

NORTH PENN SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2011

INTRODUCTORY SECTION

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FINANCIAL SECTION



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Independent Auditors' Report

To the Board of Directors
North Penn School District
Lansdale, 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 North Penn School District as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Penn School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the North Penn School District as of June 30, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2012, on our consideration of the North Penn School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
North Penn School District
Lansdale, Pennsylvania

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 21, budgetary comparison information on pages 66 and 67 and postemployment benefits other than pension funding progress on page 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Penn School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Maillie Falconiero & Company, LLP

Oaks, Pennsylvania
February 10, 2012

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

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

DISTRICT HIGHLIGHTS

The 2010-2011 school year marked another fantastic year filled with great accomplishments from North Penn School District (NPSD) students, staff, volunteers and community members. There were many reasons to celebrate thanks to the various awards, honors and achievements that were received. Student achievement increased to its highest levels and every school met its Adequate Yearly Progress (AYP) targets for all subgroups. The Keystone Alliance for Performance Excellence (KAPE) recognized NPSD for its operational effectiveness, making NPSD the first school district in the state of Pennsylvania to be honored by KAPE.

By every measure, NPSD secondary schools are on a continuous improvement path toward 100% proficiency. This recognition is not only noted locally, but nationally, as North Penn High School earned two recognitions for the first time.

North Penn High School (NPHS) was recognized by two prestigious magazines during the 2010-2011 school year. *Newsweek* named NPHS one of the top 500 public high schools in the nation. *The Washington Post* acknowledged North Penn High School as one of the top high schools in the nation in its annual report, "The High School Challenge."

The success of high school students begins years before through their experiences in elementary and middle school. Improvements to the middle school program implemented in the 2010-2011 school year resulted in added rigor for current and future students. To ensure all students are appropriately challenged, NPSD realigned the 4.0 and 5.0 levels in ninth grade for science, social studies and English. This increased rigor helps to better prepare students for high school work.

The North Penn School District was very proud of its 2011 NPHS graduates. Of the 1,019 June graduates, 90.8% planned to continue their education at a four-year or a two-year/specialized school. The Class of 2011 also boasts 18 National Merit® Semi-Finalists.

Another area of pride is in the area of Advanced Placement (AP) classes and exams. During the 2010-2011 school year, 559 NPHS students took one or more AP tests with a total of 1,211 tests taken. This is the greatest number taken over a six-year period at NPHS. Of those tests, 32.2% scored a 5 (the highest) and 81.3% scored a 3 or better.

Secondary students also performed very well on the Pennsylvania System of School Assessment (PSSA) as demonstrated in the categories below:

2011 Reading Highlights

- Over 60% of middle school students scored at the advanced level on the PSSA reading assessment.
- Pennbrook and Pennfield exceeded 90% proficient in reading.
- North Penn High School increased from 77.5% to 81.2% in reading, an increase of 3.7%.

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

2011 Math Highlights

- About two-thirds of middle school students scored at the advanced level on the PSSA mathematics assessment.
- Over 50% of students in Grade 11 scored at the advanced level on the PSSA mathematics assessment, an increase of 13% since 2008

2011 Science Highlights

- 42% of middle school students scored at the advanced level on the PSSA science assessment, an increase of 15.5% since 2008.

Other success stories at the secondary level include:

- The PA Association of Family and Consumer Sciences (PAFCS) honored NPBS Principal Burt Hynes with the 2011 Friend of Family and Consumer Sciences Award.
- The Mid-Atlantic Chapter of the National Academy of Television Arts & Sciences honored NPBS senior Michelle Davies with the 2011 second place Young Producers Award for her PSA entitled "We Can Recycle."
- The North Penn High School athletic department once again received high accolades. The NPBS Cheerleading squad won a national championship and the NPBS Boys' Football and Boys' Swimming were both PIAA District One champions. Twelve high school teams were recognized as Suburban One Champions in the following sports: cheerleading, boys' basketball, girls' bowling, football, golf, girls' lacrosse, boys' and girls' swimming and diving, boys' and girls' track and boys' and girls' water polo.
- NPBS Theater held its 40th Anniversary Show, "The Sound of Music," to rave reviews.
- NPBS social studies teacher David Hall received two prestigious awards for excellence in teaching: the Outstanding Alumnus Award from Widener University and the 2010 Teacher as a Hero Award from the National Liberty Museum.
- The North Penn Marching Knights placed first at the Yamaha Cup Regional Championship. They captured first place in Group 4 Open, and received the second highest score in the entire field of 50 total bands with special awards in best music performance and best overall effect.
- For the fifth consecutive year, Northbridge students held the "Dinner and a Conference" event, where they led parent-teacher conferences.

At the elementary level, North Penn teachers have established a solid foundation in instructional strategies for teaching language arts using a balanced literacy model. NPBS's model of Response to Instruction and Intervention (RtII) is designed to enhance and complement this foundation. The training embedded in the implementation of RtII has helped teachers to hone their instructional practice to support students in the foundational skills in reading. Teachers have also learned techniques to intervene as well as to monitor the impact of their interventions.

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

NPSD's RtII implementation plan includes phasing in RtII across the district in three separate stages. Phase I schools (Gwyn-Nor, Gwynedd Square, Oak Park and Walton Farm) began their training in the components of RtII during the spring of the 2008-2009 school year. They spent the 2009-2010 school year gaining knowledge in the area of data analysis and enhancing their instructional practice to address students' needs. Phase I schools were operational with RtII during the 2010-2011 school year and continue to develop additional components to strengthen the RtII model.

Data from Phase I schools indicate that training and implementation components of RtII are having a positive impact on teachers and students. Primary teachers are seeing an increase in student achievement in the areas of phonemic awareness and phonics which will lead to stronger readers and writers in the later grades. Watching data from the assessments for a specific group of students in the Phase I population shows that they continue on an upward trend toward the goal of 100% proficiency. Specific sub-tests in the targeted area of phonemic awareness and phonics are also yielding positive growth.

Phase II and Phase III schools, which include the remaining nine elementary schools, are busy learning to incorporate the instructional components of RtII that have been so successful in our Phase I schools. Data from these Phase II and Phase III schools will be available following their first full year of implementation.

Elementary students are evaluated in multiple ways including classroom work, benchmark assessments, homework and, of course, the PSSA. NPSD elementary students continue to score well above the state average on this state assessment. Some highlights of the 2010-2011 results include:

- About two-thirds of elementary students scored at the advanced level on the PSSA math assessment.
- Significant increases occurred in elementary writing.
- Over five years, the elementary math and science scores consistently exceeded 90% proficient and the elementary writing scores consistently exceeded 85% proficient.
- Gwynedd Square and Nash elementary schools exceeded 90% proficient in reading.
- Bridle Path increased its reading scores from 79.6% in 2010 to 88.3% in 2011, an increase of 8.7%.
- In reading, Knapp increased from 76.9% in 2010 to 81.4% in 2011, an increase of 4.5%.
- Almost 60% of elementary students scored at the advanced level on the PSSA Science assessment.
- Kulp Elementary School scored 100% proficient in writing.

Student and staff highlights at the elementary school level during the 2010-2011 school year include:

- Knapp Elementary School fifth grade teacher Sabrina Milles was selected as one of 23 finalists for the 2011 Voices of Inspiration Award for Teaching Excellence.
- NPSD celebrated its 20th anniversary of the Reading is Fundamental (RIF) Program. The RIF Program in NPSD has inspired approximately 20,000 first grade students to love reading over the course of 20 years. More than 60,000 books have been donated to children through the program.

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

- Nearly 300 fourth and fifth grade students participated in the 24th annual Young Authors' Conference. Various workshops were presented by local experts in the fields of writing, illustrating, publishing and more.
- The Oak Park Elementary School Robotics Team earned the "Teamwork Trophy" for their excellence in teamwork at the Body Forward-Tune UP in PA Lego Robotics Competition.

In addition to the individual school accomplishments throughout NPSD in 2010-2011, great things also took place District-wide and in various departments.

Special education students continued to increase their academic success and, once again, the PSSA results in this area improved. For the 2010-2011 school year, approximately 17% of NPSD's student population received special education services. This is up from 16.5% from the previous year. In addition, NPSD takes great pride in its inclusionary practices. In NPSD last year, the percentage of students with disabilities that were included in the general education environment for more than 80% of the school day was 60.6%, which exceeds the state percentage of 57.7%. NPSD also made great efforts to meet the needs of its special education students within its schools instead of sending students to placements outside of our boundaries. Last year, only 2.1% of NPSD students with disabilities were educated outside of the District. This percentage is below the state average of 4.3%.

Approximately 12,700 students attended North Penn's 18 schools last year. Demographically, nearly 5.4% of NPSD's students were enrolled in gifted and talented programs while over 15% of the student body claimed 69 different languages as their home language. The top five languages (excluding English) were Bengali (373 students), Korean (357 students), Gujarati (284 students), Vietnamese (164 students) and Chinese (95 students).

The ethnic composition of NPSD students from the 2010-2011 school year can be found below:

White - 69.17%	Asian - 19%
Black - 7.4%	Hispanic - 4.02%
Multiracial - 0.26%	American Indian - 0.10%
Pacific Islander - 0.06%	

The core mission of the North Penn School District is to educate children. To that end, NPSD made every effort on the operational side to reduce costs so that more funds could be directed to instructional needs. Administration made significant progress in many areas including copying and printing, contract renegotiations, expansion of bidding, living with vacancies, health care costs and transportation services.

Providing healthy lunches to our students is another important goal of NPSD. Modifications and improvements made to the School Nutrition Services (SNS) Department and its offerings and services helped to increase the number of meals sold and the School District's bottom line. The significant results include increasing breakfast participation by 300 meals a day, increasing à la carte sales by \$40,000 per year, and increasing internal and external catering by \$6,000 per year. Also important, federal and state reimbursements increased for both breakfast and lunch due to better communication of the guidelines to families. Last school year, SNS also worked extremely hard to develop exciting, appetizing menus that not only met federal and state guidelines, but were wholesome and appealing to students. Taste-test panels of students were key in creating these new menus.

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
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Increased use of interactive technology to help differentiate student instruction was priority in the 2010-2011 school year and made an impact at both elementary and secondary levels. At Bridle Path, Inglewood and Oak Park Elementary Schools, NPSD implemented iPod projects and, at Knapp Elementary School, NPSD introduced iPads for a pilot reading program. Also in the spring of 2011, NPSD entered into a contract with the Montgomery County Consortium and the Brandywine Virtual Academy to form the North Penn Virtual Academy. This option for NPSD students already enrolled in cyber schools will become available in the fall of 2011.

The District's website, www.npenn.org, received a complete overhaul to improve its usefulness, flexibility and look. The results are that more people than ever are logging onto the site for information. In 2010-2011, more than 2.5 million people from 138 countries visited the NPSD site. Once at www.npenn.org, they frequented an average of 3.4 pages for a total of nearly 9 million pages viewed. And many of these visitors, more than 27%, were first-time visitors, meaning the changes that were made are driving traffic to the site.

The Office of School and Community Engagement also started its newest publication, North Penn E-Matters. This monthly newsletter is emailed to more than 10,000 addresses at the beginning of each month. Also new during last year is "North Penn Answers," a North Penn Television (NPTV) program in which School Board members answer questions that the NPSD and they themselves receive on a regular basis.

As always, NPSD organized several opportunities for community members to learn about district happenings. The Community Conversations with the Superintendent continued and new offerings were added such as Budget Input meetings and an online chat regarding the budget.

NPSD is committed to using an Energy Management program with the goal to reduce its consumption of energy and to reduce budgets. The energy management program is modeled and benchmarked utilizing the ENERGY STAR® program provided by the Federal Department of Energy and the Environmental Protection Agency.

Since the inception of the Energy Management Program with the hiring of an energy manager in the fall of 2010, NPSD has reduced its energy consumption by approximately 20%. With the ongoing Energy Management Program now coupled with the new Green Schools Program, a partnership with The Alliance to Save Energy, the potential energy conservation could be significantly more.

During the 2010-2011 school year, the North Penn School District:

- Reduced energy usage by an additional 10% for a total 20% reduction compared to base years;
- Reduced energy expenditures in excess of \$500,000 overall;
- By reducing energy consumption, NPSD reduced CO2 emissions by 2,124,000 pounds, which is equivalent to planting 197 acres of trees; and
- Reduced electricity consumption by 3.4 million kWhs.

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

Other District-wide successes included:

- Bridle Path, Gwynedd Square, Walton Farm, York Avenue, Pennfield, Northbridge and the Educational Services Center received Energy Star Awards;
- Nearly 5,199 North Penn community members participated in 348 North Penn Community Education programs offered throughout the year;
- The NPSD Board of School Directors refinanced a bond that resulted in an approximate savings of \$1 million;
- The NPSD Educational Foundation granted 50 innovative classroom projects worth \$35,204;
- NPSD finished renovation projects at General Nash and North Wales Elementary Schools on time for students to begin the 2011-2012 school year; and
- The Extended School Care programs at Walton Farm and Oak Park Elementary Schools gained Star 2 Status from Keystone STARS, a state-funded voluntary program that promotes quality in child care programs.

The mission of the North Penn School District is to ensure the success of our District and clients in achieving optimal student growth through the collaborative initiation, design and delivery of exemplary services. Even before the federal initiative proposed by the Bush administration concerning the No Child Left Behind Act, the District had begun to formulate a strategic plan and has adopted District goals as follow:

- **By 2014, North Penn School District students will achieve at their highest level.**
 - ✓ All NPSD students will perform at the proficient or advanced level on the PSSA or on an equivalent measure in reading, writing, mathematics and science.
 - ✓ The percentage of students scoring "Advanced" on the PSSA will be 50% for writing, 70% for reading, 80% for mathematics and 50% for science.
 - ✓ All students in all subgroups will perform at the Proficient or Advanced level as measured by the PSSA.
- **By 2014, North Penn will provide a safe, healthy and orderly learning environment to ensure the success of our students.**
 - ✓ Anti bullying practices will be in place.
 - ✓ Environment performance will improve.
 - ✓ Buildings will provide a physically safe learning environment.
 - ✓ Discipline practices will be consistently applied across the District.
 - ✓ Cultural competency will be understood.
 - ✓ Cafeteria food will be varied, healthy and good quality as measured by students.
- **By 2014, North Penn must be committed to continuous improvement, institute practices that maximize resources and focus on its goals and outcomes through the use of data.**
 - ✓ Operational departments will create goals to improve overall efficiency.
 - ✓ Effective internal communications will be provided to all stakeholders.
 - ✓ The budget process will streamline processes and procedures.

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

- **By 2014, North Penn will carefully select and develop employees to flourish and contribute to the mission, vision and values of the organization.**
 - ✓ Professional development
 - ✓ Employ a diverse workforce
 - ✓ Recruiting and hiring the most qualified people

The District's commitment to providing an excellent education for each student can be seen in the quality of programs and opportunities the District maintains and supports.

FINANCIAL HIGHLIGHTS

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The School District uses site-based budgeting and the budgeting system is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, actual revenues were \$2.8 million below the original budget revenues. Actual expenditures totaled \$194 million and included expenditures for additional grants received subsequent to budget preparation.

OVERVIEW OF THE FINANCIAL STATEMENTS

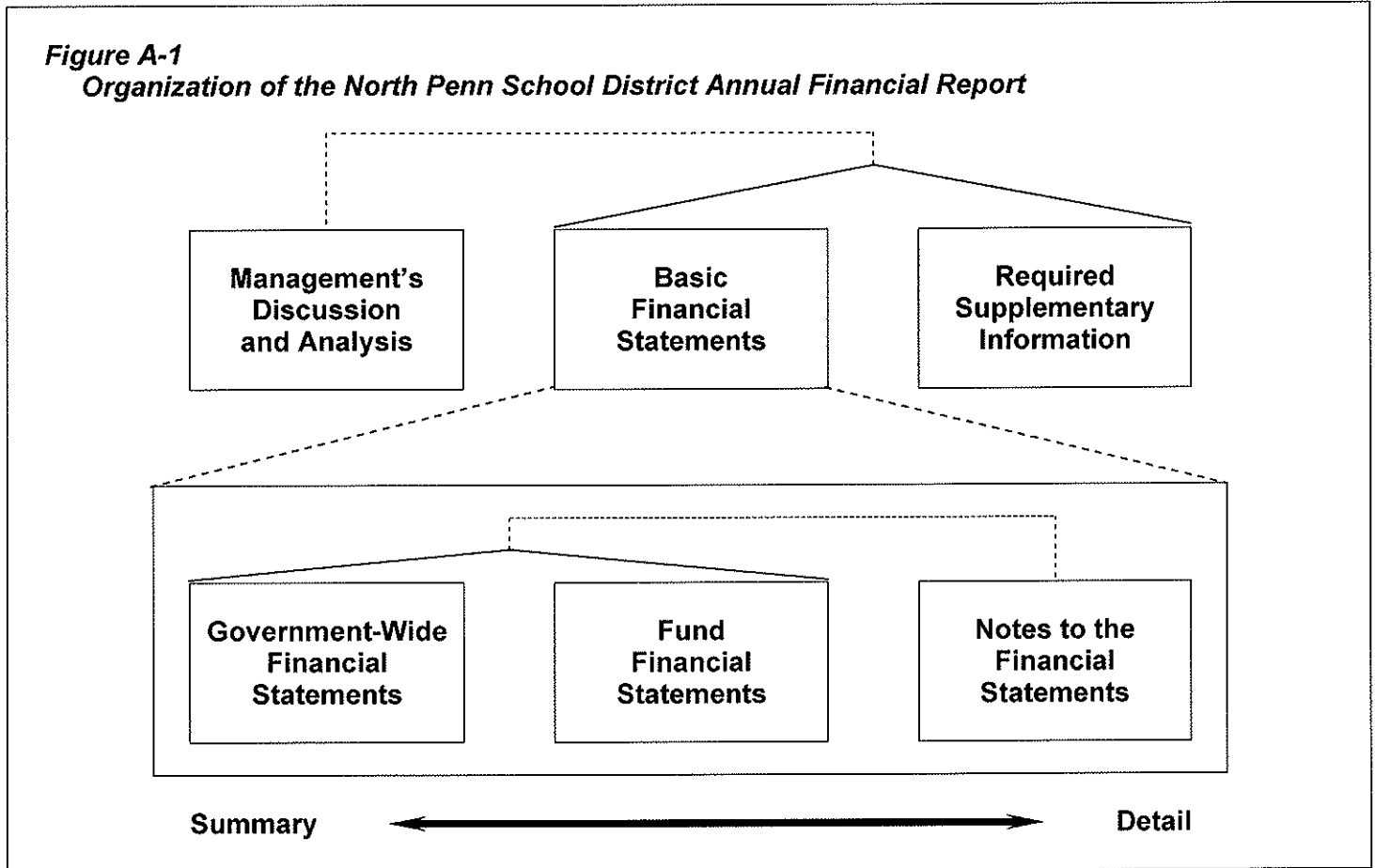
The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

This annual report consists of three parts: management's discussion and analysis (this section), basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
 - ✓ Governmental Funds statements tell how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
 - ✓ Proprietary Funds statements offer short- and long-term financial information about the activities the District operates like businesses, such as School Nutrition Services.
 - ✓ Fiduciary Funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



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

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except Fiduciary Funds)	The activities of the School District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the School District operates similar to private businesses: school nutrition services and community education	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

Government-Wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one needs to consider additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.
- **Business-Type Activities:** The District's community education, extended child care and school nutrition service programs are included here. The District charges fees to cover the costs of the services provided.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not on the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

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

The District has three kinds of funds:

- **Governmental Funds:** Most of the District's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that help one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the long-term focus of the District-wide statements, additional information accompanying the Governmental Funds statements explains the relationship (or differences) between them.
- **Proprietary Funds:** Services for which the District charges a fee are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way as the District-wide statements. The District's Enterprise Funds (one type of Proprietary Fund) report its business-type activities, providing more detail and additional information such as cash flows.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as the Scholarship Fund and the Student Activities Funds. The District is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

- Net assets increased by \$8.3 million and total assets increased by \$20.4 million of the School District's governmental activities, due to renovations and a new bond issue. Net assets of the business-type activities increased by \$100 thousand (Figure A-3).
- Program specific revenues in the form of charges for services and grants and contributions accounted for \$34.4 million or 17% of total revenues. General revenues accounted for \$172.1 million or 83% (Figure A-4).
- Governmental and business-type activities expenses totaled \$198.2 million of which \$123.5 million was spent on instructional services, \$61.5 million was spent on support services, \$2.5 million was spent on non-instructional programs, \$3.3 million was used for interest payments and \$7.4 million was spent on business-type activities.
- The North Penn Educational Support Personnel Association (NPESPA) has a five-year agreement in place through June 30, 2013.
- The North Penn Education Association (NPEA), an affiliation of the Pennsylvania State Education Teachers Association, represents the professional staff of the District. The five-year collective bargaining agreement expires August 31, 2014.
- The District administrators have a three-year agreement with the Board of School Directors that expires June 30, 2014.

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

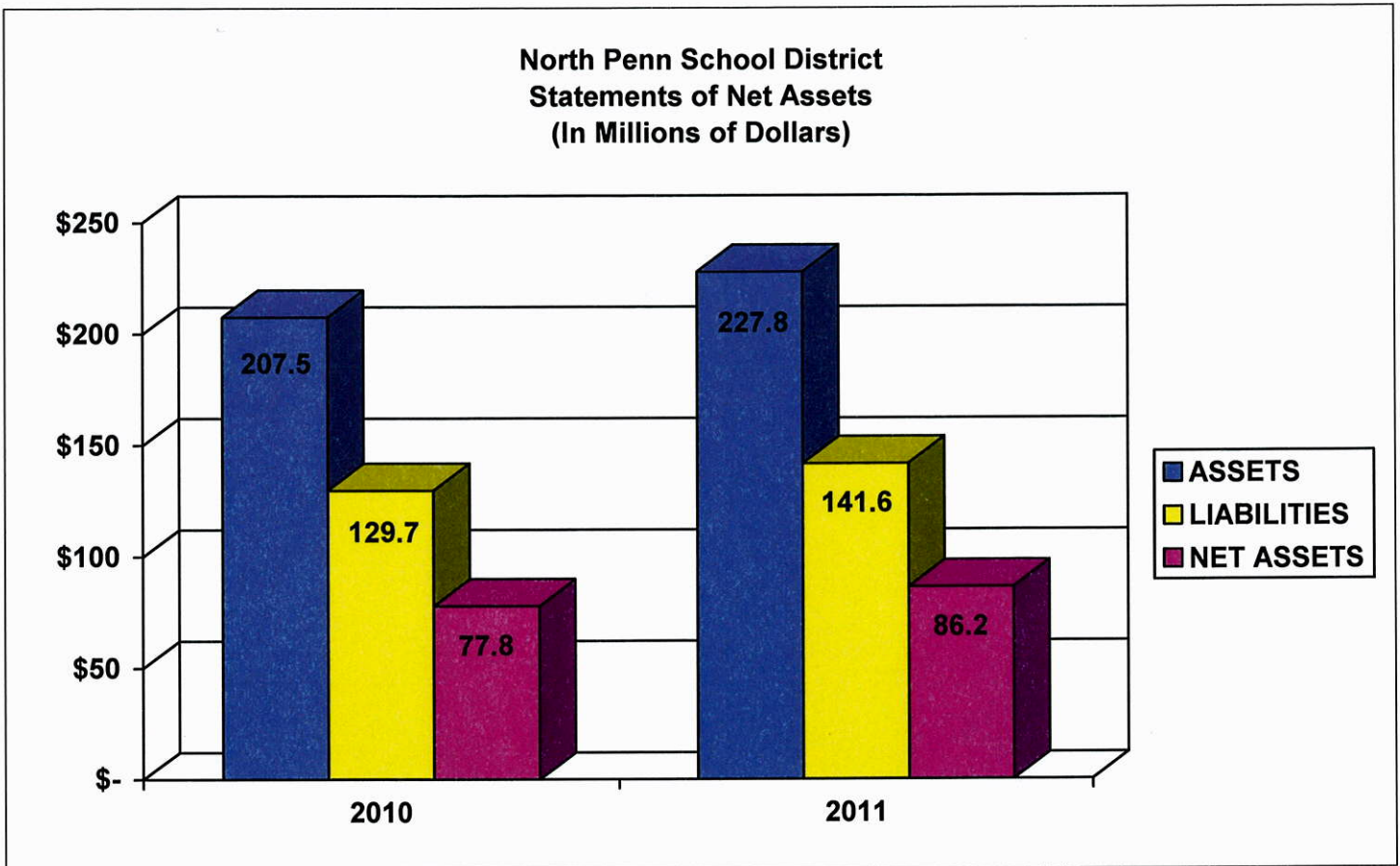


Figure A-3
Condensed Statements of Net Assets (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2010-2011
	2010	2011	2010	2011	2010	2011	
Current and other assets	\$ 41.5	\$ 57.8	\$ 1.3	\$ 1.2	\$ 42.8	\$ 59.0	
Capital assets, net	164.6	168.7	0.1	0.1	164.7	168.8	
TOTAL ASSETS	206.1	226.5	1.4	1.3	207.5	227.8	9.8%
Current and other liabilities	29.4	29.6	0.6	0.4	30.0	30.0	
Long-term liabilities	99.7	111.6	-	-	99.7	111.6	
TOTAL LIABILITIES	129.1	141.2	0.6	0.4	129.7	141.6	9.2%
Invested in capital assets, net of related debt	64.1	70.0	0.1	0.1	64.2	70.1	
Restricted	2.0	-	-	-	2.0	-	
Unrestricted	10.9	15.3	0.7	0.8	11.6	16.1	
TOTAL NET ASSETS	\$ 77.0	\$ 85.3	\$ 0.8	\$ 0.9	\$ 77.8	\$ 86.2	10.8%

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

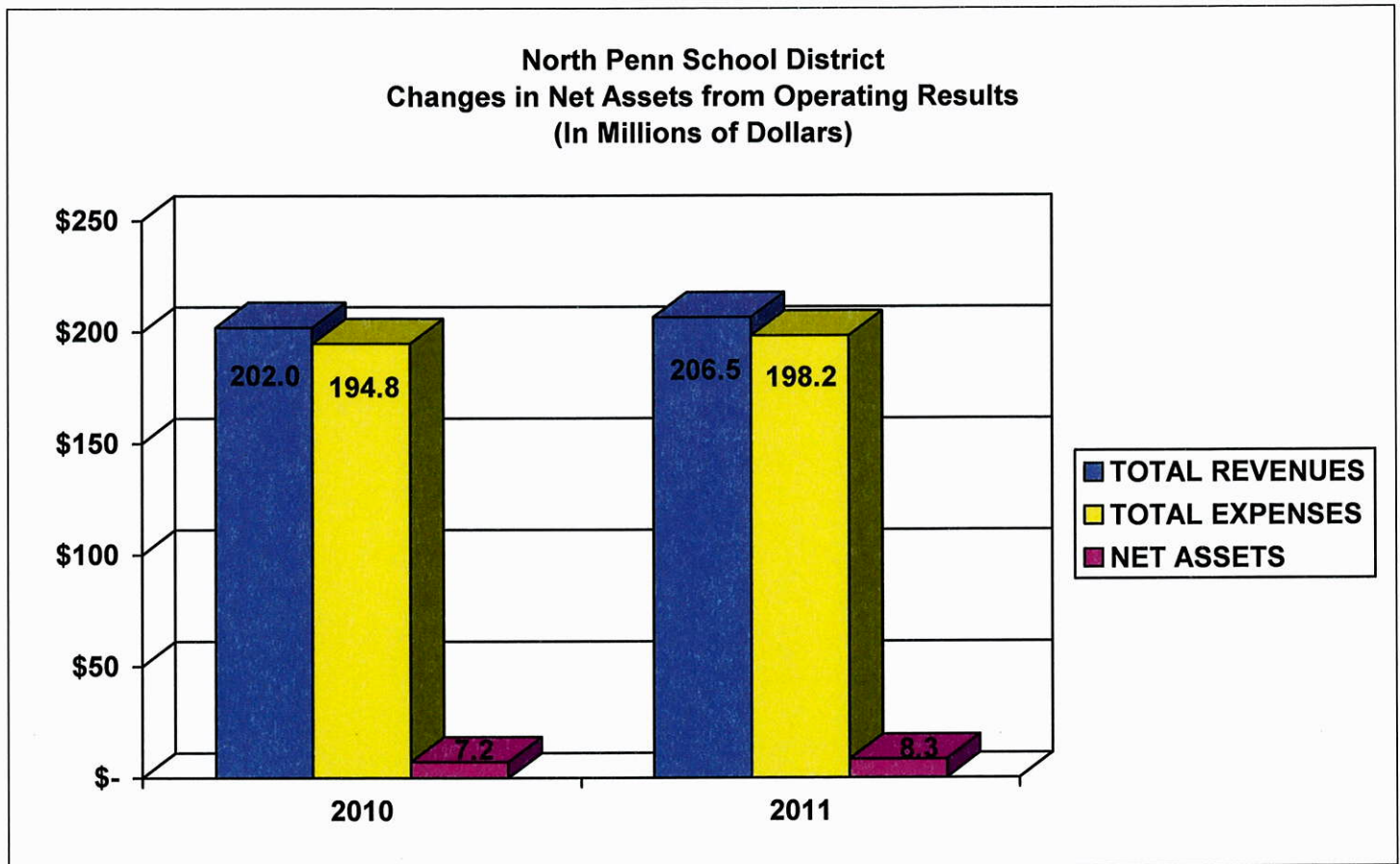


Figure A-4
Changes in Net Assets from Operating Results (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2010-2011
	2010	2011	2010	2011	2010	2011	
REVENUES							
Program revenues	\$ 24.2	\$ 27.0	\$ 7.6	\$ 7.4	\$ 31.8	\$ 34.4	
General revenues	170.2	172.1	-	-	170.2	172.1	
TOTAL REVENUES	194.4	199.1	7.6	7.4	202.0	206.5	2.2%
EXPENSES							
	187.5	190.8	7.3	7.4	194.8	198.2	1.7%
CHANGE IN NET ASSETS	\$ 6.9	\$ 8.3	\$ 0.3	\$ -	\$ 7.2	\$ 8.3	15.3%

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

Governmental Activities

Governmental activities consist of the General Fund, bond funds and the Debt Service Fund. Total governmental assets increased by \$20.4 million and total liabilities increased by \$12.1 million due to capital project expenditures and capital project refinancing. The District's General Fund Balance increased by approximately \$3.4 million.

The District depends heavily on local taxes to fund the District's programs. For 2010-2011, local sources comprised 80.4% of total revenue, of which current real estate taxes were \$141.2 million, delinquent real estate taxes were \$2.5 million, transfer taxes were \$1.8 million and earned income taxes were \$12.9 million. Other revenue comes from state subsidies (15.2%) and federal grants and other sources (4.4%). Federal funding was increased due to stimulus ARRA funding to the district.

Business-Type Activities

Business-type activities include the School Nutrition Services Program, the Extended School Care Program and the Community Education Program. Each Enterprise Fund is operated separately. These programs had operating and nonoperating revenues of \$7.4 million and expenses of approximately \$7.4 million, resulting in a breakeven for the year. The programs are designed to operate at or near break-even so that the cost for the services offered will benefit the District residents. Extended School Care rates prices have been increased for next year to compensate for rising costs. Business-type activities received no support from tax revenues.

The School Nutrition Services Program provided 1,105,190 lunches and 191,119 breakfasts last year, as well as catering for the District's meetings and gatherings. The Department has been working to comply with the federally mandated Wellness Program by providing more nutritious choices and cutting back on non-nutritious snacks. The School Nutrition Services Program receives both federal and state subsidies for lunch and breakfast programs. It also receives some government commodities on a routine basis. The majority of revenue comes from sales to students and other users of its services.

The Extended School Care Program provides before and after school care and summer camps for the resident children of the District. Revenues are generated by those utilizing the services.

The Community Education Program provides trips, tours and classes for the residents of the North Penn area. Evening classes are held at several of the District's schools. These programs cater to the improvement of the quality of life for the residents of the North Penn area.

General Fund Budgetary Highlights

The economic environment is mixed over the past year. Investment earnings, delinquent taxes and real estate transfer taxes all decreased, while earned income taxes remained flat. Real estate collections remained strong, but interim real estate taxes were 24.5% below budget. On the expenditure side, actual expenditures for the year were less than budgeted expenditures, notably Instructional Services were \$1.7 million below budget and Support Services were \$4.1 million below the budgeted amount.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

For the North Penn School District, capital assets include land, buildings, furniture and equipment, vehicles and other items that meet the following criteria:

- a. The individual asset must have a useful life greater than one year.
- b. The individual asset cost is equal to or greater than \$5,000 or was purchased with debt proceeds.

The District maintains fixed asset records for the above capital assets as well as for any item costing over \$1,000 with a life extending at least one year. Each department or school is responsible for the protection of these assets. Each year the Business Office performs an inventory of all the assets at each facility and reconciles the inventory with the records generated by the purchase of the assets.

The District maintains more than 6,400 computers for students and staff. Technology equipment is replaced when the functionality requires it, not based on a set time period. The District maintains approximately 145 buses and 18 vans that transport the District's students over 1.6 million miles per year. The District replaces a portion of its bus fleet each year.

Regular improvements to the buildings of the District are ongoing. Renovations at North Wales Elementary School have been completed. The High School renovations are continuing. General Nash Elementary School renovations continue this summer.

Figure A-5
Capital Assets (Net of Depreciation, In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2010-2011
	2010	2011	2010	2011	2010	2011	
Land and site improvements	\$ 8.1	\$ 8.1	\$ -	\$ -	\$ 8.1	\$ 8.1	
Construction in progress	8.8	17.7	-	-	8.8	17.7	
Buildings	139.4	134.9	-	-	139.4	134.9	
Furniture and equipment	8.2	8.0	0.1	0.1	8.3	8.1	
	<u>\$ 164.5</u>	<u>\$ 168.7</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ 164.6</u>	<u>\$ 168.8</u>	2.6%

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

Debt

Long-term debt increased by \$11.9 million, primarily due to the 2011 Bond. The short-term debt decreased by \$1.2 due to a reduction in leases (Note I). The District continues to pay down outstanding debt (Figure A-6).

The overall decrease in other general obligation debt is a result of the District's practice of leasing computers, buses and maintenance vehicles. The liability for new capital leases, which includes technology and vehicle leases, decreased by \$400,000.

Figure A-6
Outstanding Long-Term Debt (In Millions of Dollars)

	<u>2010</u>	<u>2011</u>	<u>Total Percentage Change 2010-2011</u>
LONG-TERM DEBT			
General obligation bonds and notes	\$ 91.7	\$ 103.4	
Other general obligation debt	8.0	8.2	
TOTAL LONG-TERM DEBT	<u>99.7</u>	<u>111.6</u>	
SHORT-TERM DEBT			
General obligation bonds and notes	9.0	8.2	
Other general obligation debt	2.1	1.7	
TOTAL SHORT-TERM DEBT	<u>11.1</u>	<u>9.9</u>	
TOTAL	<u>\$ 110.8</u>	<u>\$ 121.5</u>	9.7%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Act 1 of 2006 was signed into law June 29, 2006, effective for the school year beginning July 1, 2007. This legislation may restrict the School District's ability to increase property taxes without voter approval of the District's budget if the budget exceeds an annual inflation index determined by the Commonwealth.
- The requirements of the No Child Left Behind (NCLB) Act exceed the federal funding available to pay for it. As a result, NCLB is and will be increasingly funded by local revenue.
- Deregulation of utilities will affect the costs paid going forward.
- PSERS (the pension plan) continues to have large increases in the employer contribution.
- The assessed value of real estate is not increasing due to flat construction and assessment appeals.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office.

NORTH PENN SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 37,669,877	\$ 606,095	\$ 38,275,972
Investments	12,380,305	390,652	12,770,957
Taxes receivable	3,292,901	-	3,292,901
Internal balances	30,165	(30,165)	-
Due from other governments	3,040,948	81,037	3,121,985
Other receivables	305,007	24,070	329,077
Inventories	179,292	127,907	307,199
Prepaid expenses	-	4,625	4,625
Deferred charges, net of accumulated amortization	888,094	-	888,094
Capital assets, net of accumulated depreciation			
Land	8,006,732	-	8,006,732
Site improvements	107,241	-	107,241
Buildings and building improvements	134,866,855	-	134,866,855
Furniture and equipment	7,964,736	43,929	8,008,665
Construction in progress	17,709,561	-	17,709,561
TOTAL ASSETS	\$ 226,441,714	\$ 1,248,150	\$ 227,689,864
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 7,010,280	\$ 103,720	\$ 7,114,000
Accrued salaries and benefits	11,309,221	31,074	11,340,295
Accrued interest	1,283,316	-	1,283,316
Deferred revenue	19,549	296,331	315,880
Long-term liabilities			
Portion due or payable within one year			
Bonds and notes payable	8,234,000	-	8,234,000
Lease-purchase obligations	1,445,895	-	1,445,895
Compensated absences	271,137	-	271,137
Portion due or payable after one year			
Bonds and notes payable	103,411,711	-	103,411,711
Lease-purchase obligations	829,370	-	829,370
Compensated absences	4,081,000	-	4,081,000
Net OPEB obligation	3,266,715	-	3,266,715
TOTAL LIABILITIES	141,162,194	431,125	141,593,319
NET ASSETS			
Invested in capital assets, net of related debt	70,004,489	43,929	70,048,418
Unrestricted	15,275,031	773,096	16,048,127
TOTAL NET ASSETS	85,279,520	817,025	86,096,545
TOTAL LIABILITIES AND NET ASSETS	\$ 226,441,714	\$ 1,248,150	\$ 227,689,864

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
GOVERNMENTAL ACTIVITIES							
Instruction							
Regular programs	\$ 85,308,861	\$ -	\$ 4,574,151	\$ -	\$ (80,734,710)	\$ -	\$ (80,734,710)
Special programs	33,291,560	-	1,364,627	-	(31,926,933)	-	(31,926,933)
Vocational education	3,620,034	-	-	-	(3,620,034)	-	(3,620,034)
Other instructional programs	1,269,559	54,913	14,866,597	-	13,651,951	-	13,651,951
Nonpublic school programs	3,249	-	219	-	(3,030)	-	(3,030)
Higher education programs	7,633	-	-	-	(7,633)	-	(7,633)
Support services							
Pupil personnel services	7,468,215	-	848,493	-	(6,619,722)	-	(6,619,722)
Instructional staff services	4,996,157	-	241,330	-	(4,754,827)	-	(4,754,827)
Administration services	11,194,700	-	438,000	-	(10,756,700)	-	(10,756,700)
Pupil health services	2,356,276	-	393,719	-	(1,962,557)	-	(1,962,557)
Business services	3,042,299	-	63,295	-	(2,979,004)	-	(2,979,004)
Operation and maintenance of plant services	15,662,520	-	426,575	-	(15,235,945)	-	(15,235,945)
Student transportation services	14,373,834	-	3,349,216	-	(11,024,618)	-	(11,024,618)
Central services	1,825,164	-	77,983	-	(1,747,181)	-	(1,747,181)
Other services	591,655	-	-	-	(591,655)	-	(591,655)
Operation of non-instructional services							
Student activities	2,435,246	87,514	129,676	-	(2,218,056)	-	(2,218,056)
Community services	55,225	-	209	-	(55,016)	-	(55,016)
Interest on long-term debt	3,302,025	-	-	79,636	(3,222,389)	-	(3,222,389)
TOTAL GOVERNMENTAL ACTIVITIES	<u>190,804,212</u>	<u>142,427</u>	<u>26,774,090</u>	<u>79,636</u>	<u>(163,808,059)</u>	<u>-</u>	<u>(163,808,059)</u>
BUSINESS-TYPE ACTIVITIES							
School nutrition services	4,986,091	3,364,247	1,582,503	-	-	(39,341)	(39,341)
Extended care	2,042,273	2,071,137	4,962	-	-	33,826	33,826
Community education	351,749	379,122	-	-	-	27,373	27,373
TOTAL BUSINESS-TYPE ACTIVITIES	<u>7,380,113</u>	<u>5,814,506</u>	<u>1,587,465</u>	<u>-</u>	<u>-</u>	<u>21,858</u>	<u>21,858</u>
TOTAL SCHOOL DISTRICT ACTIVITIES	<u>\$ 198,184,325</u>	<u>\$ 5,956,933</u>	<u>\$ 28,361,555</u>	<u>\$ 79,636</u>	<u>(163,808,059)</u>	<u>21,858</u>	<u>(163,786,201)</u>
GENERAL REVENUES							
Taxes							
Property taxes, levied for general purposes					146,000,173	-	146,000,173
Public utility taxes					216,264	-	216,264
Earned income taxes					12,873,137	-	12,873,137
Grants and contributions not restricted to specific programs					12,233,615	-	12,233,615
Investment earnings					556,548	1,937	558,485
Receipts from member districts					128,770	-	128,770
Gain on sale of capital assets					53,530	-	53,530
Miscellaneous					30,165	-	30,165
TOTAL GENERAL REVENUES					<u>172,092,202</u>	<u>1,937</u>	<u>172,094,139</u>
CHANGE IN NET ASSETS					8,284,143	23,795	8,307,938
NET ASSETS AT BEGINNING OF YEAR					<u>76,995,377</u>	<u>793,230</u>	<u>77,788,607</u>
NET ASSETS AT END OF YEAR					<u>\$ 85,279,520</u>	<u>\$ 817,025</u>	<u>\$ 86,096,545</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2011

	<u>General Fund</u>	<u>2011 Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 36,089,729	\$ -	\$ 1,580,148	\$ 37,669,877
Investments	353	12,379,952	-	12,380,305
Taxes receivable	3,292,901	-	-	3,292,901
Due from other funds	37,006	-	-	37,006
Due from other governments	3,040,948	-	-	3,040,948
Other receivables	305,007	-	-	305,007
Inventories	179,292	-	-	179,292
	<u>42,945,236</u>	<u>12,379,952</u>	<u>1,580,148</u>	<u>56,905,336</u>
TOTAL ASSETS	\$ 42,945,236	\$ 12,379,952	\$ 1,580,148	\$ 56,905,336
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 6,556,783	\$ 453,497	\$ -	\$ 7,010,280
Due to other funds	6,841	-	-	6,841
Deferred revenue	2,467,535	-	-	2,467,535
Accrued salaries and benefits	11,309,221	-	-	11,309,221
TOTAL LIABILITIES	<u>20,340,380</u>	<u>453,497</u>	<u>-</u>	<u>20,793,877</u>
FUND BALANCES				
Nonspendable, inventories	179,292	-	-	179,292
Restricted for capital projects	-	11,926,455	180,526	12,106,981
Committed to				
Capital projects	-	-	4,254	4,254
Retirement rate stabilization	5,873,236	-	-	5,873,236
Assigned to				
Self-funded insurance	2,500,000	-	-	2,500,000
Athletic fund	-	-	17,740	17,740
Debt service	-	-	1,377,628	1,377,628
Unassigned	14,052,328	-	-	14,052,328
TOTAL FUND BALANCES	<u>22,604,856</u>	<u>11,926,455</u>	<u>1,580,148</u>	<u>36,111,459</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 42,945,236	\$ 12,379,952	\$ 1,580,148	\$ 56,905,336

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT

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

June 30, 2011

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 36,111,459

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

Land	8,006,732
Site improvements	107,241
Buildings and building improvements	134,866,855
Furniture and equipment	7,964,736
Construction in progress	17,709,561

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

Deferred charges	1,269,232
Accumulated amortization	(381,138)

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	(1,283,316)
Bonds and notes payable	(111,645,711)
Lease-purchase obligations	(2,275,265)
Compensated absences	(4,352,137)
Net OPEB obligation	(3,266,715)

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

2,447,986

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 85,279,520

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	<u>General Fund</u>	<u>2011 Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local sources	\$ 160,028,478	\$ 303	\$ 169,392	\$ 160,198,173
State sources	30,243,624	-	-	30,243,624
Federal sources	8,677,639	-	-	8,677,639
	<u>198,949,741</u>	<u>303</u>	<u>169,392</u>	<u>199,119,436</u>
TOTAL REVENUES				
	<u>198,949,741</u>	<u>303</u>	<u>169,392</u>	<u>199,119,436</u>
EXPENDITURES				
Instruction	119,732,670	-	-	119,732,670
Support services	59,111,312	161,597	58	59,272,967
Operation of non-instructional services	2,321,021	-	130,231	2,451,252
Facilities acquisition, construction and improvement services	155,615	672,280	9,640,489	10,468,384
Debt service	12,439,295	-	256,062	12,695,357
	<u>193,759,913</u>	<u>833,877</u>	<u>10,026,840</u>	<u>204,620,630</u>
TOTAL EXPENDITURES				
	<u>193,759,913</u>	<u>833,877</u>	<u>10,026,840</u>	<u>204,620,630</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>5,189,828</u>	<u>(833,574)</u>	<u>(9,857,448)</u>	<u>(5,501,194)</u>
OTHER FINANCING SOURCES (USES)				
Bond issue proceeds	-	17,930,000	-	17,930,000
Proceeds from refunding bonds	-	-	20,070,000	20,070,000
Payment to refunded bond escrow agent	-	-	(22,034,816)	(22,034,816)
Bond premium	-	2,240,214	2,225,250	4,465,464
Proceeds from sale of capital assets	57,769	-	-	57,769
Transfers in	625,000	-	10,112,427	10,737,427
Transfers out	(2,453,776)	(7,410,185)	(873,466)	(10,737,427)
	<u>(1,771,007)</u>	<u>12,760,029</u>	<u>9,499,395</u>	<u>20,488,417</u>
TOTAL OTHER FINANCING SOURCES (USES)				
	<u>(1,771,007)</u>	<u>12,760,029</u>	<u>9,499,395</u>	<u>20,488,417</u>
NET CHANGE IN FUND BALANCES	3,418,821	11,926,455	(358,053)	14,987,223
FUND BALANCES AT BEGINNING OF YEAR	<u>19,186,035</u>	<u>-</u>	<u>1,938,201</u>	<u>21,124,236</u>
FUND BALANCES AT END OF YEAR	<u>\$ 22,604,856</u>	<u>\$ 11,926,455</u>	<u>\$ 1,580,148</u>	<u>\$ 36,111,459</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT

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

Year Ended June 30, 2011

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARD

\$ 14,987,223

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$10,625,331) exceed depreciation (\$8,633,936) in the current period.

1,991,395

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net assets.

(4,239)

Deferred charges are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the term lives of debt instruments as amortization expense. This is the amount by which deferred charges (\$407,462) exceed amortization (\$115,693) in the current period.

291,769

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

(84,611)

Borrowing of long-term debt is a revenue in the Governmental Funds but increases long-term liabilities in the statement of net assets.

(38,000,000)

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the statement of net assets. Also, Governmental Funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items.

(2,809,658)

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

29,711,000

SUBTOTAL ADJUSTMENTS FORWARD

\$ (8,904,344)

NORTH PENN SCHOOL DISTRICT

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

Year Ended June 30, 2011

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARDED	\$ 14,987,223
SUBTOTAL ADJUSTMENTS FORWARDED	(8,904,344)
 Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds.	
Accrued interest not reflected in Governmental Funds	(68,830)
 Repayment of capital lease principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets.	
	2,641,531
 In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	
	250,579
 The net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.	
	<u>(622,016)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 8,284,143</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Enterprise Funds			
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Proprietary Funds
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 78,711	\$ 331,427	\$ 195,957	\$ 606,095
Investments	390,652	-	-	390,652
Due from other funds	-	-	6,841	6,841
Due from other governments	81,037	-	-	81,037
Other receivables	19,227	3,543	1,300	24,070
Inventories	127,907	-	-	127,907
Prepaid expenses	-	4,625	-	4,625
	<u>697,534</u>	<u>339,595</u>	<u>204,098</u>	<u>1,241,227</u>
TOTAL CURRENT ASSETS				
CAPITAL ASSETS				
Furniture and equipment	1,303,915	-	-	1,303,915
Accumulated depreciation	<u>(1,259,986)</u>	<u>-</u>	<u>-</u>	<u>(1,259,986)</u>
TOTAL CAPITAL ASSETS	<u>43,929</u>	<u>-</u>	<u>-</u>	<u>43,929</u>
TOTAL ASSETS	<u>\$ 741,463</u>	<u>\$ 339,595</u>	<u>\$ 204,098</u>	<u>\$ 1,285,156</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Due to other funds	\$ 31,210	\$ 5,796	\$ -	\$ 37,006
Accounts payable	80,813	11,883	11,024	103,720
Accrued salaries and benefits	2,569	21,436	7,069	31,074
Deferred revenue	<u>123,999</u>	<u>103,448</u>	<u>68,884</u>	<u>296,331</u>
TOTAL CURRENT LIABILITIES	<u>238,591</u>	<u>142,563</u>	<u>86,977</u>	<u>468,131</u>
NET ASSETS				
Invested in capital assets, net of related debt	43,929	-	-	43,929
Unrestricted	<u>458,943</u>	<u>197,032</u>	<u>117,121</u>	<u>773,096</u>
TOTAL NET ASSETS	<u>502,872</u>	<u>197,032</u>	<u>117,121</u>	<u>817,025</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 741,463</u>	<u>\$ 339,595</u>	<u>\$ 204,098</u>	<u>\$ 1,285,156</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	Enterprise Funds			
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Proprietary Funds
OPERATING REVENUES				
Charges for services	\$ 3,364,247	\$ 2,071,137	\$ 379,122	\$ 5,814,506
OPERATING EXPENSES				
Salaries	1,520,806	1,303,888	107,090	2,931,784
Employee benefits	910,994	569,972	15,888	1,496,854
Purchased professional and technical service	83,528	3,185	187,485	274,198
Purchased property service	39,537	-	-	39,537
Other purchased service	5,494	16,712	24,264	46,470
Supplies	2,416,415	146,589	17,022	2,580,026
Depreciation	8,444	-	-	8,444
Other operating expenses	873	1,927	-	2,800
TOTAL OPERATING EXPENSES	<u>4,986,091</u>	<u>2,042,273</u>	<u>351,749</u>	<u>7,380,113</u>
OPERATING INCOME (LOSS)	<u>(1,621,844)</u>	<u>28,864</u>	<u>27,373</u>	<u>(1,565,607)</u>
NONOPERATING REVENUES				
Investment income	572	1,193	172	1,937
State sources	172,241	4,962	-	177,203
Federal sources	1,410,262	-	-	1,410,262
TOTAL NONOPERATING REVENUES	<u>1,583,075</u>	<u>6,155</u>	<u>172</u>	<u>1,589,402</u>
CHANGE IN NET ASSETS	(38,769)	35,019	27,545	23,795
NET ASSETS AT BEGINNING OF YEAR	<u>541,641</u>	<u>162,013</u>	<u>89,576</u>	<u>793,230</u>
NET ASSETS AT END OF YEAR	<u>\$ 502,872</u>	<u>\$ 197,032</u>	<u>\$ 117,121</u>	<u>\$ 817,025</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2011

	Enterprise Funds			Total Proprietary Funds
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 3,372,258	\$ 2,071,012	\$ 356,541	\$ 5,799,811
Payments to employees	(2,427,095)	(1,870,179)	(112,853)	(4,410,127)
Payments to suppliers	(2,413,799)	(166,532)	(226,053)	(2,806,384)
Payments to other governments	(54,554)	(46,860)	(4,211)	(105,625)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(1,523,190)</u>	<u>(12,559)</u>	<u>13,424</u>	<u>(1,522,325)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Federal sources	1,242,445	-	-	1,242,445
State sources	180,410	4,962	-	185,372
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,422,855</u>	<u>4,962</u>	<u>-</u>	<u>1,427,817</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(66,957)	-	-	(66,957)
Earnings on investments	572	1,193	172	1,937
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(66,385)</u>	<u>1,193</u>	<u>172</u>	<u>(65,020)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(166,720)	(6,404)	13,596	(159,528)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>245,431</u>	<u>337,831</u>	<u>182,361</u>	<u>765,623</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 78,711</u>	<u>\$ 331,427</u>	<u>\$ 195,957</u>	<u>\$ 606,095</u>

NORTH PENN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2011

	Enterprise Funds			Total Proprietary Funds
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (1,621,844)	\$ 28,864	\$ 27,373	\$ (1,565,607)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	8,444	-	-	8,444
Donated foods	213,134	-	-	213,134
(Increase) decrease in				
Due from other funds	-	-	(6,719)	(6,719)
Other receivables	(1,942)	3,290	(1,300)	48
Inventories	18,662	-	-	18,662
Prepaid expenses	-	(3,494)	-	(3,494)
Increase (decrease) in				
Due to other funds	9,626	6,937	-	16,563
Accounts payable	(109,374)	(1,562)	9,437	(101,499)
Accrued salaries and benefits	(49,849)	(43,179)	5,914	(87,114)
Deferred revenue	9,953	(3,415)	(21,281)	(14,743)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (1,523,190)	\$ (12,559)	\$ 13,424	\$ (1,522,325)
SUPPLEMENTAL DISCLOSURES				
Noncash activities				
Donated foods	\$ 213,134	\$ -	\$ -	\$ 213,134

See accompanying notes to the basic financial statements.

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

	<u>Scholarship Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 197,307	\$ 627,212
Investments	11,488	-
Accounts receivable	<u>-</u>	<u>10,352</u>
TOTAL ASSETS	208,795	<u>\$ 637,564</u>
LIABILITIES		
Accounts payable	<u>83,080</u>	<u>\$ 637,564</u>
NET ASSETS		
Held in trust for benefits and other purposes	<u>\$ 125,715</u>	

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2011

	<u>Scholarship Trust Funds</u>
ADDITIONS	
Contributions	\$ 3,440
Investment earnings	<u>10,955</u>
TOTAL ADDITIONS	14,395
DEDUCTIONS	
Scholarships awarded and fees paid	<u>8,843</u>
CHANGE IN NET ASSETS	5,552
NET ASSETS AT BEGINNING OF YEAR	<u>120,163</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 125,715</u></u>

See accompanying notes to the basic financial statements.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. This report presents the activities of the North Penn School District. Based upon the application of these criteria, the School District is not a component unit of another reporting entity. Currently, the School District does not have any potential component units that should be included in the School District's reporting entity.

Basis of Presentation and Accounting

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

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

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

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

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

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

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

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

Trust Funds are reported using the economic resources measurement focus.

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

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

Fund Accounting

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

Governmental Funds

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

Special Revenue Funds - These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The School District's *Athletic Fund* is accounted for in this fund type.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition and construction of capital equipment and improvements in accordance with the applicable general obligation bond agreements. The School District's *Capital Reserve Fund* is accounted for in this fund type.

Proprietary Funds

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

Fiduciary Funds

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

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

Cash and Cash Equivalents

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

Investments

Investments 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, except for amounts due between governmental and business-type activities, which, when present, are shown as internal balances.

Inventories and Prepaid Items

Inventory of food and milk in the School Nutrition Services Fund consists of supplies purchased and donated commodities received from the federal government. The donated commodities are valued at their fair market value in accordance with the *Manual of Accounting for Pennsylvania School Systems - Food Service Fund*. Food and supplies are carried at cost using the first-in, first-out method. Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased.

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

Capital Assets

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

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.

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

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

	<u>Years</u>
Site improvements	15-20
Buildings and building improvements	10-45
Furniture and equipment	5-20

Deferred Revenue

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

Long-Term Obligations

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

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

Compensated Absences

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

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

Fund Equity

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Fund Balance

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

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
- ***Restricted*** - Amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation.
- ***Committed*** - Amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and do not lapse at year-end.
- ***Assigned*** - Amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- ***Unassigned*** - Amounts not contained in other classifications.

The details of the fund balances are included in the Governmental Funds balance sheet (page 24). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of Directors. The School District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

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

Use of Estimates

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

NOTE B CASH AND INVESTMENTS

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2011, \$43,820,507 of the School District's bank balance of \$44,676,689 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the School District's name	\$ <u>43,820,507</u>
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Interest Rate Risk - The School District's investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments

As of June 30, 2011, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less Than One Year</u>
State investment pools	\$ 12,845,553	\$ 12,845,553
Mutual funds	<u>11,488</u>	<u>11,488</u>
	12,857,041	\$ <u>12,857,041</u>
Less outstanding checks	<u>(74,596)</u>	
	<u>\$ 12,782,445</u>	

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

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

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

The School District's investment policy does not further limit its investment choices. As of June 30, 2011, the School District's investment in the state investment pool was rated AAAM by Standard & Poor's.

Although not registered with the Securities and Exchange Commission and not subject to formal regulatory oversight, the state investment pool is subject to an independent annual audit. The fair value in the external investment pool is equivalent to the value of the pool shares.

Concentration of Credit Risk - The School District does not have an investment in any one issue that is in excess of 5% of the School District's total investments.

NOTE C TAXES - REAL ESTATE AND OTHER

The School Board is authorized by state law to levy property taxes for School District operations, capital improvements and debt service. In addition, the School District levies a .5% earned income tax. Property taxes are based on assessed valuations of real property within the School District.

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

Discount period..... July 1 to August 31 - 2% of gross levy
Face period..... September 1 to October 31
Penalty period..... October 31 to collection - 10% of gross levy
Lien date..... January 15

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

NOTE D RECEIVABLES

Receivables at June 30, 2011, consisted of taxes, other revenue and intergovernmental grants and entitlements. The real estate taxes receivable account represents real estate transfer taxes and prior year uncollected tax levies. 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 receivables by fund is as follows:

	General Fund	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Agency Funds
Real estate taxes	\$ 3,180,995	\$ -	\$ -	\$ -	\$ -
Earned income taxes	111,906	-	-	-	-
Federal subsidies	1,511,625	71,143	-	-	-
State subsidies	1,529,323	9,894	-	-	-
Intergovernmental	-	-	-	-	-
Other revenue	305,007	19,227	3,543	1,300	10,352
	<u>\$ 6,638,856</u>	<u>\$ 100,264</u>	<u>\$ 3,543</u>	<u>\$ 1,300</u>	<u>\$ 10,352</u>

NOTE E INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

Due to/from Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	School Nutrition Services Fund	\$ 31,210
General Fund	Extended Care Fund	5,796
Community Education Fund	General Fund	6,841
		<u>\$ 43,847</u>

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." The amounts between the General Fund, School Nutrition Services Fund, Extended Care Fund and Community Education Fund are for payroll.

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

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 625,000
Other Governmental Funds	General Fund	2,453,776
Other Governmental Funds	2011 Bond Fund	7,410,185
Other Governmental Funds	Other Governmental Funds	248,466
		<u>\$ 10,737,427</u>

The School District typically transfers funds from the Debt Service Fund to the General Fund to pay for principal and interest due on outstanding bonds and notes payable. The amounts between the Other Governmental Funds and the 2011 Bond Fund are interfund borrowings to pay for renovations to facilities or purchase equipment.

NOTE F CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance June 30, 2010</u>	<u>Additions/ Reclasses</u>	<u>Deletions/ Reclasses</u>	<u>Balance June 30, 2011</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 8,006,732	\$ -	\$ -	\$ 8,006,732
Construction in progress	8,826,947	10,284,352	(1,401,738)	17,709,561
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>16,833,679</u>	<u>10,284,352</u>	<u>(1,401,738)</u>	<u>25,716,293</u>
Capital assets being depreciated				
Site improvements	238,726	-	-	238,726
Buildings and building improvements	205,718,022	1,401,738	-	207,119,760
Furniture and equipment	29,931,635	2,430,899	(8,335,612)	24,026,922
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>235,888,383</u>	<u>3,832,637</u>	<u>(8,335,612)</u>	<u>231,385,408</u>
Accumulated depreciation				
Site improvements	(119,458)	(12,027)	-	(131,485)
Buildings and building improvements	(66,284,332)	(5,968,573)	-	(72,252,905)
Furniture and equipment	(21,740,223)	(2,653,336)	8,331,373	(16,062,186)
TOTAL ACCUMULATED DEPRECIATION	<u>(88,144,013)</u>	<u>(8,633,936)</u>	<u>8,331,373</u>	<u>(88,446,576)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>147,744,370</u>	<u>(4,801,299)</u>	<u>(4,239)</u>	<u>142,938,832</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>164,578,049</u>	<u>5,483,053</u>	<u>(1,405,977)</u>	<u>168,655,125</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	1,320,915	-	(17,000)	1,303,915
Accumulated depreciation	(1,268,542)	(8,444)	17,000	(1,259,986)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	<u>52,373</u>	<u>(8,444)</u>	<u>-</u>	<u>43,929</u>
CAPITAL ASSETS, net	<u>\$ 164,630,422</u>	<u>\$ 5,474,609</u>	<u>\$ (1,405,977)</u>	<u>\$ 168,699,054</u>

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

Depreciation expense was charged to governmental functions as follows:

INSTRUCTION	
Regular programs	\$ 4,479,678
Special programs	703,439
Other instructional programs	134,083
SUPPORT SERVICES	
Pupil personnel services	196,751
Instructional staff services	97,128
Administration services	349,731
Pupil health services	46,016
Business services	65,730
Operation and maintenance of plant services	726,420
Student transportation services	1,461,409
Central and other services	338,745
OPERATION OF NON-INSTRUCTIONAL SERVICES	
Student activities	<u>34,806</u>
	<u>\$ 8,633,936</u>

NOTE G LEASES

Capital Leases

The School District has entered into lease agreements as lessee for financing the acquisition of computers and buses. These 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:

Computer equipment	\$ 5,885,000
Buses	3,360,000
	<u>9,245,000</u>
Accumulated depreciation	<u>(5,299,950)</u>
	<u>\$ 3,945,050</u>

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

<u>Year Ending June 30,</u>	
2012	\$ 1,659,017
2013	<u>745,367</u>
	2,404,384
Amount representing interest	<u>(129,119)</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	 <u>\$ 2,275,265</u>

NOTE H LONG-TERM DEBT

General Obligation Bonds and Notes

The School District issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. At June 30, 2011, the outstanding balance of general obligation bonds and notes issued was \$105,792,000.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 8,234,000	\$ 4,252,293
2013	9,318,000	4,196,975
2014	9,675,000	3,843,289
2015	10,045,000	3,478,225
2016	10,460,000	3,062,162
2017 to 2021	<u>58,060,000</u>	<u>8,062,949</u>
	 <u>\$ 105,792,000</u>	 <u>\$ 26,895,893</u>

NOTE I CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011, was as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
GENERAL OBLIGATION BONDS AND NOTES							
Bonds							
Series of 2001	2.35% to 5.00%	4/15/2011	\$ 675,000	\$ -	\$ (675,000)	\$ -	\$ -
Series of 2003	1.25% to 4.50%	9/1/2010	2,175,000	-	(2,175,000)	-	-
Series A of 2003	3.50% to 3.75%	3/1/2020	23,500,000	-	(20,850,000)	2,650,000	-
Series of 2008	3.50% to 4.25%	3/1/2018	19,815,000	-	(5,000)	19,810,000	5,000
Series of 2009	3.00% to 5.00%	9/1/2016	17,030,000	-	(1,830,000)	15,200,000	4,185,000
Series A of 2009	2.00%	3/1/2012	6,390,000	-	(4,165,000)	2,225,000	2,225,000
Series of 2010	2.00% to 5.00%	3/1/2020	20,620,000	-	(5,000)	20,615,000	5,000
Series A of 2010	.50% to 5.00%	3/1/2020	-	20,070,000	(5,000)	20,065,000	5,000
Series of 2011	3.00% to 5.00%	3/1/2021	-	17,930,000	-	17,930,000	5,000
Notes							
Series of 2007	3.74%	3/1/2014	7,298,000	-	(1,000)	7,297,000	1,804,000
			<u>97,503,000</u>	<u>38,000,000</u>	<u>(29,711,000)</u>	<u>105,792,000</u>	<u>8,234,000</u>
Deferred amounts							
Issuance discount			(248,882)	-	248,882	-	-
Issuance premium			3,355,819	4,465,464	(535,550)	7,285,733	-
Deferred amount on refunding			-	(1,485,060)	53,038	(1,432,022)	-
TOTAL GENERAL OBLIGATION BONDS AND NOTES			<u>100,609,937</u>	<u>40,980,404</u>	<u>(29,944,630)</u>	<u>111,645,711</u>	<u>8,234,000</u>
CAPITAL LEASES			<u>2,826,876</u>	<u>2,089,920</u>	<u>(2,641,531)</u>	<u>2,275,265</u>	<u>1,445,895</u>
COMPENSATED ABSENCES			<u>4,602,716</u>	<u>119,263</u>	<u>(369,842)</u>	<u>4,352,137</u>	<u>271,137</u>
NET OPEB OBLIGATION			<u>2,644,699</u>	<u>1,248,687</u>	<u>(626,671)</u>	<u>3,266,715</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES			<u>\$ 110,684,228</u>	<u>\$ 44,438,274</u>	<u>\$ (33,582,674)</u>	<u>\$ 121,539,828</u>	<u>\$ 9,951,032</u>

The General Fund has been used to liquidate other long-term liabilities in prior years.

In December 2010, the School District authorized the issuance of General Obligation Bonds, Series A of 2010, for the purpose of providing funds to partially advance refund the General Obligation Bonds, Series A of 2003, and to pay the costs of issuing and insuring the bond. The new issue will reduce debt service payments for the School District by \$1,856,013 with an economic gain of \$1,067,067.

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

NOTE J DEFEASED DEBT

In the current year, certain bonds were defeased in substance by placing an amount in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the in-substance defeased bonds are not included in the School District's financial statements.

As of June 30, 2011, the School District has defeased debt outstanding of \$20,850,000.

NOTE K DEFERRED REVENUE

General Fund

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

At June 30, 2011, deferred revenue consisted of delinquent taxes receivable of \$2,447,986.

Also included in deferred revenue is \$19,549 representing funds received to be used for future expenditures.

School Nutrition Services Fund

Deferred revenue of \$123,999 in the School Nutrition Services Fund represents the carryover of student deposits.

Extended Care Fund

Deferred revenue of \$103,448 represents deposits received for 2011-2012 school year programs.

Community Education Fund

Deferred revenue of \$68,884 represents deposits received for 2011-2012 school year programs.

NOTE L PENSIONS

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

Plan Description

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

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

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

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

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

Funding Policy

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

Contribution Rates

Member Contributions

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2011, the rate of employer's contribution was 5.64% of covered payroll. The 5.64% rate is composed of a pension contribution rate of 5.00% for pension benefits and .64% for healthcare insurance premium assistance.

The School District's contribution to PSERS for the years ended June 30, 2011, 2010 and 2009, was \$6,199,218, \$5,025,659 and \$5,027,579, respectively, equal to the required contribution for each year.

NOTE M COMPENSATED ABSENCES AND EARLY RETIREMENT INCENTIVE PLAN

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

The liability to current employees is estimated and will change since unused vacation will be paid at the rate of pay in effect at the time of separation. These accumulated leaves are recorded as an expenditure in the period taken or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, which was \$1,291,127 at June 30, 2011, is recorded in compensated absences on the statement of net assets.

The School District pays various per diem rates to retirees for unused sick time. Compensation payable in future years, which was \$2,453,379 at June 30, 2011, is recorded in compensated absences on the statement of net assets.

In addition, included in this balance is \$607,631 of future payments related to obligations under the School District's Early Retirement Incentive Plan.

NOTE N POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

Normal cost	\$ 732,709
Amortization of unfunded actuarial accrued liability	559,329
ANNUAL REQUIRED CONTRIBUTION (ARC)	1,292,038
Interest on net OPEB obligation	119,011
Adjustment to ARC	(162,362)
ANNUAL OPEB EXPENSE	1,248,687
Net OPEB contributions during the year	(626,671)
INCREASE IN NET OPEB OBLIGATION	622,016
Net OPEB obligation at beginning of year	2,644,699
NET OPEB OBLIGATION AT END OF YEAR	\$ 3,266,715

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$ 1,807,155	47.3%	\$ 2,101,848
2009	1,257,585	56.8%	2,644,699
2010	1,248,687	50.2%	3,266,715

Funded Status and Funding Progress

According to the actuarial report dated July 1, 2009, the actuarial accrued liability for benefits was \$9,110,857, and the actuarial value of assets was \$0 as of June 30, 2011, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$100,074,244, and the ratio of the UAAL to the covered payroll was 9.10%.

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 58, 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, 2009 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements of .5% to an ultimate rate of 5.5% after five years. 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 June 30, 2011, was 27 years.

NOTE O COMMITMENTS AND CONTINGENCIES

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

The School District has various commitments under long-term construction contracts of approximately \$4,265,000 as of June 30, 2011.

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

NOTE P RISK MANAGEMENT

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

NOTE Q FUND BALANCE DESIGNATIONS

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

- ***Nonspendable Fund Balance*** includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints. Fund balance types of this category are inventories.
- ***Restricted Fund Balance*** includes fund balance amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation. Fund balance types of this category include amounts for capital projects.
- ***Committed Fund Balance*** includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and do not lapse at year-end. Fund balance of this type is the Retirement Rate Stabilization. Since the School District is required to contribute to the retirement plan, the Retirement Rate Stabilization fund has been set up by the Board of Directors to provide for any fluctuations to the rate increases.
- ***Assigned Fund Balance*** includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School District Manager and/or School District Finance Director. Fund balance of this type includes amounts for debt service and the Athletic Fund along with funds to be set aside for self-insurance funding.
- ***Unassigned Fund Balance*** includes the residual classifications for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. It is the policy of the School District (based on the Government Finance Officer's Association Best Practice) to retain a minimum 15% of the subsequent year operating budget in the unassigned category.

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

Beginning fund balances for the School District's Governmental Funds have been restated to reflect the above classifications.

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

NOTE R JOINT VENTURE

The School District is a participating member of the North Montco Technical Career Center (the "Center"). The Center is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The Board of Directors of each participating district must approve the Center's annual operating budget. Each participating district pays a pro rata share of the Center's operating costs based on the number of students attending the Center from each district. The School District's share of the Center's operating costs for 2010-2011 was \$3,620,034.

On dissolution of the Center, the net assets of the Center will be shared on a pro rata basis of each participating district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the School District does not have an equity interest in the Center, as defined by GASB Statement No. 14, except a residual interest in net assets upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the Center can be obtained from the Center's administrative office.

In June 2010, the District entered into a long-term sublease agreement with the Center through May 2031 for a portion of the debt service payments on the Center's School Lease Revenue Bonds, Series of 2010. Sublease payments begin in November 2010.

Future minimum sublease payments are as follows:

Year Ending June 30,	
2012	\$ 159,045
2013	161,350
2014	168,265
2015	170,570
2016	177,485
2017 to 2021	977,320
2022 to 2026	1,164,025
2027 to 2031	<u>1,419,880</u>
	<u>\$ 4,397,940</u>

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

NOTE S DONATED FOODS

The Nutrition Services Fund contains inventories which consist of both food commodities donated by the federal government and other food and supply inventories. Donated foods represent \$7,173 of the Proprietary Funds' inventory balance at June 30, 2011. These inventories are valued at last unit cost in accordance with the recommendations of the Food and Nutrition Service of the Department of Agriculture and are expensed as used.

NOTE T SUBSEQUENT EVENT

Self-Insurance

In July 2011, the School District elected to sponsor a self-insured employee welfare benefit plan for health care coverage for the 2011-2012 school year. An administrative services agreement was signed with a third-party insurance company (claims administrator) to administer the costs and claims associated with the plan. The agreement required the School District to establish a reserve escrow of \$2,631,000. The reserve will be used to pay claims, retention charges and broker commissions incurred prior to but paid after the date of determination. The reserve is intended to secure only the School District's obligations to the claims administrator and has no effect, application, or operation regarding the School District's direct obligation to the benefit program. The claims administrator may, in its discretion, require a greater or lesser reserve amount from the School District to secure the School District's obligations under the agreement. If the claims administrator requires a lesser amount, the School District will receive a refund or credit.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH PENN SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 165,913,315	\$ 161,592,061	\$ 160,028,478	\$ (1,563,583)
State sources	34,177,988	34,329,263	30,243,624	(4,085,639)
Federal sources	1,747,839	7,341,173	8,677,639	1,336,466
TOTAL REVENUES	<u>201,839,142</u>	<u>203,262,497</u>	<u>198,949,741</u>	<u>(4,312,756)</u>
EXPENDITURES				
Instruction	116,906,261	121,459,625	119,732,670	1,726,955
Support services	62,002,208	63,197,969	59,111,312	4,086,657
Operation of non-instructional services	2,463,032	2,490,452	2,321,021	169,431
Facilities acquisition, construction and improvement services	224,100	224,100	155,615	68,485
Debt service	16,309,643	13,560,336	12,439,295	1,121,041
TOTAL EXPENDITURES	<u>197,905,244</u>	<u>200,932,482</u>	<u>193,759,913</u>	<u>7,172,569</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>3,933,898</u>	<u>2,330,015</u>	<u>5,189,828</u>	<u>2,859,813</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	57,769	57,769
Transfers in	625,000	625,000	625,000	-
Transfers out	-	-	(2,453,776)	(2,453,776)
Budgetary reserve	(4,524,100)	(2,920,217)	-	2,920,217
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,899,100)</u>	<u>(2,295,217)</u>	<u>(1,771,007)</u>	<u>524,210</u>
NET CHANGE IN FUND BALANCE	<u>34,798</u>	<u>34,798</u>	<u>3,418,821</u>	<u>3,384,023</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>19,186,035</u>	<u>19,186,035</u>	<u>19,186,035</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 19,220,833</u>	<u>\$ 19,220,833</u>	<u>\$ 22,604,856</u>	<u>\$ 3,384,023</u>

See accompanying note to the budgetary comparison schedule.

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

NOTE A BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all Capital Project Funds.

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

1. In January, the School District must make the Act 1 preliminary budget available for public inspection 20 days prior to the School Board vote.
2. The School Board of Directors must approve the Act 1 preliminary budget 90 days prior to the Pennsylvania primary election.
3. The operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following July 1.
4. Public hearings are conducted at the School District offices to obtain taxpayer comments.
5. Prior to July 1, the budget is legally enacted through passage of an ordinance.
6. The Business Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
7. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for the Special Revenue Funds. Formal budgetary integration is also not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
8. Budgeted amounts are as originally adopted or as amended by the School Board.

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

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

SCHEDULE OF FUNDING PROGRESS

Valuation Date July 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2006	\$ -	\$ 18,217,305	\$ 18,217,305	0%	\$ 87,626,911	20.79%
2009	-	9,110,857	9,110,857	0%	100,074,244	9.10%

SUPPLEMENTARY INFORMATION SECTION

NORTH PENN SCHOOL DISTRICT
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
June 30, 2011

	Capital Project Funds				Debt Service Fund	Total Other Governmental Funds
	Athletic Fund	Capital Reserve Fund	2006 Note Fund	2008 Bond Fund		
ASSETS						
Cash and cash equivalents	\$ <u>17,740</u>	\$ <u>4,254</u>	\$ <u>180,526</u>	\$ <u>-</u>	\$ <u>1,377,628</u>	\$ <u>1,580,148</u>
FUND BALANCES						
Restricted for capital projects	\$ -	\$ -	\$ 180,526	\$ -	\$ -	\$ 180,526
Committed to capital projects	-	4,254	-	-	-	4,254
Assigned to						
Athletic Fund	17,740	-	-	-	-	17,740
Debt service	-	-	-	-	1,377,628	1,377,628
TOTAL FUND BALANCES	\$ <u>17,740</u>	\$ <u>4,254</u>	\$ <u>180,526</u>	\$ <u>-</u>	\$ <u>1,377,628</u>	\$ <u>1,580,148</u>

NORTH PENN SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	Capital Project Funds					Total Other Governmental Funds
	Athletic Fund	Capital Reserve Fund	2006 Note Fund	2008 Bond Fund	Debt Service Fund	
REVENUES						
Local sources	\$ 133,536	\$ 6,128	\$ 180	\$ 10,920	\$ 18,628	\$ 169,392
EXPENDITURES						
Support services	-	58	-	-	-	58
Operation of non-instructional services	130,231	-	-	-	-	130,231
Facilities acquisition, construction and improvement services	-	9,640,489	-	-	-	9,640,489
Debt service	-	-	-	-	256,062	256,062
TOTAL EXPENDITURES	<u>130,231</u>	<u>9,640,547</u>	<u>-</u>	<u>-</u>	<u>256,062</u>	<u>10,026,840</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,305</u>	<u>(9,634,419)</u>	<u>180</u>	<u>10,920</u>	<u>(237,434)</u>	<u>(9,857,448)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from refunding bonds	-	-	-	-	20,070,000	20,070,000
Payment to refunded bond escrow agent	-	-	-	-	(22,034,816)	(22,034,816)
Bond premium	-	-	-	-	2,225,250	2,225,250
Transfers in	-	9,863,961	-	248,466	-	10,112,427
Transfers out	-	(248,466)	-	-	(625,000)	(873,466)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>9,615,495</u>	<u>-</u>	<u>248,466</u>	<u>(364,566)</u>	<u>9,499,395</u>
NET CHANGE IN FUND BALANCES	3,305	(18,924)	180	259,386	(602,000)	(358,053)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	<u>14,435</u>	<u>23,178</u>	<u>180,346</u>	<u>(259,386)</u>	<u>1,979,628</u>	<u>1,938,201</u>
FUND BALANCES AT END OF YEAR	<u>\$ 17,740</u>	<u>\$ 4,254</u>	<u>\$ 180,526</u>	<u>\$ -</u>	<u>\$ 1,377,628</u>	<u>\$ 1,580,148</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
North Penn School District
Lansdale, 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 North Penn School District as of and for the year ended June 30, 2011, which collectively comprise the North Penn School District's basic financial statements and have issued our report thereon dated February 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

To the Board of Directors
North Penn School District
Lansdale, Pennsylvania

COMPLIANCE AND OTHER MATTERS

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

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

Maillie Falconiero + Company, LLP

Oaks, Pennsylvania
February 10, 2012



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Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors
North Penn School District
Lansdale, Pennsylvania

COMPLIANCE

We have audited the North Penn School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the North Penn School District's major federal programs for the year ended June 30, 2011. North Penn School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the North Penn School District's management. Our responsibility is to express an opinion on the North Penn School District's compliance based on our audit.

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

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

To the Board of Directors
North Penn School District
Lansdale, Pennsylvania

INTERNAL CONTROL OVER COMPLIANCE

Management of the North Penn School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the North Penn School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the North Penn School District's internal control over compliance.

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

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

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

Maullis Falconieri Company LLP

Oaks, Pennsylvania
February 10, 2012

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

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

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Dates</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2010</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2011</u>
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education										
Title I Improving Basic Programs	I	84.010*	13-110289	July 1, 2010 to September 30, 2011	\$ 1,153,135	\$ 830,648	\$ -	\$ 817,058	\$ 817,058	\$ (13,590)
Title I Improving Basic Programs	I	84.010*	13-100289	July 1, 2009 to September 30, 2010	600,037	227,611	52,569	171,045	171,045	(3,997)
Title I Improving Basic Programs	I	84.010*	13-090289	July 1, 2008 to September 30, 2009	614,989	-	(4,996)	4,996	4,996	-
Academic Achievement Award	I	84.010*	77-100289	September 17, 2008 to September 30, 2010	10,800	8,308	4,837	3,471	3,471	-
Title II Improving Teacher Quality	I	84.367*	20-110289	July 1, 2010 to September 30, 2011	393,783	112,970	-	228,415	228,415	115,445
Title II Improving Teacher Quality	I	84.367*	20-100289	July 1, 2009 to September 30, 2010	378,594	262,103	(8,127)	270,230	270,230	-
Title II Improving Teacher Quality	I	84.367*	20-090289	July 1, 2008 to September 30, 2009	379,787	14,608	(15,772)	30,380	30,380	-
Title III Language Inst LEP/Immigrant Students	I	84.365	10-110289	July 1, 2010 to September 30, 2011	119,953	47,981	-	64,517	64,517	16,536
Title III Language Inst LEP/Immigrant Students	I	84.365	10-100289	July 1, 2009 to June 30, 2010	107,908	26,977	7,930	50,805	50,805	31,758
Title III Language Inst LEP/Immigrant Students	I	84.365	10-090289	July 1, 2008 to June 30, 2009	164,963	-	(7,641)	7,641	7,641	-
ARRA - Fiscal Stabilization - Basic Ed	I	84.394*	126-110289	July 1, 2010 to June 30, 2011	1,034,034	517,017	-	1,034,034	1,034,034	517,017
ARRA - Fiscal Stabilization - Basic Ed	I	84.394*	126-100289	July 1, 2009 to June 30, 2010	1,053,989	439,162	439,162	-	-	-
Dual Enrollment Program	S	N/A	090-110289	July 1, 2010 to September 30, 2011	7,633	2,670	-	7,444	7,444	4,774
Dual Enrollment Program	S	N/A	090-100289	July 1, 2009 to September 30, 2010	9,402	6,802	6,802	-	-	-
SUBTOTAL FORWARD						\$ 2,496,857	\$ 474,764	\$ 2,690,036	\$ 2,690,036	\$ 667,943

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

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Dates</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2010</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2011</u>
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education										
SUBTOTAL FORWARDED						\$ 2,496,857	\$ 474,764	\$ 2,690,036	\$ 2,690,036	\$ 667,943
High School Reform Initiative	S	N/A	084-100289	July 1, 2009 to September 30, 2010	\$ 17,250	10,063	10,063	-	-	-
Education Jobs Fund	I	84.410*	140-119456	July 1, 2010 to September 30, 2011	612,104	612,104	-	612,104	612,104	-
Passed through the Montgomery County Intermediate Unit										
IDEA	I	84.027*	N/A	July 1, 2010 to June 30, 2011	2,412,799	2,125,895		2,412,799	2,412,799	286,904
ARRA - IDEA	I	84.391*	N/A	July 1, 2010 to June 30, 2011	2,970,657	1,119,672	(727,400)	2,386,263	2,386,263	539,191
IDEA	I	84.027*	N/A	July 1, 2009 to June 30, 2010	2,464,295	529,006	529,006	-	-	-
TOTAL FORWARD						6,893,597	286,433	8,101,202	8,101,202	1,494,038
U.S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES										
Passed through the Pennsylvania Department of Public Welfare										
Medical Assistance Reimbursement	I	93.778	N/A	July 1, 2010 to June 30, 2011	\$ 9,866	9,867	-	9,867	9,867	-
TOTAL FORWARD						9,867	-	9,867	9,867	-
U.S. DEPARTMENT OF AGRICULTURE										
Passed through the Pennsylvania Department of Education										
Child Nutrition Cluster										
National School Lunch Program	I	10.555*	N/A	July 1, 2010 to June 30, 2011	N/A	1,083,894	99,718	1,044,597	1,044,597	60,421
National School Lunch Program	S	N/A	N/A	July 1, 2010 to June 30, 2011	N/A	158,785	15,759	151,482	151,482	8,456
National School Breakfast Program	I	10.553*	N/A	July 1, 2010 to June 30, 2011	N/A	158,552	16,743	152,530	152,530	10,721
National School Breakfast Program	S	N/A	N/A	July 1, 2010 to June 30, 2011	N/A	21,625	2,304	20,759	20,759	1,438
SUBTOTAL FORWARD						\$ 1,422,856	\$ 134,524	\$ 1,369,368	\$ 1,369,368	\$ 81,036

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

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Dates</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2010</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2011</u>
U.S. DEPARTMENT OF EDUCATION										
TOTAL FORWARDED						\$ 6,893,597	\$ 286,433	\$ 8,101,202	\$ 8,101,202	\$ 1,494,038
U.S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES										
TOTAL FORWARDED						9,867	-	9,867	9,867	-
U.S. DEPARTMENT OF AGRICULTURE										
SUBTOTAL FORWARDED						1,422,856	134,524	1,369,368	1,369,368	81,036
Passed through the Pennsylvania Department of Agriculture										
National School Lunch Program	I	10.555*	N/A	July 1, 2010 to June 30, 2011		156,069 (A)	(49,892) (B)	213,134 (C)	213,134 (C)	7,173 (D)
TOTAL U.S. DEPARTMENT OF AGRICULTURE						1,578,925	84,632	1,582,502	1,582,502	88,209
TOTAL FEDERAL AND STATE AWARDS						\$ 8,482,389	\$ 371,065	\$ 9,693,571	\$ 9,693,571	\$ 1,582,247

Footnotes:

- (A) Total amount of commodities received from Department of Agriculture.
- (B) Beginning inventory at July 1, 2010.
- (C) Total amount of commodities used.
- (D) Ending inventory at June 30, 2011.

Source Codes:

- I = Indirect funding
- S = State share
- * = Major program

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

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

NOTE A BASIS OF ACCOUNTING

All expenditures included in the schedule of expenditures of federal and state awards are presented on the basis that expenditures are reported to the respective federal and state grantor agencies. Accordingly, certain expenditures are recorded when paid and certain other expenditures are recorded when the federal obligation is determined.

NOTE B FEDERAL EXPENDITURES

The schedule of expenditures of federal and state awards reflects federal expenditures for all individual grants, which were active during the fiscal year.

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the North Penn 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 North Penn School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major award programs for the North Penn School District expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

Program	CFDA
Special Education Cluster (IDEA)	
Special Education - Grants to States (IDEA, Part B)	84.027
Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (Education Stabilization Fund)	84.394
Education Jobs Fund	84.410
Title I Improving Basic Programs	84.010
Academic Achievement Award	84.010
Title II Improving Teacher Quality	84.367
Child Nutrition Cluster	
National School Lunch	10.555
National School Breakfast	10.553

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

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

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

None.