate. Hopefully, the recent decline in investment rates will improve and investment earnings will increase in the future.

This year the District received the last annual payment (\$1,000,000) from the Keystone Opportunity Improvement Zone (KOIZ) that was established at the former U.S. Steel Fairless Works site. The area is now known as the Keystone Industrial Port Complex (KIPC) and has been designated an eco-industrial park by the Environmental Protection Agency. This designation has 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.

The District's enrollment has been relatively stable. Increased enrollment or redistricting of the enrollment could result in increased costs for delivery of curriculum and services.

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.



## **PENNSBURY SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

*June 30, 2009*

The collective bargaining agreement with the Pennsbury Education Association expires on June 30, 2010. Negotiations will begin in 2009-2010 for this employee group consisting of approximately 830 professional staff members.

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 (DEFICIT)**  
*June 30, 2009*

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 16,876,272	\$ 432,747	\$ 17,309,019
Investments	9,750,748	-	9,750,748
Taxes receivable, net	2,854,419	-	2,854,419
Internal balances	580,169	(580,169)	-
Due from other governments	2,727,834	127,295	2,855,129
Other receivables, net	831,078	23,588	854,666
Inventories	652,662	134,945	787,607
Prepaid expenses	836,613	1,569	838,182
Deferred debt expenses	713,294	-	713,294
Deferred amount on refunding	2,455,668	-	2,455,668
Other postemployment benefit asset	53,191	-	53,191
<b>Capital assets</b>			
Land and site improvements	9,535,427	-	9,535,427
Buildings and building improvements	155,055,669	-	155,055,669
Furniture and equipment	48,977,914	2,235,177	51,213,091
Accumulated depreciation	<u>(106,910,663)</u>	<u>(1,814,444)</u>	<u>(108,725,107)</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 144,990,295</u></b>	<b><u>\$ 560,708</u></b>	<b><u>\$ 145,551,003</u></b>

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 2,414,917	\$ -	\$ 2,414,917
Accrued salaries and benefits	15,411,344	-	15,411,344
Deferred revenue	10,229	129,186	139,415
Other current liabilities	4,268,629	46,094	4,314,723
Accrued interest	1,716,342	-	1,716,342
<b>Long-term liabilities</b>			
<b>Portion due or payable within one year</b>			
Bonds payable	5,760,000	-	5,760,000
Bond premium	266,135	-	266,135
Compensated absences	157,658	-	157,658
Lease purchase obligations	322,223	-	322,223
<b>Portion due or payable after one year</b>			
Bonds payable	106,563,635	-	106,563,635
Bond premium	2,422,911	-	2,422,911
Notes payable	20,000,000	-	20,000,000
Compensated absences	2,735,885	-	2,735,885
Lease purchase obligations	1,210,421	-	1,210,421
<b>TOTAL LIABILITIES</b>	<b><u>163,260,329</u></b>	<b><u>175,280</u></b>	<b><u>163,435,609</u></b>
<b>NET ASSETS (DEFICIT)</b>			
Invested in capital assets, net of related debt	(2,885,372)	420,733	(2,464,639)
Unrestricted	<u>(15,384,662)</u>	<u>(35,305)</u>	<u>(15,419,967)</u>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b><u>(18,270,034)</u></b>	<b><u>385,428</u></b>	<b><u>(17,884,606)</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<b><u>\$ 144,990,295</u></b>	<b><u>\$ 560,708</u></b>	<b><u>\$ 145,551,003</u></b>

*See accompanying notes to the basic financial statements.*

**PENNSBURY SCHOOL DISTRICT**

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

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
<b>GOVERNMENTAL ACTIVITIES</b>							
Instruction							
Regular programs	\$ 74,243,222	\$ 318,566	\$ 5,421,929	\$ -	\$ (68,502,727)	\$ -	\$ (68,502,727)
Special programs	26,353,283	-	7,953,598	-	(18,399,685)	-	(18,399,685)
Vocational education	6,697,532	-	122,583	-	(6,574,949)	-	(6,574,949)
Other instructional programs	641,378	3,140	1,031,056	-	392,818	-	392,818
Support services							
Pupil personnel services	5,566,176	-	246,603	-	(5,319,573)	-	(5,319,573)
Instructional staff services	4,647,910	-	132,052	-	(4,515,858)	-	(4,515,858)
Administration services	8,783,764	-	333,963	-	(8,449,801)	-	(8,449,801)
Pupil health services	2,620,296	-	4,488,339	-	1,868,043	-	1,868,043
Business services	1,756,061	-	60,250	-	(1,695,811)	-	(1,695,811)
Operation and maintenance of plant services	16,144,053	233,923	394,751	-	(15,515,379)	-	(15,515,379)
Student transportation services	8,289,862	-	2,243,828	-	(6,046,034)	-	(6,046,034)
Central services	2,069,243	-	85,052	-	(1,984,191)	-	(1,984,191)
Other services	304,622	-	-	-	(304,622)	-	(304,622)
Operation of non-instructional services							
Student activities	1,124,907	51,588	41,747	-	(1,031,572)	-	(1,031,572)
Community services	253,102	-	-	-	(253,102)	-	(253,102)
Facilities acquisition, construction and improvement services	5,972,576	-	-	-	(5,972,576)	-	(5,972,576)
Debt service	16,634,853	-	-	10,697,295	(5,937,558)	-	(5,937,558)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>182,102,840</b>	<b>607,217</b>	<b>22,555,751</b>	<b>10,697,295</b>	<b>(148,242,577)</b>	<b>-</b>	<b>(148,242,577)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Food service	3,404,281	2,541,201	832,051	-	-	(31,029)	(31,029)
Community services	191,473	236,345	-	-	-	44,872	44,872
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>3,595,754</b>	<b>2,777,546</b>	<b>832,051</b>	<b>-</b>	<b>-</b>	<b>13,843</b>	<b>13,843</b>
<b>TOTAL DISTRICT ACTIVITIES</b>	<b>\$ 185,698,594</b>	<b>\$ 3,384,763</b>	<b>\$ 23,387,802</b>	<b>\$ 10,697,295</b>	<b>(148,242,577)</b>	<b>13,843</b>	<b>(148,228,734)</b>
<b>GENERAL REVENUES</b>							
Taxes							
Property taxes, levied for general purposes					126,351,305	-	126,351,305
Public utility taxes					162,723	-	162,723
Grants and contributions not restricted to specific programs					14,612,896	-	14,612,896
Refund of prior year revenues					(13,736)	-	(13,736)
Investment earnings					1,689,797	-	1,689,797
Loss on sale of capital assets					(45,008)	-	(45,008)
Miscellaneous					1,341,383	-	1,341,383
<b>TRANSFERS</b>					<b>(18,250)</b>	<b>18,250</b>	<b>-</b>
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>144,081,110</b>	<b>18,250</b>	<b>144,099,360</b>
<b>CHANGE IN NET ASSETS</b>					<b>(4,161,467)</b>	<b>32,093</b>	<b>(4,129,374)</b>
<b>NET ASSETS (DEFICIT) AT BEGINNING OF YEAR</b>					<b>(14,108,567)</b>	<b>353,335</b>	<b>(13,755,232)</b>
<b>NET ASSETS (DEFICIT) AT END OF YEAR</b>					<b>\$ (18,270,034)</b>	<b>\$ 385,428</b>	<b>\$ (17,884,606)</b>

See accompanying notes to the basic financial statements.

**PENNSBURY SCHOOL DISTRICT****BALANCE SHEET****GOVERNMENTAL FUNDS***June 30, 2009*

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 14,600,806	\$ 2,275,466	\$ 16,876,272
Investments	7,102,748	2,648,000	9,750,748
Taxes receivable, net	2,854,419	-	2,854,419
Due from other funds	600,984	-	600,984
Due from other governments	2,727,834	-	2,727,834
Other receivables	803,373	27,705	831,078
Inventories	652,662	-	652,662
Prepaid items	836,613	-	836,613
	<u>30,179,439</u>	<u>4,951,171</u>	<u>35,130,610</u>
<b>TOTAL ASSETS</b>	<b>\$ 30,179,439</b>	<b>\$ 4,951,171</b>	<b>\$ 35,130,610</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 2,316,313	\$ 98,604	\$ 2,414,917
Due to other funds	-	20,815	20,815
Deferred revenue	2,119,051	-	2,119,051
Accrued salaries and benefits	15,411,344	-	15,411,344
Other payables	4,268,629	-	4,268,629
	<u>24,115,337</u>	<u>119,419</u>	<u>24,234,756</u>
<b>TOTAL LIABILITIES</b>	<b>24,115,337</b>	<b>119,419</b>	<b>24,234,756</b>
<b>FUND BALANCES</b>			
Reserved for			
Inventories	652,662	-	652,662
Prepaid expenses	22,789	-	22,789
Unreserved			
Designated	5,190,000	1,797,032	6,987,032
Undesignated	198,651	3,034,720	3,233,371
	<u>6,064,102</u>	<u>4,831,752</u>	<u>10,895,854</u>
<b>TOTAL FUND BALANCES</b>	<b>6,064,102</b>	<b>4,831,752</b>	<b>10,895,854</b>
	<u>30,179,439</u>	<u>4,951,171</u>	<u>35,130,610</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 30,179,439</b>	<b>\$ 4,951,171</b>	<b>\$ 35,130,610</b>

*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, 2009*

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 10,895,854

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	9,535,427
Buildings and building improvements	155,055,669
Furniture and equipment	48,977,914
Accumulated depreciation	(106,910,663)
Deferred amount on refunding	2,455,668
Other postemployment benefits	53,191

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

Accrued interest	(1,716,342)
Deferred debt expenses	713,294
Bonds payable	(112,323,635)
Bond premium	(2,689,046)
Notes payable	(20,000,000)
Compensated absences	(2,893,543)
Lease purchase obligations	(1,532,644)

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.

2,108,822

NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (18,270,034)

*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, 2009*

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Local sources	\$ 131,459,606	\$ 76,137	\$ 131,535,743
State sources	35,801,343	-	35,801,343
Federal sources	<u>1,372,284</u>	<u>-</u>	<u>1,372,284</u>
<b>TOTAL REVENUES</b>	<u>168,633,233</u>	<u>76,137</u>	<u>168,709,370</u>
<b>EXPENDITURES</b>			
Instruction	107,656,849	31,789	107,688,638
Support services	48,274,962	1,817,134	50,092,096
Operation of non-instructional services	1,378,009	-	1,378,009
Facilities acquisition, construction and improvement services	-	4,178,668	4,178,668
Debt service	11,871,426	-	11,871,426
Refund of prior year revenues	13,736	-	13,736
<b>TOTAL EXPENDITURES</b>	<u>169,194,982</u>	<u>6,027,591</u>	<u>175,222,573</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(561,749)</u>	<u>(5,951,454)</u>	<u>(6,513,203)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond issue proceeds	-	9,000,000	9,000,000
Proceeds from refunding bonds	14,865,000	-	14,865,000
Payment to refunded bond escrow agent	(14,789,017)	-	(14,789,017)
Transfers out	<u>(4,424)</u>	<u>(13,826)</u>	<u>(18,250)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>71,559</u>	<u>8,986,174</u>	<u>9,057,733</u>
<b>NET CHANGE IN FUND BALANCES</b>	(490,190)	3,034,720	2,544,530
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<u>6,554,292</u>	<u>1,797,032</u>	<u>8,351,324</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 6,064,102</u>	<u>\$ 4,831,752</u>	<u>\$ 10,895,854</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, 2009

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARD

\$ 2,544,530

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 depreciation (\$8,035,150) exceeds capital outlays (\$6,776,263) in the current period.

(1,258,887)

Loss on disposal of capital assets is not recorded in the Governmental Funds. This is the amount of loss on disposal of capital assets.

(45,008)

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.

233,014

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

5,280,000

The current year accretion of the discount relating to the capital appreciation bonds reduces the net assets of the Governmental Funds.

(327,555)

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the statement of net assets (deficit). Refunding bond issues become a use of current financial resources in Governmental Funds, but refundings represent payments of long-term debt in the statement of net assets (deficit). This figure represents the difference between bond proceeds and refunding payments made to paying agents.

(10,045,000)

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 assets (deficit), bond premiums and costs of issuance are deferred and amortized.

100,497

SUBTOTAL ADJUSTMENTS FORWARD

\$ (6,062,939)

## **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, 2009*

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARDED	\$ 2,544,530
SUBTOTAL ADJUSTMENTS FORWARDED	(6,062,939)
<p>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).</p>	(25,292)
<p>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.</p>	(99,103)
<p>New capital lease borrowings increase Governmental Funds balances; however, this is an increase to liabilities in the statement of net assets (deficit).</p>	(932,416)
<p>Repayment of capital lease principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets (deficit).</p>	327,734
<p>The net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.</p>	<u>86,019</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (4,161,467)</u>

*See accompanying notes to the basic financial statements.*



**PENNSBURY SCHOOL DISTRICT**

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2009

	Enterprise Funds		Total Proprietary Funds
	Food Service Fund	Other Enterprise Funds	
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 324,246	\$ 108,501	\$ 432,747
Due from other governments	127,295	-	127,295
Other receivables	23,588	-	23,588
Inventories	134,945	-	134,945
Prepaid expenses	-	1,569	1,569
<b>TOTAL CURRENT ASSETS</b>	<u>610,074</u>	<u>110,070</u>	<u>720,144</u>
<b>CAPITAL ASSETS</b>			
Furniture and equipment	2,235,177	-	2,235,177
Accumulated depreciation	(1,814,444)	-	(1,814,444)
<b>TOTAL CAPITAL ASSETS</b>	<u>420,733</u>	<u>-</u>	<u>420,733</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,030,807</u>	<u>\$ 110,070</u>	<u>\$ 1,140,877</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Due to other funds	\$ 506,448	\$ 73,721	\$ 580,169
Deferred revenue	121,459	7,727	129,186
Other current liabilities	46,094	-	46,094
<b>TOTAL CURRENT LIABILITIES</b>	<u>674,001</u>	<u>81,448</u>	<u>755,449</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	420,733	-	420,733
Unrestricted	(63,927)	28,622	(35,305)
<b>TOTAL NET ASSETS</b>	<u>356,806</u>	<u>28,622</u>	<u>385,428</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,030,807</u>	<u>\$ 110,070</u>	<u>\$ 1,140,877</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, 2009*

	Enterprise Funds		Total Proprietary Funds
	Food Service Fund	Other Enterprise Funds	
<b>OPERATING REVENUES</b>			
Charges for services	\$ 2,541,201	\$ 236,345	\$ 2,777,546
<b>OPERATING EXPENSES</b>			
Salaries	1,194,840	163,259	1,358,099
Employee benefits	341,172	12,416	353,588
Purchased professional and technical service	-	6,208	6,208
Purchased property service	99,272	-	99,272
Other purchased service	83,270	5,188	88,458
Supplies	1,614,469	4,402	1,618,871
Depreciation	69,785	-	69,785
Other operating expenses	1,473	-	1,473
<b>TOTAL OPERATING EXPENSES</b>	<u>3,404,281</u>	<u>191,473</u>	<u>3,595,754</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(863,080)</u>	<u>44,872</u>	<u>(818,208)</u>
<b>NONOPERATING REVENUES</b>			
Federal sources	743,782	-	743,782
State sources	88,269	-	88,269
<b>TOTAL NONOPERATING REVENUES</b>	<u>832,051</u>	<u>-</u>	<u>832,051</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(31,029)</u>	<u>44,872</u>	<u>13,843</u>
<b>TRANSFERS IN</b>	18,250	33,703	51,953
<b>TRANSFERS OUT</b>	<u>-</u>	<u>(33,703)</u>	<u>(33,703)</u>
<b>CHANGE IN NET ASSETS</b>	<u>(12,779)</u>	<u>44,872</u>	<u>32,093</u>
<b>NET ASSETS (DEFICIT) AT BEGINNING OF YEAR</b>	<u>369,585</u>	<u>(16,250)</u>	<u>353,335</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 356,806</u>	<u>\$ 28,622</u>	<u>\$ 385,428</u>

*See accompanying notes to the basic financial statements.*

**PENNSBURY SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2009

	Enterprise Funds		Total Proprietary Funds
	Food Service Fund	Other Enterprise Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 2,627,967	\$ 222,658	\$ 2,850,625
Payments to employees	(1,536,012)	(175,675)	(1,711,687)
Payments to suppliers	(1,533,990)	(24,766)	(1,558,756)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(442,035)</u>	<u>22,217</u>	<u>(419,818)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	-	(33,703)	(33,703)
Transfers from other funds	18,250	33,703	51,953
Federal sources	619,854	-	619,854
State sources	88,269	-	88,269
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>726,373</u>	<u>-</u>	<u>726,373</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition, construction and improvements of capital assets	(23,217)	-	(23,217)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	261,121	22,217	283,338
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>63,125</u>	<u>86,284</u>	<u>149,409</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 324,246</u>	<u>\$ 108,501</u>	<u>\$ 432,747</u>

**PENNSBURY SCHOOL DISTRICT**

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

Year Ended June 30, 2009

	Enterprise Funds		Total
	Food Service Fund	Other Enterprise Funds	Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (863,080)	\$ 44,872	\$ (818,208)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	69,785	-	69,785
Donated commodities	123,928	-	123,928
(Increase) decrease in			
Due from other governments	(39,722)	-	(39,722)
Other receivables	12,436	-	12,436
Inventories	(31,049)	-	(31,049)
Prepaid expenses	-	1,485	1,485
Increase (decrease) in			
Due to other funds	210,294	(10,453)	199,841
Deferred revenue	74,330	(13,687)	60,643
Other current liabilities	1,043	-	1,043
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (442,035)</u>	<u>\$ 22,217</u>	<u>\$ (419,818)</u>
SUPPLEMENTAL DISCLOSURES			
Noncash noncapital financing activities			
Donated commodities	\$ 123,928	\$ -	\$ 123,928

*See accompanying notes to the basic financial statements.*

**PENNSBURY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
*June 30, 2009*

	<u>Trust Fund</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ <u>31,503</u>	\$ <u>982,672</u>
<b>LIABILITIES</b>		
Due to other funds	\$ -	\$ 66,096
Due to student groups	<u>-</u>	<u>916,576</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>\$ 982,672</u>
<b>NET ASSETS</b>		
Held in trust for benefits and other purposes	\$ <u>31,503</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, 2009*

	<u>Trust Fund</u>
ADDITIONS	
Contributions	\$ 23,887
Investment earnings	<u>2,527</u>
TOTAL ADDITIONS	<u>26,414</u>
DEDUCTIONS	
Scholarships awarded	<u>39,000</u>
CHANGE IN NET ASSETS	(12,586)
NET ASSETS AT BEGINNING OF YEAR	<u>44,089</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 31,503</u></u>

*See accompanying notes to the basic financial statements.*

**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
*June 30, 2009*

**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 (deficit) 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. 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.



**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2009

***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.

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 for 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.

**PENNSBURY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

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.

**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
*June 30, 2009*

***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.

**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.

**Investments**

Investments, which consist of certificates of deposit, government securities and deposits in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and Pennsylvania Local Government Investment Trust (PLGIT), are valued at fair value.

**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 (deficit), 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.

**PENNSBURY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**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

**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.

**Derivative Financial Instrument**

The District entered into an interest rate swap agreement in connection with the issuance of variable rate bonds. The District does not report derivatives at fair value in the statement of net assets (deficit).

**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
*June 30, 2009*

The interest rate swap agreement is used by the District to manage interest rate exposures and to hedge the changes in cash flows on variable rate revenue bonds. Derivative financial instruments involve, to a varying degree, elements of market and credit risk. The market risk associated with these instruments resulting from interest rate movements is expected to offset the market risk of the liability being hedged. During the fiscal year, the District refunded the swap agreement.

**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 policy 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 at June 30, 2009, of \$142,612 are included in other payables of the General Fund.

**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
*June 30, 2009*

**GASB Statement No. 45**

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

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

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

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted 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, 2009*

**NOTE B CASH AND INVESTMENTS**

**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, 2009, \$17,997,469 of the District's bank balance of \$18,885,455 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

\$ 17,997,469

**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.

**Investments**

As of June 30, 2009, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Percentage of Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Investment pools	99.97%	Various	\$ 9,748,000
Savings accounts	0.03%	Various	<u>2,748</u>
			\$ <u>9,750,748</u>

**Credit Risk** - State law permits the District to invest funds in the following types of investments:

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

**PENNSBURY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

The District's investment policy does not further limit its investment choices. As of June 30, 2009, the District's investment in the investment pool was rated AAAM by Standard & Poor's.

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

Certificates of deposit with Pennsylvania School District Liquid Asset Fund	\$ 7,000,000
Certificates of deposit with Pennsylvania Local Government Investment Fund	\$ 2,548,000

**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 2 - 2% of gross levy
Face period .....	September 3 to November 3
Penalty period .....	November 4 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, 2009*

**NOTE D ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2009, 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	\$ 2,854,419	\$ -	\$ -
Due from other governments	2,727,834	-	127,295
Other revenue	<u>803,374</u>	<u>27,705</u>	<u>23,588</u>
	<u>\$ 6,385,627</u>	<u>\$ 27,705</u>	<u>\$ 150,883</u>

**NOTE E INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2009, is as follows:

**Due to/from Other Funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 506,448
General Fund	Other Enterprise Funds	73,721
General Fund	Capital Projects Fund	<u>20,815</u>
		<u>\$ 600,984</u>

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

**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2009

**Interfund Transfers**

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Food Service Fund	General Fund	\$ 4,424
Food Service Fund	Capital Projects Fund	<u>13,826</u>
		<u>\$ 18,250</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, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land and site improvements	\$ 9,431,327	\$ 104,100	\$ -	\$ 9,535,427
Capital assets being depreciated				
Buildings and building improvements	151,172,835	3,882,834	-	155,055,669
Furniture and equipment	46,871,165	2,789,329	(682,580)	48,977,914
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<u>198,044,000</u>	<u>6,672,163</u>	<u>(682,580)</u>	<u>204,033,583</u>
Accumulated depreciation	(99,513,085)	(8,035,150)	637,572	(106,910,663)
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<u>98,530,915</u>	<u>(1,362,987)</u>	<u>(45,008)</u>	<u>97,122,920</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net</b>	<u>107,962,242</u>	<u>(1,258,887)</u>	<u>(45,008)</u>	<u>106,658,347</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets being depreciated				
Furniture and equipment	2,211,960	23,217	-	2,235,177
Accumulated depreciation	(1,744,659)	(69,785)	-	(1,814,444)
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net</b>	<u>467,301</u>	<u>(46,568)</u>	<u>-</u>	<u>420,733</u>
<b>CAPITAL ASSETS, net</b>	<u>\$ 108,429,543</u>	<u>\$ (1,305,455)</u>	<u>\$ (45,008)</u>	<u>\$ 107,079,080</u>

**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
*June 30, 2009*

Depreciation expense was charged to governmental functions as follows:

INSTRUCTION	
Regular programs	\$ 276,069
Special programs	15,815
Vocational education	11,647
Other instructional programs	3,972
SUPPORT SERVICES	
Pupil personnel services	6,025
Instructional staff services	968,853
Library services	7,808
Administration services	17,988
Pupil health services	4,672
Business services	16,415
Operation and maintenance of plant services	265,450
Student transportation services	471,498
Central services	43,137
NON-INSTRUCTIONAL SERVICES	
Athletics	76,858
Site acquisitions	915
Existing site improvements	186,247
Building acquisitions, new	13,057
Building acquisitions, replacement	<u>5,648,724</u>
	<u>\$ 8,035,150</u>

**PENNSBURY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**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>(561,496)</u>
	<u>\$ 1,538,973</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009, were as follows:

<u>Year Ending June 30,</u>	
2010	\$ 381,860
2011	381,860
2012	381,860
2013	381,860
2014	<u>170,812</u>
	1,698,252
Amount representing interest	<u>(165,608)</u>
	<u>\$ 1,532,644</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	<u>\$ 1,532,644</u>

**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
*June 30, 2009*

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 \$112,323,635 of bonds payable at June 30, 2009. During the year, the District made principal payments of \$5,280,000 and interest payments of \$5,358,308 related to the bond issues outstanding.

The District has \$20,000,000 of notes payable at June 30, 2009.

**Current Refunding - April 24, 2009**

The District issued \$14,865,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments for \$13,820,000 of general obligation bonds. Also, the issuance was to pay the costs of terminating the interest rate swap agreement related to the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. This current refunding was undertaken to reduce total debt service payments by \$1,166,066. The refunding resulted in an economic gain of \$244,000 for the District and included a swap termination fee and an advance payment in the 2004 fiscal year.

**Series of 2008 Bond Issuance**

The District issued \$9,000,000 of general obligation bonds to provide funds toward the construction, design and equipping of renovations and additions to the Oxford Valley Elementary School, the Makefield Elementary School and other school buildings and facilities owned and operated by the District. Also, the bonds were issued to acquire school buses, technology upgrades and other capital equipment.

**PENNSBURY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

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

<u>Year Ending June 30,</u>	<u>Face Value</u>	<u>Discount</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 5,760,000	\$ 96,765	\$ 5,663,235	\$ 4,750,514
2011	5,780,000	199,600	5,580,400	4,728,638
2012	5,950,000	-	5,950,000	4,557,998
2013	6,205,000	-	6,205,000	4,307,704
2014	6,455,000	-	6,455,000	4,054,825
2015 to 2019	36,125,000	-	36,125,000	15,833,733
2020 to 2024	25,475,000	-	25,475,000	7,585,260
Thereafter	<u>20,870,000</u>	<u>-</u>	<u>20,870,000</u>	<u>3,336,026</u>
	<u>\$ 112,620,000</u>	<u>\$ 296,365</u>	<u>\$ 112,323,635</u>	<u>\$ 49,154,698</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ -	\$ 800,000
2011	-	800,000
2012	-	800,000
2013	-	800,000
2014	-	800,000
2015 to 2019	-	4,000,000
2020 to 2024	<u>20,000,000</u>	<u>1,946,667</u>
	<u>\$ 20,000,000</u>	<u>\$ 9,946,667</u>

**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2009

**NOTE I CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2009, was as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Accreted Discount</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>GENERAL OBLIGATION BONDS AND NOTES</b>								
Bonds								
Series of 1991	7.05%	1/15/2011	\$ 5,251,080	\$ -	\$ 327,555	\$ (2,040,000)	\$ 3,538,635	\$ 2,040,000
Series of 2002	4.00 to 4.40%	6/30/2012	3,620,000	-	-	(755,000)	2,865,000	780,000
Series of 2004	2.625 to 5.25%	8/1/2025	39,850,000	-	-	(350,000)	39,500,000	365,000
Series of 2005	4.84%	8/15/2014	15,730,000	-	-	(15,730,000)	-	-
Series of 2006	3.50 to 5.00%	6/30/2022	42,780,000	-	-	(225,000)	42,555,000	230,000
Series of 2008	2.00 to 4.55%	8/1/2025	-	9,000,000	-	-	9,000,000	5,000
Series of 2009	2.50 to 5.00%	8/15/2014	-	14,865,000	-	-	14,865,000	2,340,000
<b>TOTAL GENERAL OBLIGATION BONDS</b>			<b>107,231,080</b>	<b>23,865,000</b>	<b>327,555</b>	<b>(19,100,000)</b>	<b>112,323,635</b>	<b>5,760,000</b>
Notes, Series of 2004	Variable	8/1/2023	20,000,000	-	-	-	20,000,000	-
Deferred amounts								
Bond premium			2,799,211	-	-	(110,165)	2,689,046	266,135
Deferred amount on refunding			(2,652,122)	-	-	196,454	(2,455,668)	(196,453)
<b>TOTAL GENERAL OBLIGATION BONDS AND NOTES</b>			<b>127,378,169</b>	<b>23,865,000</b>	<b>327,555</b>	<b>(19,013,711)</b>	<b>132,557,013</b>	<b>5,829,682</b>
COMPENSATED ABSENCES			2,868,251	215,717	-	(190,425)	2,893,543	157,658
CAPITAL LEASES			927,962	932,416	-	(327,734)	1,532,644	322,223
OTHER POSTEMPLOYMENT BENEFITS			32,828	1,329,984	-	(1,416,003)	(53,191)	-
<b>TOTAL LONG-TERM LIABILITIES</b>			<b>\$ 131,207,210</b>	<b>\$ 26,343,117</b>	<b>\$ 327,555</b>	<b>\$ (20,947,873)</b>	<b>\$ 136,930,009</b>	<b>\$ 6,309,563</b>

**PENNSBURY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**NOTE J COMPENSATED ABSENCES**

An analysis of compensated absences for governmental activities at June 30, 2009, including changes during the year, is presented below:

<u>Classification</u>	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2009</u>
Accrued sick leave	\$ <u>2,868,251</u>	\$ <u>215,717</u>	\$ <u>(190,425)</u>	\$ <u>2,893,543</u>

Compensated absences of \$157,658 are due within one year.

**NOTE K 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 in the amount of \$857,730 for the year ended June 30, 2009, of which \$563,760 represented principal payments.



**PENNSBURY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

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 2011:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fees</u>	<u>Totals</u>
2010	\$ 563,760	\$ 288,409	\$ 6,264	\$ 858,433
2011	584,118	269,015	6,264	859,397
2012	609,174	243,625	6,264	859,063
2013	637,362	215,067	6,264	858,693
2014	663,984	188,458	6,264	858,706
2015 to 2019	<u>3,806,946</u>	<u>446,924</u>	<u>28,188</u>	<u>4,282,058</u>
	<u>\$ 6,865,344</u>	<u>\$ 1,651,498</u>	<u>\$ 59,508</u>	<u>\$ 8,576,350</u>

**NOTE L 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, 2009, deferred revenue consisted of delinquent taxes receivable and federal and state subsidies of \$2,119,051.

**Food Service Fund**

Deferred revenue of \$121,459 in the Food Service Fund represents the carryover of student deposits.

**Other Enterprise Funds**

Deferred revenue of \$7,727 in Other Enterprise Funds represents the carryover of deposits for aquatics and community services.

**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2009

NOTE M      **PENSIONS**

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

**Plan Description**

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

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

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

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

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

**Funding Policy**

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

**Contribution Rates**

**Member Contributions**

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

**PENNSBURY SCHOOL DISTRICT**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
*June 30, 2009*

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

**Employer Contributions:** Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2009, the rate of employer's contribution was 4.76% of covered payroll. The 4.76% rate is composed of a pension contribution rate of 4.00% for pension benefits and .76% for healthcare insurance premium assistance.

The District's contribution to PSERS for the years ended June 30, 2009, 2008 and 2007, was \$4,706,937, \$6,344,577 and \$5,620,446, respectively, equal to the required contribution for each year.

NOTE N **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 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.

**PENNSBURY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**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. The following table shows 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:

Normal cost	\$ 553,546
Amortization of unfunded actuarial accrued liability	752,066
Interest	<u>24,910</u>
ANNUAL REQUIRED CONTRIBUTION (ARC)	1,330,522
Interest on net OPEB obligation	1,477
Adjustment to ARC	<u>(2,015)</u>
ANNUAL OPEB EXPENSE	1,329,984
Net OPEB contributions during the year	(1,416,003)
Beginning OPEB obligation	<u>32,828</u>
NET OPEB OBLIGATION AT END OF YEAR	<u>\$ (53,191)</u>

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$ 1,330,522	98%	\$ 32,828
2009	1,329,984	106%	(53,191)

The year of implementation of GASB Statement No. 45 was 2008, and the District has elected to implement prospectively.

**Funded Status and Funding Progress**

As of July 1, 2007, the actuarial accrued liability for benefits was \$12,250,333, 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 \$76,532,119, and the ratio of the UAAL to the covered payroll was 16.01%.

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 55, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Methods and Assumptions**

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

In the July 1, 2007 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 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after eight 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, 2007, was 30 years.

**PENNSBURY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**NOTE O STANDARD FUND BALANCE RESERVES**

At June 30, 2009, the District segregated the ending fund balance of the General Fund for standard fund balance reserves as follows:

Inventories	\$ 652,662
Prepaid expenses	<u>22,789</u>
	<u>\$ 675,451</u>

**NOTE P 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 self-insured by the District as explained below.

The District self-insures for employee health care. The District also has commercial insurance for health care claims that exceed \$75,000 on any one individual in any one year.

Liabilities for health care self-insurance 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, 2009, is presented below:

<u>Balance June 30, 2008</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance June 30, 2009</u>
\$ <u>4,008,461</u>	\$ <u>16,407,615</u>	\$ <u>(16,407,615)</u>	\$ <u>4,008,461</u>

Independence Blue Cross is the administrator for the District's healthcare plan. The District 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.

**PENNSBURY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**NOTE Q      POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

In addition to the pension benefits described in Note M, 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, 2009, there were 101 participants, and the expense related to the benefits totaled approximately \$838,007.

**NOTE R      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.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**PENNSBURY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
*Year Ended June 30, 2009*

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 131,655,856	\$ 131,655,856	\$ 131,459,606	\$ (196,250)
State sources	37,289,186	37,289,186	35,801,343	(1,487,843)
Federal sources	1,498,958	1,498,958	1,372,284	(126,674)
<b>TOTAL REVENUES</b>	<u>170,444,000</u>	<u>170,444,000</u>	<u>168,633,233</u>	<u>(1,810,767)</u>
<b>EXPENDITURES</b>				
Instruction	111,903,094	110,619,954	107,656,849	2,963,105
Support services	48,513,099	49,800,224	48,274,962	1,525,262
Operation of non-instructional services	1,341,064	1,413,079	1,378,009	35,070
Debt service	12,292,319	12,216,319	11,871,426	344,893
Refund of prior year revenues	-	-	13,736	13,736
<b>TOTAL EXPENDITURES</b>	<u>174,049,576</u>	<u>174,049,576</u>	<u>169,194,982</u>	<u>4,854,594</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(3,605,576)</u>	<u>(3,605,576)</u>	<u>(561,749)</u>	<u>3,043,827</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from refunding bonds	-	-	75,983	75,983
Transfers out	(4,424)	(4,424)	(4,424)	-
Proceeds from sale of fixed assets	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(4,424)</u>	<u>(4,424)</u>	<u>71,559</u>	<u>75,983</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(3,610,000)</u>	<u>(3,610,000)</u>	<u>(490,190)</u>	<u>3,119,810</u>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>6,554,292</u>	<u>6,554,292</u>	<u>6,554,292</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 2,944,292</u>	<u>\$ 2,944,292</u>	<u>\$ 6,064,102</u>	<u>\$ 3,119,810</u>

*See accompanying note to the budgetary comparison schedule.*

**PENNSBURY SCHOOL DISTRICT**  
**NOTE TO THE BUDGETARY COMPARISON SCHEDULE**  
*Year Ended June 30, 2009*

**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, 2009*

**SCHEDULE OF FUNDING PROGRESS**

<u>Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)</u>
7/1/2007	\$ <u>-</u>	\$ <u>12,250,333</u>	\$ <u>12,250,333</u>	<u>0.00%</u>	\$ <u>76,532,119</u>	<u>16.01%</u>



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Pennsbury School District, Bucks County, Pennsylvania, as of and for the year ended June 30, 2009, which collectively comprise the Pennsbury School District, Bucks County, Pennsylvania's basic financial statements and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Pennsbury School District, Bucks County, Pennsylvania's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pennsbury School District, Bucks County, Pennsylvania's financial statements that is more than inconsequential will not be prevented or detected by the Pennsbury School District, Bucks County, Pennsylvania's internal control.

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

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

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

#### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Pennsbury School District, Bucks County, Pennsylvania's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of 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.

*Maule Falconier & Company, LLP*

Oaks, Pennsylvania  
November 30, 2009





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

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

### **COMPLIANCE**

We have audited the compliance of the Pennsbury School District, Bucks County, Pennsylvania, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Pennsbury School District, Bucks County, Pennsylvania's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Pennsbury School District, Bucks County, Pennsylvania's management. Our responsibility is to express an opinion on the Pennsbury School District, Bucks County, Pennsylvania's compliance based on our audit.

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

As described in item 09-02 in the accompanying schedule of findings and questioned costs, the Pennsbury School District, Bucks County, Pennsylvania, did not comply with requirements regarding eligibility that are applicable to its School Lunch Program. Compliance with such requirements is necessary, in our opinion, for the Pennsbury School District, Bucks County, Pennsylvania, to comply with the requirements applicable to that program.

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

In our opinion, except for the noncompliance described in the preceding paragraph, the Pennsbury School District, Bucks County, Pennsylvania, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

## **INTERNAL CONTROL OVER COMPLIANCE**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-01 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. The significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-01 is also considered to be a material weakness.

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

Pennsbury School District, Bucks County, Pennsylvania's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Pennsbury School District, Bucks County, Pennsylvania's response, and, accordingly, we express no opinion on it.

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 Falcone & Company, LLP*

Oaks, Pennsylvania  
November 30, 2009



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

**PENNSBURY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
*Year Ended June 30, 2009*

<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, 2008</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2009</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>										
<b>Passed through the Pennsylvania Midwestern Intermediate Unit IV</b>										
Title I	I	84.012A	SP1603340002	July 1, 2007 to June 30, 2008	\$ 1,000	\$ 200	\$ 140	\$ 60	\$ 60	\$ -
Title I	I	84.012A	SP1603340002	July 1, 2008 to June 30, 2009	1,000	600	-	1,000	1,000	400
<b>Passed through the Pennsylvania Department of Education</b>										
Title I	I	84.010	013-080331	July 1, 2007 to September 30, 2008	935,110	309,242	87,726	221,516	221,516	-
Title I	I	84.010	013-090331	July 1, 2008 to September 30, 2009	786,978	472,215	-	522,353	522,353	50,138
Title I - Academic Achievement Award	I	84.010	077-090331	July 1, 2008 to September 30, 2009	4,000	1,600	-	1,996	1,996	396
Title II	I	84.367	020-080331	July 1, 2007 to September 30, 2008	329,994	87,998	54,829	33,169	33,169	-
Title II	I	84.367	020-090331	July 1, 2008 to September 30, 2009	320,388	234,951	-	273,480	273,480	38,529
Title V	I	84.298	011-080331	July 1, 2007 to September 30, 2008	12,387	7,432	1,630	5,802	5,802	-
Title III	I	84.365	010-080331	September 30, 2007 to September 30, 2008	30,727	14,182	6,101	8,081	8,081	-
Title III	I	84.365	010-090331	September 30, 2008 to September 30, 2009	36,757	21,442	-	21,268	21,268	(174)
Public Library Improvement Services	I	45.310	202-809085	May 1, 2008 to May 29, 2009	27,000	27,000	-	26,691	26,691	(309)
Drug Free Schools and Communities Act	I	84.186	100-090331	August 31, 2008 to September 30, 2009	27,841	27,841	-	27,841	27,841	-
Medical Assistance Reimbursement for Admin	I	93.778	N/A	July 1, 2006 to June 30, 2007	-	19,898	19,898	-	-	-
<b>SUBTOTAL FORWARD</b>						<b>\$ 1,224,601</b>	<b>\$ 170,324</b>	<b>\$ 1,143,257</b>	<b>\$ 1,143,257</b>	<b>\$ 88,980</b>

**PENNSBURY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
*Year Ended June 30, 2009*

<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, 2008</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2009</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>										
SUBTOTAL FORWARDED						\$ 1,224,601	\$ 170,324	\$ 1,143,257	\$ 1,143,257	\$ 88,980
<b>Passed through the Pennsylvania Department of Education</b>										
Medical Assistance Reimbursement for Admin	I	93.778	N/A	July 1, 2007 to June 30, 2008	\$ -	95,072	95,072	-	-	-
Medical Assistance Reimbursement for Admin	I	93.778	N/A	July 1, 2008 to June 30, 2009	-	-	-	226,240	226,240	226,240
<b>Passed through the Bucks County Intermediate Unit</b>										
IDEA	I	84.027	062-080022	July 1, 2007 to June 30, 2008	1,659,797	497,939	497,939	-	-	-
IDEA	I	84.027*	062-090022	July 1, 2008 to June 30, 2009	1,708,551	1,195,986	-	1,708,551	1,708,551	512,565
<b>Passed through the Allegheny Intermediate Unit</b>										
Special Education Inclusion Grant	I	84.027*	062-090077	December 11, 2008 to June 30, 2009	10,000	-	-	7,154	7,154	7,154
<b>Passed through the County of Bucks: Pennsylvania Commission on Crime &amp; Delinquency</b>										
T.R.A.C.K.	I	16.523	2006-JB-13-17689	July 1, 2007 to June 30, 2008	6,344	-	(6,344)	6,344	6,344	-
T.R.A.C.K.	I	16.523	2007-JB-13-18884	July 1, 2007 to June 30, 2008	3,656	-	(3,656)	3,656	3,656	-
T.R.A.C.K.	I	16.541	2008-JL-FX-0014	July 1, 2008 to June 30, 2009	9,000	-	-	638	638	638
T.R.A.C.K.	I	16.523	2007-JL-13-18884	July 1, 2008 to June 30, 2009	1,000	-	-	-	-	-
TOTAL FORWARD						<u>3,013,598</u>	<u>753,335</u>	<u>3,095,840</u>	<u>3,095,840</u>	<u>835,577</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>										
<b>Passed through the Pennsylvania Department of Education</b>										
Breakfast Program	I	10.553	N/A	July 1, 2007 to June 30, 2008	-	10,727	10,727	-	-	-
National School Lunch Program	I	10.555	N/A	July 1, 2007 to June 30, 2008	-	<u>63,881</u>	<u>63,881</u>	-	-	-
SUBTOTAL FORWARD						<u>\$ 74,608</u>	<u>\$ 74,608</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**PENNSBURY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
*Year Ended June 30, 2009*

<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, 2008</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2009</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>										
TOTAL FORWARDED						\$ 3,013,598	\$ 753,335	\$ 3,095,840	\$ 3,095,840	\$ 835,577
<b>U.S. DEPARTMENT OF AGRICULTURE</b>										
Passed through the Pennsylvania Department of Education										
SUBTOTAL FORWARDED						74,608	74,608	-	-	-
National School Lunch Program	S	N/A	N/A	July 1, 2007 to June 30, 2008	\$ -	11,616	11,616	-	-	-
Breakfast Program	S	N/A	N/A	July 1, 2007 to June 30, 2008	-	1,347	1,347	-	-	-
Breakfast Program	I	10.553*	N/A	July 1, 2008 to June 30, 2009	-	55,821	-	69,935	69,935	14,114
National School Lunch Program	I	10.555*	N/A	July 1, 2008 to June 30, 2009	-	444,395	-	539,497	539,497	95,102
National School Lunch Program - FFVP	I	10.582	N/A	July 1, 2008 to June 30, 2009	-	8,221	-	10,422	10,422	2,201
National School Lunch Program	S	N/A	N/A	July 1, 2008 to June 30, 2009	-	66,144	-	80,457	80,457	14,313
Breakfast Program	S	N/A	N/A	July 1, 2008 to June 30, 2009	-	6,245	-	7,811	7,811	1,566
Passed through the Commonwealth of Pennsylvania Department of Agriculture										
Value of U.S.D.A. donated commodities	I	10.550	N/A	July 1, 2008 to June 30, 2009	-	152,485 (a)	(47,129) (b)	123,928 (c)	123,928 (c)	(75,686) (d)
TOTAL U.S. DEPARTMENT OF AGRICULTURE						820,882	40,442	832,050	832,050	51,610
TOTAL FEDERAL AND STATE AWARDS						\$ 3,834,480	\$ 793,777	\$ 3,927,890	\$ 3,927,890	\$ 887,187

**Footnotes:**

Source Codes:

- (a) Total amount of commodities received from the Department of Agriculture.
  - (b) Beginning inventory at July 1, 2008.
  - (c) Total amount of commodities received.
  - (d) Ending inventory at June 30, 2009.
- I = Indirect Funding
  - S = State Share
  - \* = 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, 2009*

**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:

<b>GENERAL FUND</b>		
Local sources*		\$ 1,723,555
Federal sources		1,372,284
<b>FOOD SERVICE FUND</b>		
Federal sources		<u>743,782</u>
<b>TOTAL FEDERAL ASSISTANCE</b>		3,839,621
<b>FOOD SERVICE FUND</b>		
State sources		<u>88,269</u>
<b>TOTAL FEDERAL AND STATE AWARDS</b>		<u>\$ 3,927,890</u>

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

**PENNSBURY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended June 30, 2009*

**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. One material weakness in internal control over major federal awards programs disclosed during the audit is reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditors' report on compliance for the major awards programs for the Pennsbury School District expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs include:

Program	CFDA
IDEA	84.027
Child Nutrition Cluster	10.553, 10.555

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.

**PENNSBURY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended June 30, 2009*

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

**Department of Agriculture**

***Material Weakness***

**09-01 Child Nutrition Cluster - CFDA No. 10.553 and 10.555**

**Condition:** The School District does not require completed applications prior to enrolling students for free or reduced meals.

**Criteria:** The School District should establish a control mechanism to ensure that the applications are complete prior to enrolling a student in the program.

**Cause:** The School District does not have a control in place to ensure that students enrolling in the free and reduced meal programs have applications that are complete.

**Effect:** The School District may be allowing a student access to free or reduced meals when they should not be.

**Recommendation:** The School District should implement procedures to ensure that applications are complete prior to enrolling students for free or reduced meals.

**Response:** We concur with the recommendation. The School District has implemented corrective measures to ensure the proper processing of the applications and the verification of applications. These measures include: training for school nurses on eligibility determination and verification through the School Nutrition Toolbox, a series of on-line training modules; review of applications by another staff member; and a review of verification documentation by the Financial Services staff.

***Material Noncompliance***

**09-02 Child Nutrition Cluster - CFDA No. 10.553 and 10.555**

**Condition:** The School District did not review that all applications received for students in the National School Lunch Program were complete.

**Criteria:** The School District should review that all applications received for the National School Lunch Program are completed and that they acquire the necessary support required for each verified application.

**PENNSBURY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended June 30, 2009*

**Cause:** The School District was not confirming that all supporting documents for a student's application were attached. Ten applications out of 56 were not properly completed and/or verified.

**Effect:** The School District may be allowing a student access to free or reduced meals when they should not be or a student may be eligible and is not receiving free or reduced meals.

**Recommendation:** The School District should process only signed and completed applications for all students who apply for free or reduced meals.

**Response:** We concur with the recommendation. The School District has implemented corrective measures to ensure the proper processing of the applications and the verification of applications. These measures include: training for school nurses on eligibility determination and verification through the School Nutrition Toolbox, a series of on-line training modules; review of applications by another staff member; and a review of verification documentation by the Financial Services staff.