



**SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE
MORRISVILLE, PENNSYLVANIA
BUCKS COUNTY**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

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INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
School District of Borough of Morrisville
Morrisville, 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 School District of Borough of Morrisville, Morrisville, Pennsylvania, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of Borough of Morrisville's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the financial statements of the School District of Borough of Morrisville as of and for the year ended June 30, 2010 and, in our report dated December 1, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the School District of Borough of Morrisville, Morrisville, Pennsylvania, 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 a report dated December 14, 2011, on our consideration of the School District of Borough of Morrisville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the budgetary comparison schedule – general fund and other post employment benefits schedule of funding progress on pages 3 through 13 and 39 and 40 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 School District of Borough of Morrisville's financial statements as a whole. The accompanying schedule of expenditures of federal awards and certain state grants 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 Nonprofit Organizations,"* and is not a required part of the basic financial statements. The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The schedule of expenditures of federal awards and certain state grants has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards and certain state grants is fairly stated in all material respects in the relation to the financial statements as a whole.

BBD, LLP

Philadelphia, Pennsylvania
December 14, 2011

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

Management's discussion and analysis ("**MD&A**") of the financial performance of the School District of Borough of Morrisville (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2011. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of two schools – one elementary and an intermediate/high school consisting of approximately 1,010 students including those attending the Bucks County Tech High School and other out-of-District placements. The District is located in southeastern Bucks County and encompasses a total land area of 1.8 square miles. The District borders the Delaware River to the east, the Township of Falls to the south and west, and the Township of Lower Makefield to the north, and lies approximately 20 miles northeast of Philadelphia, Pennsylvania. The District employs approximately 150 full and part-time employees. The teaching staff and administration consists of 85 professionals.

The mission of the District is to prepare confident students who are knowledgeable and capable of utilizing academic and social skills necessary to thrive in a complex society by providing a superior education in a stimulating, secure environment through the effective use of challenging instructional strategies, technology and extra-curricular activities that are designed to meet the needs of individual students, capitalizing upon its unique position as a small district within a large area rich in historic and cultural resources.

FINANCIAL HIGHLIGHTS

- On a government-wide basis, including all governmental activities and business-type activities, the assets of the District exceeded liabilities resulting in total net assets at the close of the 2010-2011 fiscal year of \$2,867,020. During the 2010-2011 fiscal year, the District had a decrease in total net assets of \$862,397. The net assets of governmental activities decreased by \$857,133 and net assets of business-type activities decreased by \$5,264.
- The General Fund reported a decrease in fund balance of \$440,947, bringing the cumulative balance to \$2,424,197 or 13.32% of total General Fund expenditures and other financing uses at the conclusion of the 2010-2011 fiscal year.
- Total General Fund expenditures and other financing uses were \$72,689 less than budgeted amounts.
- The Capital Projects Fund reported a decrease in fund balance of \$1,865,995 related to the expending of proceeds from general obligation debt and resources accumulated for capital expenditures for renovations to the Intermediate/High School and the Grandview Elementary School. The cumulative remaining fund balance in the Capital Projects Fund was \$481,880 at the conclusion of the 2010-2011 fiscal year which will be used to fund continuing renovation projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

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, support services, maintenance, transportation and administration.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 14 and 15 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the two major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The governmental fund financial statements can be found on Pages 16 through 19 of this report.

Proprietary Funds

The District maintains one type of proprietary fund. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

The proprietary fund financial statements can be found on Pages 20 through 22 of this report.

Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, consisting of scholarship and student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on Pages 23 and 24 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 25 through 38 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund and a schedule concerning the District's progress in funding its obligation to provide other post-employment benefits.

The required supplementary information can be found on Pages 39 and 40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net assets may serve over time as a useful indicator of the District's financial position. At the close of the 2010-2011 fiscal year the District's assets exceeded liabilities by \$2,867,020. The following table presents condensed information for the *Statement of Net Assets* of the District at June 30, 2011 and 2010.

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current assets	\$ 4,975,244	\$ 7,288,902	\$70,802	\$69,962	\$ 5,046,046	\$ 7,358,864
Noncurrent assets	<u>9,781,959</u>	<u>8,282,284</u>	<u>19,679</u>	<u>24,177</u>	<u>9,801,638</u>	<u>8,306,461</u>
Total assets	<u>14,757,203</u>	<u>15,571,186</u>	<u>90,481</u>	<u>94,139</u>	<u>14,847,684</u>	<u>15,665,325</u>
LIABILITIES						
Current liabilities	1,610,117	1,530,600	68,885	67,279	1,679,002	1,597,879
Non-current liabilities	<u>10,301,662</u>	<u>10,338,029</u>	<u>-</u>	<u>-</u>	<u>10,301,662</u>	<u>10,338,029</u>
Total liabilities	<u>11,911,779</u>	<u>11,868,629</u>	<u>68,885</u>	<u>67,279</u>	<u>11,980,664</u>	<u>11,935,908</u>
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	1,286,132	(781,272)	19,679	24,177	1,305,811	(757,095)
Restricted	481,880	2,328,198	-	-	481,880	2,328,198
Unrestricted	<u>1,077,412</u>	<u>2,155,631</u>	<u>1,917</u>	<u>2,683</u>	<u>1,079,329</u>	<u>2,158,314</u>
Total net assets	<u>\$ 2,845,424</u>	<u>\$ 3,702,557</u>	<u>\$21,596</u>	<u>\$26,860</u>	<u>\$ 2,867,020</u>	<u>\$ 3,729,417</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The District's total assets as of June 30, 2011 were \$14,847,684 of which \$3,505,786 or 23.61% consisted of cash and investments and \$9,622,842 or 64.81% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2011 were \$11,980,664 of which \$8,495,827 or 70.91% consisted of general obligation debt used to acquire and construct capital assets.

Of the District's total net assets at June 30, 2011, \$1,079,329 is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors. The District's unrestricted net assets decreased by \$1,078,985 during 2011 primarily due to the results of current year operations and the approval of a new early retirement incentive plan in 2010-2011 for senior professional staff which has been recorded at its net present value of \$707,956 on June 30, 2011.

A portion of the District's net assets is its restricted net assets which totaled \$481,880 as of June 30, 2011. All of the District's restricted net assets related to amounts restricted for capital expenditures through Board resolution.

The largest portion of the District's net assets reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2011, the District's investment in capital assets, net of related debt, increased by \$2,062,906 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other than long-term debt.

The following table presents condensed information for the *Statement of Activities* of the District for 2011 and 2010:

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program revenues						
Charges for services	\$ 70,006	\$ 149,173	\$147,079	\$156,302	\$ 217,085	\$ 305,475
Operating grants and contributions	3,932,196	3,533,544	232,773	222,330	4,164,969	3,755,874
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes levied for general purposes	10,624,417	10,777,939	-	-	10,624,417	10,777,939
Taxes levied for specific purposes	99,067	129,283	-	-	99,067	129,283
Grants and entitlements not restricted to specific programs	2,918,276	3,056,456	-	-	2,918,276	3,056,456
Investment earnings	31,036	44,262	35	-	31,071	44,262
Insurance proceeds	-	473,903	-	-	-	473,903
Total revenues	<u>17,674,998</u>	<u>18,164,560</u>	<u>379,887</u>	<u>378,632</u>	<u>18,054,885</u>	<u>18,543,192</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

	Governmental Activities		Business-Type Activities		Totals	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
EXPENSES						
Instruction	13,154,170	11,736,396	-	-	13,154,170	11,736,396
Instructional student support services	829,212	818,772	-	-	829,212	818,772
Administrative and financial support services	1,794,323	1,609,583	-	-	1,794,323	1,609,583
Operation and maintenance of plant services	1,397,701	1,419,995	-	-	1,397,701	1,419,995
Pupil transportation	529,007	569,232	-	-	529,007	569,232
Student activities	400,531	413,191	-	-	400,531	413,191
Community services	42,539	25,364	-	-	42,539	25,364
Interest and amortization expense related to non-current liabilities	355,648	397,302	-	-	355,648	397,302
Food service	-	-	414,151	411,967	414,151	411,967
Total expenses	<u>18,503,131</u>	<u>16,989,835</u>	<u>414,151</u>	<u>411,967</u>	<u>18,917,282</u>	<u>17,401,802</u>
Change in net assets before transfers	(828,133)	1,174,725	(34,264)	(33,335)	(862,397)	1,141,390
Transfers	<u>(29,000)</u>	<u>(36,688)</u>	<u>29,000</u>	<u>36,688</u>	-	-
CHANGE IN NET ASSETS	<u>\$ (857,133)</u>	<u>\$ 1,138,037</u>	<u>\$ (5,264)</u>	<u>\$ 3,353</u>	<u>\$ (862,397)</u>	<u>\$ 1,141,390</u>

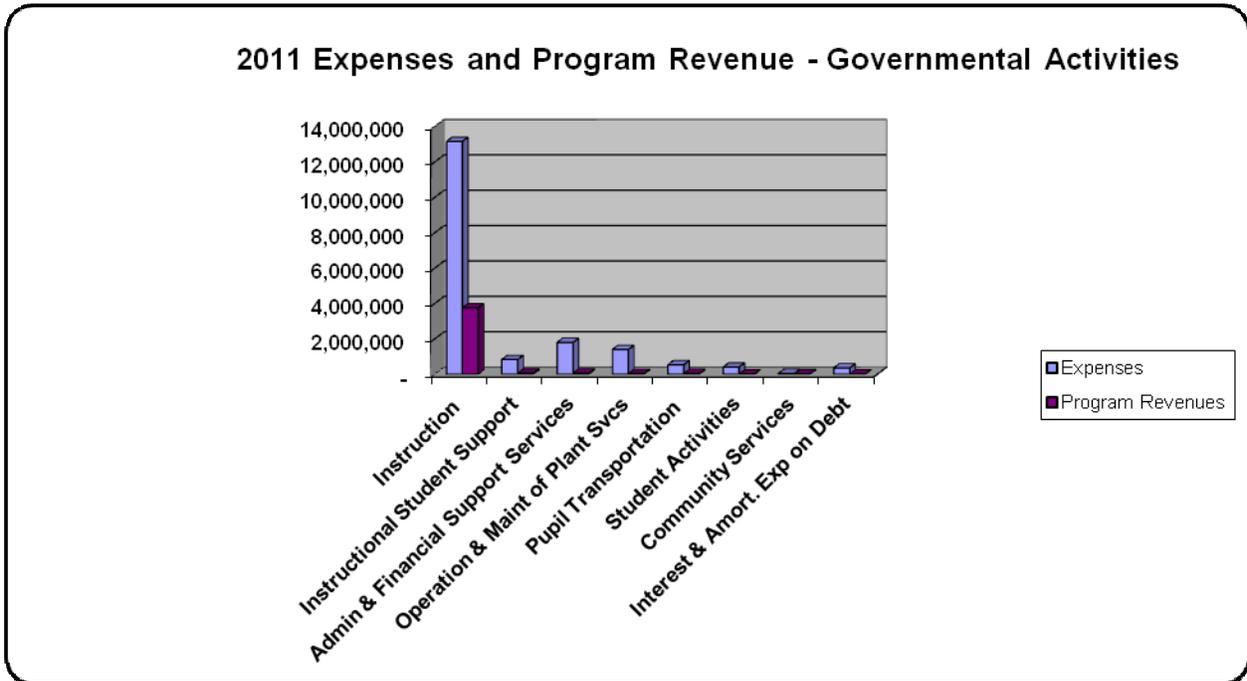
During 2011, the District's net assets decreased by \$862,397 in part due to increased medical costs and pension contributions, state-mandated programs, the offering of early retirement incentives and changes in negotiated contracts. Management of the District continues to aggressively implement expense efficiency measures and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed tax base drives the majority of the revenue generated. The District consists solely of the Borough of Morrisville which has little commercial or industrial tax revenue and limited opportunity to expand its property tax base.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

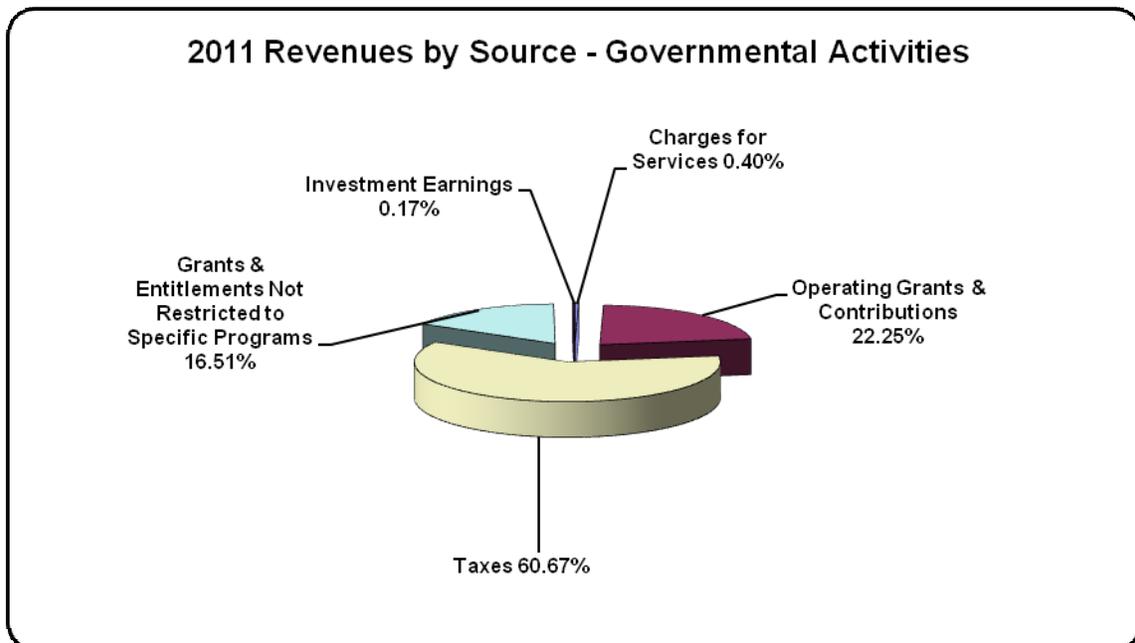
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues and grants end entitlements not restricted for specific programs to finance its governmental activities.



SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

GOVERNMENTAL FUNDS

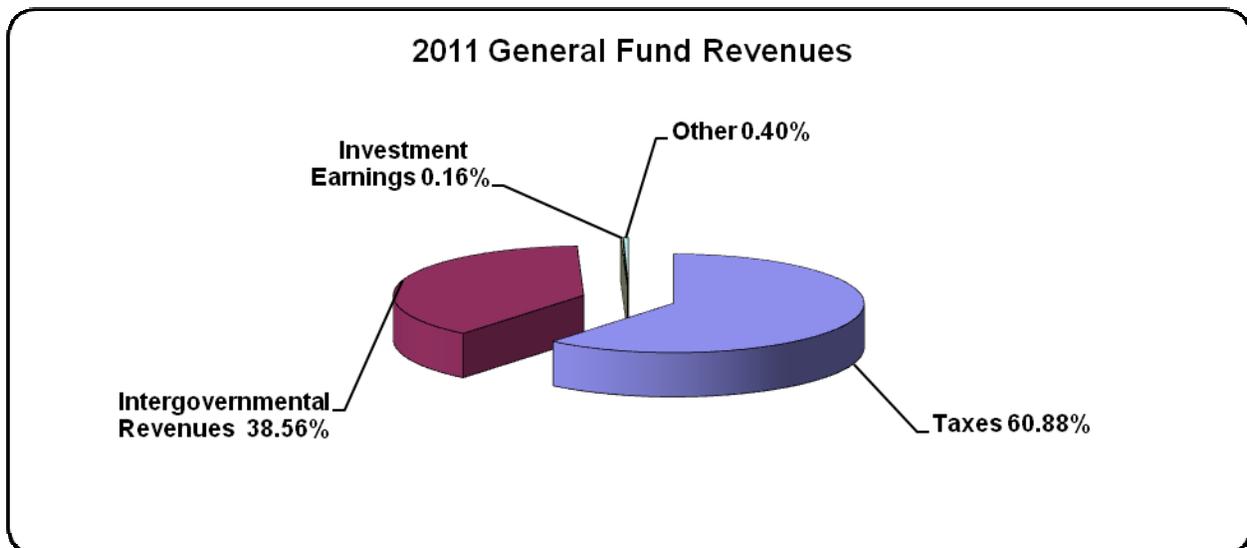
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2011, the District's governmental funds reported a combined fund balance of \$2,906,077 which is a decrease of \$2,306,942 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2011 and 2010 and the total 2011 change in governmental fund balances.

	<u>2011</u>	<u>2010</u>	<u>Change</u>
General Fund	\$2,424,197	\$2,865,144	\$ (440,947)
Capital Projects Fund	<u>481,880</u>	<u>2,347,875</u>	<u>(1,865,995)</u>
	<u>\$2,906,077</u>	<u>\$5,213,019</u>	<u>\$(2,306,942)</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2010-2011 fiscal year, the General Fund fund balance was \$2,424,197 representing a decrease of \$440,947 in relation to the prior year. The decrease in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2010-2011 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 60.88% of General Fund revenues are derived from local taxes.



General Fund Revenues

	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
Taxes	\$10,815,875	\$10,823,857	\$ (7,982)	(0.07)
Intergovernmental revenues	6,850,000	6,590,000	260,000	3.95
Investment earnings	28,365	32,338	(3,973)	(12.29)
Other	<u>70,482</u>	<u>149,508</u>	<u>(79,026)</u>	<u>(52.86)</u>
	<u>\$17,764,722</u>	<u>\$17,595,703</u>	<u>\$169,019</u>	<u>.96</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

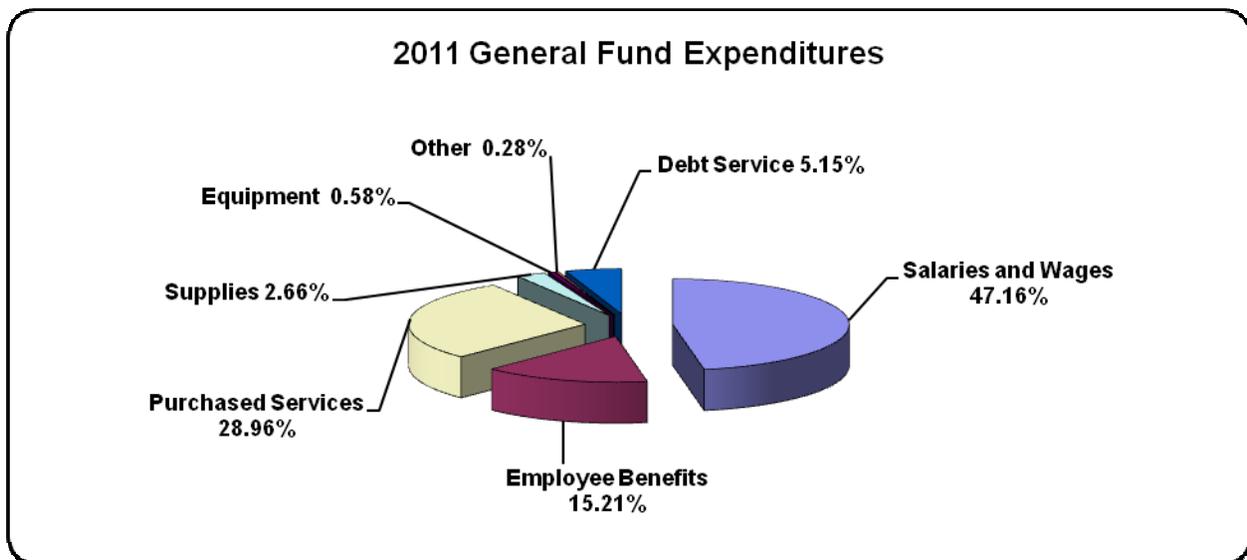
June 30, 2011

The real estate tax millage remained unchanged at 177.30 mills in 2011 compared to 2010.

Intergovernmental revenues increased primarily due to additional funding received through the 21st Century Community Learning Centers program, medical access reimbursements and the state retirement subsidy which increased commensurate with the employer annual contribution percentage.

Other revenues for 2010 included a one-time \$50,000 rental payment from a tenant related to its lease of the Capital View Elementary School and \$27,600 in rental payments from a tenant related to its lease of the Manor Park Elementary School which was terminated in 2011.

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



General Fund Expenditures

	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$ 8,569,169	\$ 8,645,808	\$ (76,639)	(0.89)
Employee benefits	2,764,618	2,402,345	362,273	15.08
Purchased services	5,262,611	5,270,142	(7,531)	(0.14)
Supplies	484,022	497,783	(13,761)	(2.76)
Equipment	105,456	70,298	35,158	50.01
Other	50,480	38,864	11,616	29.89
Debt service	<u>936,737</u>	<u>938,722</u>	<u>(1,985)</u>	<u>(0.21)</u>
	<u>\$18,173,093</u>	<u>\$17,863,962</u>	<u>\$309,131</u>	<u>1.73</u>

Employee benefits were the primary reason for the overall increase in expenditures of \$309,131 or 1.73% due to rising medical insurance premiums and an increase in the required employer annual retirement contribution to 5.64% from 4.78%.

CAPITAL PROJECTS FUND

The Capital Projects Fund fund balance decreased by \$1,865,995 as proceeds from general obligation debt and resources accumulated for capital expenditures were expended for HVAC, window and electrical upgrades at the Intermediate/High School and Grandview Elementary School. The remaining fund balance of \$481,880 as of June 30, 2011 is restricted for capital expenditures.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

GENERAL FUND BUDGET INFORMATION

The District maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1 each year. The most significant budgeted fund is the General Fund.

Actual revenues were \$263,636 less than budgeted amounts and actual expenditures and other financing uses were \$72,689 less than budgeted amounts. The negative variance for actual revenue amounts compared to budget is primarily due to investment earnings and state grants received being less than budgeted amounts, while the positive variance for expenditures compared to budget are due to less than anticipated expenditures within the operation and maintenance of plant services budgets as a result of cost efficiencies implemented by the District, in particular, the conversion from oil to natural gas energy.

BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUND

The business-type activities and proprietary fund of the District both report the activities of the District's food service operations. The net assets of the business-type activities and proprietary fund decreased by \$5,264. As of June 30, 2011, the business-type activities and proprietary fund had net assets of \$21,596. The 2011 operating loss in the food service fund was subsidized by an operating transfer from the General Fund.

CAPITAL ASSETS

The District's investment in capital asset for its governmental and business-type activities as of June 30, 2011 amounted to \$9,622,842 net of accumulated depreciation. This investment in capital assets includes construction-in-progress, land improvements, buildings and improvements and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was \$1,507,651 or 18.58%. Current year capital additions were \$1,909,141 and depreciation expense was \$401,490.

Major capital additions for the current fiscal year included the following:

- Intermediate/High School HVAC and window project \$ 265,998
- Grandview Elementary School HVAC and window project \$1,601,060

NON-CURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$8,495,827 consisting of \$6,065,000 in bonds payable, a \$1,350,000 note payable and a \$1,080,827 bond premium. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt.

The District's general obligation debt decreased by \$587,406 or 6.47% during the fiscal year. The reduction in general obligation debt was the result of \$512,000 in scheduled debt service payments and \$75,406 of amortization on the bond premium.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is \$40,710,978 which is significantly in excess of the District's general obligation debt.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

Other non-current liabilities consist of the District's liabilities for compensated absences, early retirement incentive plans and its net obligation for post-employment benefits, which totaled \$1,805,835 as of June 30, 2011. These liabilities increased by \$551,039 or 43.91% during the fiscal year. The net increase in other non-current liabilities is primarily due to the approval of an early retirement incentive plan for senior professional staff recorded at its net present value of \$707,956.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- In February 2009, President Barack Obama signed into law The American Recovery and Reinvestment Act of 2009 ("**ARRA**") which infused \$787 billion dollars into the economy to create and save jobs as well as improve student achievement through school improvement and reform. The District has received and expended \$1,267,091 in appropriations of ARRA funds through June 30, 2011. These funds provide a two-year temporary fix to a funding issue with public schools in Pennsylvania both at the State and local level. These funds had prescriptive requirements to usage and are not available for appropriation after the 2011-2012 fiscal year.
- The future direction and level of funding for public education from the Commonwealth of Pennsylvania remains unclear at this time. In 2006, Act 1 was passed which repealed Act 72, which will provide taxpayer relief through gambling revenues generated at the State level. The intent of this legislation was to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increased real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduces certain new requirements on school districts which include the following:
 - ◆ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state, the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
 - ◆ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.
 - ◆ Any revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders. (Act 1 permitted slot machine gambling in Pennsylvania.)
- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("**House Bill 2497**") into law. The legislation is now known as Act 120 of 2010. House Bill 2497 includes a series of actuarial and funding changes to the public school employees' retirement system ("**PSERS**") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation, the employer contribution rate for 2012-2013 is projected at 12.19%. Currently, the employer contribution rate for 2011-2012 is 8.65%.
- The District adopted a balanced 2011-2012 budget totaling \$17,227,836 which used \$250,000 of General Fund fund balance as of June 30, 2011 and the real estate tax millage remained unchanged.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

- The collective bargaining agreement with the Morrisville Education Association expires at the conclusion of 2012 and the collective bargaining agreement with the Morrisville Educational Support Personnel Association expired at the conclusion of 2011 and a new agreement continues to be negotiated.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Administrator, School District of Borough of Morrisville, 550 West Palmer Street, Morrisville, PA 19067-2195.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF NET ASSETS

June 30, 2011 with summarized comparative totals for 2010

	Governmental Activities	Business-Type Activities	Totals	
			2011	2010
ASSETS				
CURRENT ASSETS				
Cash	\$ 2,885,147	\$25,639	\$ 2,910,786	\$ 2,804,685
Investments	595,000	-	595,000	2,967,000
Taxes receivable	675,516	-	675,516	855,041
Due from other governments	544,034	9,904	553,938	573,759
Internal balances	(29,000)	29,000	-	-
Other receivables	154,888	-	154,888	149,643
Prepaid expenses	149,659	-	149,659	-
Inventories	-	6,259	6,259	8,736
Total current assets	<u>4,975,244</u>	<u>70,802</u>	<u>5,046,046</u>	<u>7,358,864</u>
NON-CURRENT ASSETS				
Capital assets, net	9,603,163	19,679	9,622,842	8,115,191
Debt issuance costs, net	178,796	-	178,796	191,270
Total non-current assets	<u>9,781,959</u>	<u>19,679</u>	<u>9,801,638</u>	<u>8,306,461</u>
Total assets	<u>14,757,203</u>	<u>90,481</u>	<u>14,847,684</u>	<u>15,665,325</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	1,090,310	66,358	1,156,668	918,299
Accrued salaries and benefits	440,243	-	440,243	592,596
Deferred revenue	-	2,527	2,527	1,263
Accrued interest payable	79,564	-	79,564	85,721
Total current liabilities	<u>1,610,117</u>	<u>68,885</u>	<u>1,679,002</u>	<u>1,597,879</u>
NON-CURRENT LIABILITIES				
Due within one year	1,127,849	-	1,127,849	763,190
Due in more than one year	9,173,813	-	9,173,813	9,574,839
Total non-current liabilities	<u>10,301,662</u>	<u>-</u>	<u>10,301,662</u>	<u>10,338,029</u>
Total liabilities	<u>11,911,779</u>	<u>68,885</u>	<u>11,980,664</u>	<u>11,935,908</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	1,286,132	19,679	1,305,811	(757,095)
Restricted	481,880	-	481,880	2,328,198
Unrestricted	1,077,412	1,917	1,079,329	2,158,314
Total net assets	<u>\$ 2,845,424</u>	<u>\$21,596</u>	<u>\$ 2,867,020</u>	<u>\$ 3,729,417</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF ACTIVITIES

Year ended June 30, 2011 with summarized comparative totals for 2010

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>	
							<u>2011</u>	<u>2010</u>
GOVERNMENTAL ACTIVITIES								
Instruction	\$13,154,170	\$ 46,093	\$3,708,766	\$ -	\$ (9,399,311)	\$ -	\$ (9,399,311)	\$ (8,359,316)
Instructional student support services	829,212	-	58,935	-	(770,277)	-	(770,277)	(764,148)
Administrative and financial support services	1,794,323	-	65,374	-	(1,728,949)	-	(1,728,949)	(1,551,044)
Operation and maintenance of plant services	1,397,701	-	36,440	-	(1,361,261)	-	(1,361,261)	(1,383,701)
Pupil transportation	529,007	-	41,574	-	(487,433)	-	(487,433)	(535,472)
Student activities	400,531	3,534	12,979	-	(384,018)	-	(384,018)	(397,105)
Community services	42,539	20,379	-	-	(22,160)	-	(22,160)	72,851
Interest and amortization expense related to non-current liabilities	355,648	-	8,128	-	(347,520)	-	(347,520)	(389,183)
Total governmental activities	<u>18,503,131</u>	<u>70,006</u>	<u>3,932,196</u>	<u>-</u>	<u>(14,500,929)</u>	<u>-</u>	<u>(14,500,929)</u>	<u>(13,307,118)</u>
BUSINESS-TYPE ACTIVITIES								
Food service	414,151	147,079	232,773	-	-	(34,299)	(34,299)	(33,335)
Total primary government	<u>\$18,917,282</u>	<u>\$217,085</u>	<u>\$4,164,969</u>	<u>\$ -</u>	<u>(14,500,929)</u>	<u>(34,299)</u>	<u>(14,535,228)</u>	<u>(13,340,453)</u>
GENERAL REVENUES								
Property taxes levied for general purposes					10,624,417	-	10,624,417	10,777,939
Taxes levied for specific purposes					99,067	-	99,067	129,283
Grants and entitlements not restricted to specific programs					2,918,276	-	2,918,276	3,056,456
Investment earnings					31,036	35	31,071	44,262
Insurance proceeds					-	-	-	473,903
Transfers					(29,000)	29,000	-	-
Total general revenues and transfers					<u>13,643,796</u>	<u>29,035</u>	<u>13,672,831</u>	<u>14,481,843</u>
CHANGE IN NET ASSETS					(857,133)	(5,264)	(862,397)	1,141,390
NET ASSETS								
Beginning of year					3,702,557	26,860	3,729,417	2,588,027
End of year					<u>\$ 2,845,424</u>	<u>\$ 21,596</u>	<u>\$ 2,867,020</u>	<u>\$ 3,729,417</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2011 with summarized comparative totals for 2010

	<u>Major Funds</u>		<u>Totals</u>	
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>2011</u>	<u>2010</u>
ASSETS				
Cash	\$2,359,762	\$525,385	\$2,885,147	\$2,767,226
Investments	595,000	-	595,000	2,967,000
Taxes receivable	675,516	-	675,516	855,041
Due from other governments	544,034	-	544,034	561,680
Other receivables	154,888	-	154,888	149,643
Prepaid items	<u>149,659</u>	<u>-</u>	<u>149,659</u>	<u>-</u>
Total assets	<u>\$4,478,859</u>	<u>\$525,385</u>	<u>\$5,004,244</u>	<u>\$7,300,590</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$1,046,805	\$ 43,505	\$1,090,310	\$ 852,283
Due to other funds	29,000	-	29,000	11,688
Accrued salaries and benefits	440,243	-	440,243	592,596
Deferred revenues	<u>538,614</u>	<u>-</u>	<u>538,614</u>	<u>631,004</u>
Total liabilities	<u>2,054,662</u>	<u>43,505</u>	<u>2,098,167</u>	<u>2,087,571</u>
FUND BALANCES				
Nonspendable				
Prepaid items	149,659	-	149,659	-
Restricted for				
Capital projects	-	481,880	481,880	2,347,875
Committed to				
Early retirement incentive	1,119,999	-	1,119,999	1,665,000
Employer retirement rate stabilization	636,300	-	636,300	404,100
Compensated absences	108,757	-	108,757	-
Contingency	250,000	-	250,000	-
Capital purchases	74,700	-	74,700	-
Unassigned	<u>84,782</u>	<u>-</u>	<u>84,782</u>	<u>796,044</u>
Total fund balances	<u>2,424,197</u>	<u>481,880</u>	<u>2,906,077</u>	<u>5,213,019</u>
Total liabilities and fund balances	<u>\$4,478,859</u>	<u>\$525,385</u>	<u>\$5,004,244</u>	<u>\$7,300,590</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

June 30, 2011

TOTAL GOVERNMENTAL FUND BALANCES	\$ 2,906,077
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	9,603,163
Deferred charges for debt issuance costs are currently expensed in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net assets.	178,796
Some of the District's property taxes 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 governmental funds balance sheet.	538,614
Non-current liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(10,301,662)
Accrued interest payable on long-term liabilities is included in the statement of net assets, but is excluded from the governmental funds balance sheet until due and payable.	<u>(79,564)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,845,424</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Year ended June 30, 2011 with summarized comparative totals for 2010

	Major Funds		Totals	
	General Fund	Capital Projects Fund	2011	2010
REVENUES				
Local sources	\$ 10,914,722	\$ 2,667	\$ 10,917,389	\$ 11,491,531
State sources	4,798,271	-	4,798,271	4,933,506
Federal sources	2,051,729	-	2,051,729	1,656,494
Total revenues	<u>17,764,722</u>	<u>2,667</u>	<u>17,767,389</u>	<u>18,081,531</u>
EXPENDITURES				
Current				
Instruction	12,324,029	-	12,324,029	12,166,140
Support services	4,479,013	-	4,479,013	4,330,635
Operation of noninstructional services	433,314	-	433,314	428,464
Facilities acquisition, construction and improvement services	-	1,868,662	1,868,662	4,666,807
Debt services	936,737	-	936,737	938,722
Total expenditures	<u>18,173,093</u>	<u>1,868,662</u>	<u>20,041,755</u>	<u>22,530,768</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(408,371)</u>	<u>(1,865,995)</u>	<u>(2,274,366)</u>	<u>(4,449,237)</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	(3,576)	-	(3,576)	-
Transfers in	-	-	-	165,400
Transfers out	(29,000)	-	(29,000)	(202,088)
Total other financing sources (uses)	<u>(32,576)</u>	<u>-</u>	<u>(32,576)</u>	<u>(36,688)</u>
NET CHANGE IN FUND BALANCES	<u>(440,947)</u>	<u>(1,865,995)</u>	<u>(2,306,942)</u>	<u>(4,485,925)</u>
FUND BALANCES				
Beginning of year	<u>2,865,144</u>	<u>2,347,875</u>	<u>5,213,019</u>	<u>9,698,944</u>
End of year	<u>\$ 2,424,197</u>	<u>\$ 481,880</u>	<u>\$ 2,906,077</u>	<u>\$ 5,213,019</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

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

Year ended June 30, 2011

NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$(2,306,942)
Amounts reported for governmental activities in the statement of activities are different because:	
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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	1,512,149
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year.	(92,390)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net assets of governmental activities. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	574,932
Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures in governmental funds.	<u>(544,882)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (857,133)</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF NET ASSETS – PROPRIETARY FUND

June 30, 2011 with summarized comparative totals for 2010

	<u>Food Service Fund</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash	\$25,639	\$37,459
Due from other governments	9,904	12,079
Due from other funds	29,000	11,688
Inventories	<u>6,259</u>	<u>8,736</u>
Total current assets	<u>70,802</u>	<u>69,962</u>
NON-CURRENT ASSETS		
Capital assets, net	<u>19,679</u>	<u>24,177</u>
Total assets	<u>90,481</u>	<u>94,139</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	66,358	66,016
Deferred revenue	<u>2,527</u>	<u>1,263</u>
Total liabilities	<u>68,885</u>	<u>67,279</u>
NET ASSETS (DEFICIT)		
Invested in capital assets	19,679	24,177
Unrestricted	<u>1,917</u>	<u>2,683</u>
Total net assets	<u>\$21,596</u>	<u>\$26,860</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUND

Year ended June 30, 2011 with summarized comparative totals for 2010

	<u>Food Service Fund</u>	
	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Charges for services	\$ 147,079	\$ 156,302
OPERATING EXPENSES		
Salaries	178,507	169,103
Employee benefits	41,610	39,642
Purchased services	35,222	35,299
Supplies	154,314	163,346
Depreciation	<u>4,498</u>	<u>4,577</u>
Total operating expenses	<u>414,151</u>	<u>411,967</u>
Operating loss	<u>(267,072)</u>	<u>(255,665)</u>
NON-OPERATING REVENUES		
Earnings on investments	35	-
State sources	13,549	13,549
Federal sources	<u>219,224</u>	<u>208,781</u>
Total non-operating revenues	<u>232,808</u>	<u>222,330</u>
Net loss before transfers	(34,264)	(33,335)
TRANSFERS IN	<u>29,000</u>	<u>36,688</u>
CHANGE IN NET ASSETS	(5,264)	3,353
NET ASSETS		
Beginning of year	<u>26,860</u>	<u>23,507</u>
End of year	<u>\$ 21,596</u>	<u>\$ 26,860</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

Year ended June 30, 2011 with summarized comparative totals for 2010

	<u>Food Service Fund</u>	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 148,343	\$ 156,373
Cash paid for operating expenses	<u>(390,222)</u>	<u>(408,814)</u>
Net cash used for operating activities	<u>(241,879)</u>	<u>(252,441)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State sources	13,731	15,124
Federal sources	204,605	210,433
Transfers in	<u>11,688</u>	<u>49,000</u>
Net cash provided by noncapital financing activities	<u>230,024</u>	<u>274,557</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	<u>35</u>	<u>-</u>
Net increase (decrease) in cash	(11,820)	22,116
CASH		
Beginning of year	<u>37,459</u>	<u>15,343</u>
End of year	<u>\$ 25,639</u>	<u>\$ 37,459</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$(267,072)	\$(255,665)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	4,498	4,577
Donated commodities used	16,611	16,964
(Increase) decrease in		
Due from other funds	-	19,413
Inventories	2,478	(9)
Increase (decrease) in		
Accounts payable	342	(37,792)
Deferred revenue	<u>1,264</u>	<u>71</u>
Net cash used for operating activities	<u>\$(241,879)</u>	<u>\$(252,441)</u>
SUPPLEMENTAL DISCLOSURE		
Noncash noncapital financing activity		
USDA donated commodities	<u>\$ 16,611</u>	<u>\$ 16,964</u>

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS

June 30, 2011

	<u>Private- Purpose Trust</u>	<u>Agency</u>
ASSETS		
Cash	\$29,631	\$12,434
LIABILITIES		
Due to student groups	-	\$12,434
NET ASSETS		
Net assets held in trust for scholarships	<u>\$29,631</u>	

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF CHANGES IN NET ASSETS – FIDUCIARY FUND

Year ended June 30, 2011 with summarized comparative totals for 2010

	Private-Purpose Trust Fund	
	<u>2011</u>	<u>2010</u>
ADDITIONS		
Local contributions	\$ 2,263	\$ 1,752
DEDUCTIONS		
Scholarships awarded and fees paid	<u>2,264</u>	<u>5,071</u>
CHANGE IN NET ASSETS	(1)	(3,319)
NET ASSETS		
Beginning of year	<u>29,632</u>	<u>32,951</u>
End of year	<u>\$29,631</u>	<u>\$29,632</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District of Borough of Morrisville (the "**District**") operates one elementary school and an intermediate/high school to provide education and related services to the residents of the Borough of Morrisville. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("**GAAP**") as applied to governmental units. The Governmental Accounting Standards Board ("**GASB**") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

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

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

The government-wide financial statements report net assets in one of three components. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net assets arising from special revenue and capital projects funds. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred revenue is reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following major proprietary fund:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the District's proprietary funds include payroll, employee benefits, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of the students in the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value based upon quoted market prices.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Property Taxes

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

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

The Bucks County Board of Assessments determines assessed valuations of property, and the District's taxes are billed and collected by a local elected tax collector. The tax on real estate for public school purposes for fiscal 2010-2011 was 177.30 mills (\$17.73 for \$100 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Taxpayers have the option of paying in three installments. These installments have the following due dates:

Installment One	- August 15
Installment Two	- October 15
Installment Three	- December 15

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

Prepaid Items and Inventories

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

All inventories are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$1,000 and composite assets of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 10-50 years; land improvements – 15-20 years and furniture and equipment – 5-20 years.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment should be measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2011.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a non-current liability in the government-wide financial statements. The portion of the liability resulting from employee resignations and retirements, if applicable, is reported as a liability in the governmental funds' financial statements.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Deferred amounts on refunding are recorded as a decrease to debt payable and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

In the fund financial statements, governmental fund types 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 and uses. Premiums received and discounts paid 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 except for refundings paid from proceeds which are reported as other financing costs.

Fund Equity

Effective July 1, 2010, the District adopted the provisions of GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

Non-spendable

Non-spendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Business Administrator or (b) an appointed body (e.g., finance committee) or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

The School Board has set a policy to maintain an unassigned General Fund fund balance of not less than .5% and a maximum General Fund fund balance of 15% of the following year's expenditure budget. Unassigned General Fund fund balance in excess of .5% of the following year's budget may be appropriated by the School Board for nonrecurring expenditures.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Use of Estimates

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

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and include the effect of approved budget amendments.

Excess of Expenditures over Appropriations

During the year ended June 30, 2011, there were no expenditures in excess of appropriations.

(3) DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. At June 30, 2011, the carrying amount of the District's deposits was \$2,952,851 and the bank balance was \$3,510,862. Of the bank balance, \$275,602 was covered by federal depository insurance, and \$126,441 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**") and the Pennsylvania Local Government Investment Trust ("**PLGIT**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, are rated by a nationally recognized statistical rating organization and are subject to independent annual audit. As of June 30, 2011, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating agency.

Investments

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer's investment pools or mutual funds.

At June 30, 2011, the District had the following investments:

Certificates of deposit due within one year – collateral held by pledging bank's agent in the District's name	<u>\$595,000</u>
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Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District had no investments subject to custodial credit risk as of June 30, 2011.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state law as a means of managing its exposure to fair value losses arising from increasing interest rates. The District had no investments subject to interest rate risk as of June 30, 2011.

Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal or state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction-in-progress	\$ 1,234,508	\$ -	\$ 1,234,508	\$ -
Capital assets being depreciated:				
Buildings and improvements	13,743,796	3,101,566	-	16,845,362
Land improvements	693,396	-	-	693,396
Furniture and equipment	<u>428,582</u>	<u>42,083</u>	-	<u>470,665</u>
Total capital assets being depreciated	<u>14,865,774</u>	<u>3,143,649</u>	-	<u>18,009,423</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,232,630)	(341,360)	-	(7,573,990)
Land improvements	(555,475)	(13,365)	-	(568,840)
Furniture and equipment	<u>(221,163)</u>	<u>(42,267)</u>	-	<u>(263,430)</u>
Total accumulated depreciation	<u>(8,009,268)</u>	<u>(396,992)</u>	-	<u>(8,406,260)</u>
Total capital assets being depreciated, net	<u>6,856,506</u>	<u>2,746,657</u>	-	<u>9,603,163</u>
Governmental activities, net	<u>\$ 8,091,014</u>	<u>\$ 2,746,657</u>	<u>\$ 1,234,508</u>	<u>\$ 9,603,163</u>
Business-type activities				
Machinery and equipment	\$ 94,225	\$ -	\$ -	\$ 94,225
Less accumulated depreciation	<u>(70,048)</u>	<u>(4,498)</u>	-	<u>(74,546)</u>
Business-type activities, net	<u>\$ 24,177</u>	<u>\$ (4,498)</u>	<u>\$ -</u>	<u>\$ 19,679</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities	
Instruction	\$293,585
Instructional student support services	19,263
Administrative and financial support services	41,976
Operation and maintenance of plant services	32,859
Student activities	<u>9,309</u>
Total depreciation expense – governmental activities	<u>\$396,992</u>
Business-type activities	<u>\$ 4,498</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

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

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Food Service Fund	<u>\$29,000</u>	General Fund	<u>\$29,000</u>

Interfund balances between funds represent amounts due from General Fund to subsidize the net loss generated in the Food Service Fund.

A summary of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Food Service Fund	<u>\$29,000</u>	General Fund	<u>\$29,000</u>

Transfers represent monies to subsidize costs associated with food service operations.

(6) NON-CURRENT LIABILITIES

The following summarizes the changes in non-current liabilities for the year ended June 30, 2011:

	<u>Balance July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>	<u>Amount Due Within One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$ 6,485,000	\$ -	\$ 420,000	\$ 6,065,000	\$ 435,000
Note payable	1,442,000	-	92,000	1,350,000	97,000
Bond premium	<u>1,156,233</u>	<u>-</u>	<u>75,406</u>	<u>1,080,827</u>	<u>75,406</u>
Total general obligation debt	<u>9,083,233</u>	<u>-</u>	<u>587,406</u>	<u>8,495,827</u>	<u>607,406</u>
Other long-term liabilities					
Early retirement incentive	587,827	707,956	175,784	1,119,999	411,686
Compensated absences	540,907	306,012	320,755	526,164	108,757
OPEB obligation	<u>126,062</u>	<u>179,948</u>	<u>146,338</u>	<u>159,672</u>	<u>-</u>
Total other long-term liabilities	<u>1,254,796</u>	<u>1,193,916</u>	<u>642,877</u>	<u>1,805,835</u>	<u>520,443</u>
Total long-term liabilities	<u>\$10,338,029</u>	<u>\$1,193,916</u>	<u>\$1,230,283</u>	<u>\$10,301,662</u>	<u>\$1,127,849</u>

Non-current liabilities are generally liquidated by the General Fund.

General Obligation Debt

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and are payable from unrestricted local sources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

General obligation debt outstanding as of June 30, 2011 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General obligation bonds				
Series of 1998	4.55%	\$2,000,000	07/01/2013	\$ 540,000
Series of 2006	3.50% – 5.00%	\$6,500,000	04/01/2026	<u>5,525,000</u>
Total general obligation bonds				<u>6,065,000</u>
General obligation note				
Series of 2001	4.084%	\$3,000,000	09/25/2021	<u>1,350,000</u>
Total general obligation debt				<u>\$7,415,000</u>

Annual debt service requirements to maturity on these obligations is as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 532,000	\$ 338,090	\$ 870,090
2013	556,000	317,013	873,013
2014	581,000	293,875	874,875
2015	406,000	273,535	679,535
2016	426,000	254,695	680,695
2017-2021	2,466,000	956,823	3,422,823
2022-2026	<u>2,448,000</u>	<u>361,137</u>	<u>2,809,137</u>
	<u>\$7,415,000</u>	<u>\$2,795,168</u>	<u>\$10,210,168</u>

In-Substance Defeasance – Prior Year

On February 13, 2008, the District partially defeased general obligation bond Series of 2006 in the amount of \$22,000,000 which was placed in an irrevocable trust under an Escrow Agreement between the District and the Escrow Holder. The Escrow Holder used the proceeds to purchase a portfolio of obligations of the United States of America. The government obligations will have maturities and interest rates sufficient to pay principal and interest payments and redemption premiums on the defeased bonds on the date the payments are due. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2011, \$19,515,000 of bonds outstanding are considered defeased. The District has authorized to call the remaining defeased bonds for redemption on October 1, 2016.

Interest Rate Management Plan

The 2001 General Obligation Note (the "**Series 2001 Note**") was issued to the Delaware Valley Regional Finance Authority ("**DVRFA**"). The DVRFA was formed by certain counties in Southeastern Pennsylvania to provide financing to local government units ("**participants**") for various projects. DVRFA obtained the funds used to finance these projects by issuing its Local Government Revenue Bonds. In order to reduce the interest costs of participants in its loan program and to enhance their ability to manage their interest rate risks, DVRFA and the participants in its loan program, including the District, have entered into an Interest Rate Management Plan, the provisions of which allow the participants to select fixed or variable rates of interest on their loans. In order to provide this option to the participants, DVRFA has entered into an interest rate swap agreement with a financial institution. In the event that the swap agreement between DVRFA and the financial institution is terminated and the value of the swap to DVRFA at the time of termination is a liability, the participants are required to pay their proportionate share of the liability. The value of the swap agreement relative to the Series 2001 Note at June 30, 2011 was an asset of \$56,530. The value of the swap agreement relative to the Series 2001 Note is not reflected on the District's statement of net assets.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Early Retirement Incentive

The District from time to time offers additional retirement incentives known as early retirement incentive plans ("**ERIP**") to senior professional staff and administrators contemplating retirement. There is no contractual requirement for the District to offer ERIP incentives. An ERIP is formally approved by School Board action in the year an ERIP plan is implemented.

In order for an employee to retire and participate in a District sponsored ERIP, the District must first decide whether or not to offer an ERIP in the year the employee is retiring and a specified minimum number of employees must opt into the ERIP. The District's various ERIP plans provide for the payment of specific annuity amounts to the participating retiree or the payment of a specified dollar amount to be applied toward participating retiree healthcare premiums through Medicare eligible age.

The District's liability for its ERIP plans has been reported at the discounted present value of expected future benefit payments in the government-wide financial statements. For the year ended June 30, 2011, 17 retirees received benefits under the District's ERIP plans and the District paid \$175,784 in ERIP benefits to retirees.

Other Post-Employment Benefits

The District's other post-employment benefits plan is a single-employer defined benefit plan that provides medical and life insurance to certain eligible retirees and their spouses. The School Board has the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("**ARC**"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 8 years. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011, 2010 and 2009 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$179,948	81.32%	\$159,672
2010	\$185,273	73.04%	\$126,062
2009	\$193,387	60.64%	\$76,108

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

Annual required contribution	\$ 193,387
Interest on net OPEB obligation	5,673
Adjustment to annual required contribution	<u>(19,112)</u>
Annual OPEB cost (expense)	179,948
Contributions made	<u>(146,338)</u>
Increase in net OPEB obligation	33,610
Net OPEB obligation – beginning of year	<u>126,062</u>
Net OPEB obligation – end of year	<u>\$ 159,672</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Funded Status and Funding Progress

As of March 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,065,868, all of which was unfunded. The covered payroll (annual payroll of active employees) was \$7,413,545, and the ratio of the UAAL to the covered payroll was 14.38%.

Actuarial valuations involve 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 benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District 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 following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the most recent actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 8.50%, decreasing 0.50% per year to an ultimate rate of 5.00% in 2015 and later. The UAAL is being amortized based on the level dollar, 8-year open period.

(7) LEASES

Lessee

The District leases office equipment and modular classrooms under non-cancelable leases expiring at various dates through May 2014. Rent expense for the office equipment and modular classrooms was \$104,898 for 2011.

Future minimum lease payments under these agreements are as follows:

2012	\$ 97,019
2013	32,891
2014	<u>21,113</u>
	<u>\$151,023</u>

Lessor

The District leases a building to a private entity under a non-cancelable lease agreement that expires on June 16, 2014, provides for monthly rent and may be extended for an additional five-year term at the option of the tenant. Under the terms of the lease agreement, the tenant is responsible for all expenses associated with the building.

Future minimum lease payments to be received under this agreement are as follows:

2012	\$19,759
2013	19,759
2014	<u>19,759</u>
	<u>\$59,277</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(8) PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System ("**PSERS**"), a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees' Retirement System. The PSERS provides retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments and certain health care insurance premium assistance to plan members and beneficiaries. The Public School Employees' Retirement Code (Act No. 96, of October 2, 1975, as amended) provides the authority to establish and amend benefit provisions. The PSERS 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 Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125; or by accessing its website at <http://www.psers.state.pa.us/publications/general/cafr.htm>.

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Individual employees contribute between 5.25% and 7.5% of annual salary depending on their membership status. Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2011, the rate of employer contribution was 5.64% of covered payroll. The District's contributions to PSERS for the years ended June 30, 2011, 2010 and 2009 were \$447,942, \$369,911 and \$370,185, respectively, equal to the required contribution for each year. The Commonwealth contributes to PSERS by reimbursing the District 50% of its contribution each year.

(9) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Bucks County Technical High School

The District and five other Bucks County school districts participate in the Bucks County Technical High School (the "**BCTHS**"). The BCTHS provides vocational-technical training and education to students of the participating school districts. The BCTHS is controlled by a joint board comprised of representative school board members of the participating school districts. District oversight of the BCTHS operations is the responsibility of the joint board. The District's share of operating costs for the BCTHS fluctuates based on the District's percentage of enrollment. The District share of operating costs for 2011 was \$767,803.

Bucks County Technical School Authority

The District and five other Bucks County school districts also participate in a joint venture for the operation of the Bucks County Technical School Authority (the "**Authority**"). The Authority oversees acquiring, holding, constructing, improving and maintaining the BCTHS school buildings. The Authority is controlled by a joint board comprised of representative school board members of the participating school districts in the BCTHS. The participating school districts have entered into a long-term lease agreement with the Authority to provide rental payments sufficient to retire the Authority's outstanding debt obligations. The agreement expires on August 15, 2018 unless the related debt is retired earlier. The District's share of rent expense for 2011 was \$58,837.

The District's annual lease rental payments are as follows:

<u>Year ending June 30,</u>	
2012	\$ 58,814
2013	58,788
2014	58,789
2015	58,729
2016	58,759
2017-2019	<u>175,882</u>
	<u>\$469,751</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Both the BCTHS and the Authority prepare financial statements that are available to the public from their administrative offices located at 610 Wistar Road, Fairless Hills, PA 19030.

Bucks County Intermediate Unit

The District and the other Bucks County school districts are participating members of the Bucks County Intermediate Unit (the "**BCIU**"). The BCIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual operating budget of the BCIU but the participating districts have no ongoing fiduciary interest or responsibility to the BCIU. The BCIU is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and state and federal liaison services.

(10) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

(11) RISK MANAGEMENT

The 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. Significant losses are covered by commercial insurance for all major programs including workers compensation and employee health and accident insurance. For insured programs, there were no significant reductions in insurance coverages during 2011. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 14, 2011, the date on which the financial statements were available to be issued. Except as noted below, no material subsequent events have occurred since June 30, 2011 that required recognition or disclosure in the financial statements.

On September 26, 2011, the District issued General Obligation Note Series of 2011, in the amount of \$446,000. The note is payable in annual installments from September 2012 through September 2020, and is subject to the interest rate management plan described in Note 6. The proceeds from the issuance of the note are to be used to finance an energy savings lighting project at the Intermediate/High School and Grandview Elementary School and to pay for the costs of issuance.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$10,968,381	\$10,968,381	\$10,914,722	\$ (53,659)
State sources	5,566,330	5,566,330	4,798,271	(768,059)
Federal sources	1,493,647	1,493,647	2,051,729	558,082
Total revenues	<u>18,028,358</u>	<u>18,028,358</u>	<u>17,764,722</u>	<u>(263,636)</u>
EXPENDITURES				
Instruction				
Regular programs	8,118,792	7,382,448	7,382,448	-
Special programs	3,003,222	3,654,919	3,654,919	-
Vocational programs	1,008,433	986,961	986,946	15
Other instructional programs	39,465	18,916	18,916	-
Pre-kindergarten	-	280,800	280,800	-
Total instruction	<u>12,169,912</u>	<u>12,324,044</u>	<u>12,324,029</u>	<u>15</u>
Support services				
Pupil support services	527,189	527,192	504,125	23,067
Instructional staff services	232,764	173,014	172,763	251
Administrative services	890,578	975,709	975,709	-
Pupil health	147,958	127,424	119,377	8,047
Business services	422,922	423,975	423,975	-
Operation and maintenance of plant services	1,650,192	1,391,120	1,379,326	11,794
Student transportation services	543,694	529,007	529,007	-
Information services	383,180	373,253	362,366	10,887
Other support services	8,000	12,365	12,365	-
Total support services	<u>4,806,477</u>	<u>4,533,059</u>	<u>4,479,013</u>	<u>54,046</u>
Operation of non-instructional services				
Student activities	291,829	390,775	390,775	-
Community services	25,000	42,539	42,539	-
Total operation of non-instructional services	<u>316,829</u>	<u>433,314</u>	<u>433,314</u>	<u>-</u>
Debt service				
	933,181	958,941	936,737	22,204
Total expenditures	<u>18,226,399</u>	<u>18,249,358</u>	<u>18,173,093</u>	<u>76,265</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(198,041)</u>	<u>(221,000)</u>	<u>(408,371)</u>	<u>(187,371)</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	-	-	(3,576)	(3,576)
Transfers in	-	-	-	-
Transfers out	(51,959)	(29,000)	(29,000)	-
Total other financing sources (uses)	<u>(51,959)</u>	<u>(29,000)</u>	<u>(32,576)</u>	<u>(3,576)</u>
NET CHANGE IN FUND BALANCE	<u>(250,000)</u>	<u>(250,000)</u>	<u>(440,947)</u>	<u>(190,947)</u>
FUND BALANCE				
Beginning of year	2,865,144	2,865,144	2,865,144	-
End of year	<u>\$ 2,615,144</u>	<u>\$ 2,615,144</u>	<u>\$ 2,424,197</u>	<u>\$(190,947)</u>

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2011

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
03/01/2008	<u>\$ -</u>	<u>\$1,065,868</u>	<u>\$1,065,868</u>	<u>0.00%</u>	<u>\$7,413,545</u>	<u>14.38%</u>

SINGLE AUDIT

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2011

<u>Federal Grantor/Pass-Through Grantor/Project 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>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2010</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2011</u>
U.S. Department of Education										
Passed-Through the Pennsylvania Department of Education										
Title I – Improving Basic Programs	I	84.010	013-110267	07/01/10 – 09/30/11	\$218,507	\$ 168,640	\$ -	\$ 168,640	\$ 168,640	\$ -
Title I – Academic Achievement	I	84.010	077-100267	07/01/09 – 09/30/10	1,800	1,440	1,440	-	-	-
ARRA – Title I Part A Grants to LEAs	I	84.389	127-100267	07/01/09 – 09/30/10	85,452	30,104	13,991	16,113	16,113	-
ARRA – Fiscal Stabilization – Basic Ed	I	84.394	126-110267	07/01/10 – 06/30/11	350,161	350,161	-	350,161	350,161	-
ARRA – Education Jobs Fund	I	84.410	140-657584	07/01/10 – 06/30/11	207,465	207,465	-	207,465	207,465	-
Title II – Improving Teacher Quality	I	84.367	020-100267	07/01/09 – 09/30/10	55,652	3,710	3,710	-	-	-
Title II – Improving Teacher Quality	I	84.367	020-110267	07/01/10 – 09/30/11	56,054	56,054	-	56,054	56,054	-
Learn and Serve America	I	94.004	019-092009	07/01/09 – 09/30/10	5,000	1,667	1,667	-	-	-
21 st Century Community Learning Centers	I	84.287	FC #41-00043153	07/01/09 – 06/30/10	371,512	198,416	198,416	-	-	-
21 st Century Community Learning Centers	I	84.287	FC #41-00043153	07/01/10 – 06/30/11	185,756	139,666	-	185,756	185,756	46,090
21 st Century Community Learning Centers	I	84.287	FC #41-00052166	07/01/09 – 06/30/10	162,121	162,121	162,121	-	-	-
21 st Century Community Learning Centers	I	84.287	FC #41-00052166	07/01/10 – 06/30/11	586,337	433,311	-	586,337	586,337	153,026
Passed Through the Bucks County I. U.										
I.D.E.A. – Part B	I	84.027	062-10-0-22	07/01/09 – 06/30/10	227,257	71,654	71,654	-	-	-
I.D.E.A. – Part B	I	84.027	062-11-0-22	07/01/10 – 06/30/11	220,781	153,167	-	220,781	220,781	67,614
ARRA – I.D.E.A. – Part B	I	84.391	128-10-0-022A	02/17/09 – 09/30/11	265,168	109,273	27,343	130,453	130,453	48,523
Passed Through Intermediate Unit 1										
Inclusive Practices Mini-Grant	I	84.027	RA 062-11-0-032	08/01/10 – 06/30/11	19,547	-	-	12,897	12,897	12,897
Total U.S. Department of Education						<u>2,086,849</u>	<u>480,342</u>	<u>1,934,657</u>	<u>1,934,657</u>	<u>328,150</u>

Continued on next page

<u>Federal Grantor/Pass-Through Grantor/Project 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>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2010</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2011</u>
<u>U.S. Department of Agriculture</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
National School Lunch Program	I	10.555	N/A	07/01/09 – 06/30/10	N/A	9,529	9,529	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/10 – 06/30/11	N/A	171,268	-	178,928	178,928	7,660
Breakfast Program	I	10.553	N/A	07/01/09 – 06/30/10	N/A	1,768	1,768	-	-	-
Breakfast Program	I	10.553	N/A	07/01/10 – 06/30/11	N/A	22,041	-	23,685	23,685	1,644
State Matching Share	S	N/A	N/A	07/01/09 – 06/30/10	N/A	782	782	-	-	-
State Matching Share	S	N/A	N/A	07/01/10 – 06/30/11	N/A	12,949	-	13,549	13,549	600
<u>Passed-Through the Pennsylvania Department of Agriculture</u>										
USDA Donated Commodities	I	10.555	N/A	07/01/10 – 06/30/11	N/A	<u>16,611</u>	<u>-</u>	<u>16,611</u>	<u>16,611</u>	<u>-</u>
Total U.S. Department of Agriculture						<u>234,948</u>	<u>12,079</u>	<u>232,773</u>	<u>232,773</u>	<u>9,904</u>
Total Federal Awards and Certain State Grants						<u>\$2,321,797</u>	<u>\$492,421</u>	<u>\$2,167,430</u>	<u>\$2,167,430</u>	<u>\$338,054</u>

Source Codes

D – Direct Funding
I – Indirect Funding
S – State Share

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

June 30, 2011

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555, USDA Donated Commodities, represent federal surplus food consumed by the District during the 2010-2011 fiscal year.

(4) ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2011 was \$117,072.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2011

There were no audit findings for the year ended June 30, 2010.



**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***

**Board of School Directors
School District of Borough of Morrisville
Morrisville, 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 School District of Borough of Morrisville, Morrisville, Pennsylvania (the "*District*"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 the Board of School Directors, management, 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.

BBD, LLP

Philadelphia, Pennsylvania
December 14, 2011



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

**Board of School Directors
School District of Borough of Morrisville
Morrisville, Pennsylvania**

Compliance

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

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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.

Internal Control Over Compliance

Management of the 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 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 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 would not necessarily identify all deficiencies in internal control 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 the Board of School Directors, management, 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.

BBD, LLP

**Philadelphia, Pennsylvania
December 14, 2011**

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2011

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the School District of Borough of Morrisville.
2. No deficiencies relating to the audit of the financial statements of the School District of Borough of Morrisville are reported in the 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 School District of Borough of Morrisville, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No deficiencies in internal control over major federal award programs are reported in the 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 auditor's report on compliance for the major federal award programs for the School District of Borough of Morrisville expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:
 - ARRA - Fiscal Stabilization - Basic Ed – CFDA Number 84.394
 - I.D.E.A. – Part B – CFDA Number 84.027
 - ARRA - I.D.E.A. – Part B – CFDA Number 84.391
 - Education Jobs Fund – CFDA Number 84.410
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The School District of Borough of Morrisville did qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None