



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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

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, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, 2008 which were audited by other auditors whose report dated December 19, 2008 expressed an unqualified opinion on those statements.

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 2009 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, 2009, 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 3, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on Pages 4 through 14 and the budgetary comparison schedule – general fund and the other post-employment benefits schedule of funding progress on Pages 41 and 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of Borough of Morrisville's basic financial statements. 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Briggs, Bunting & Dougherty, LLP

**Philadelphia, Pennsylvania
December 3, 2009**

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2009

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, 2009. 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 three schools – two 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 the business-type activity, the assets of the District exceeded liabilities resulting in total net assets at the close of the 2008-2009 fiscal year of \$3,968,291.
- The General Fund reported an increase in fund balance of \$226,992, bringing the cumulative balance to \$3,020,073 or 16.65% of total General Fund expenditures at the conclusion of the 2008-2009 fiscal year. The increase in the fund balance was realized despite a decrease in the real estate tax millage from 205.10 mills to 187.30 mills or 8.68%, resulting in a decrease in property tax revenue of approximately \$1.4 million from the prior year.
- Total General Fund expenditures were \$1,706,069 less than budgeted amounts.
- The Capital Projects Fund reported a decrease in fund balance of \$866,097 related to the expending of proceeds from general obligation debt for renovations to the District's existing facilities. The cumulative remaining fund balance in the Capital Projects Fund was \$3,578,609 which will be used to fund continuing renovations.

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.

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.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2009

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 15 and 16 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 four 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 three major funds and the non-major governmental fund.

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.

The governmental fund financial statements can be found on Pages 17 through 20 of this report.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2009

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 21 through 23 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 24 and 25 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 26 through 40 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 41 and 42 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 2008-2009 fiscal year the District's assets exceeded liabilities by \$3,968,291. The following table presents condensed information for the *Statement of Net Assets (Deficit)* of the District at June 30, 2009 and 2008.

| | Governmental Activities | | Business-Type Activities | | Totals | |
|--|----------------------------|---------------------|-----------------------------|-------------------|---------------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| ASSETS | | | | | | |
| Current assets | \$ 11,185,996 | \$ 12,160,101 | \$ 99,751 | \$ 14,901 | \$ 11,285,747 | \$ 12,175,002 |
| Noncurrent assets | 5,338,319 | 6,663,481 | 5,156 | 5,836 | 5,343,475 | 6,669,317 |
| Total assets | <u>16,524,315</u> | <u>18,823,582</u> | <u>104,907</u> | <u>20,737</u> | <u>16,629,222</u> | <u>18,844,319</u> |
| LIABILITIES | | | | | | |
| Current liabilities | 1,010,621 | 1,333,811 | 105,000 | 27,795 | 1,115,621 | 1,361,606 |
| Non-current liabilities | 11,545,310 | 11,559,557 | - | - | 11,545,310 | 11,559,557 |
| Total liabilities | <u>12,555,931</u> | <u>12,893,368</u> | <u>105,000</u> | <u>27,795</u> | <u>12,660,931</u> | <u>12,921,163</u> |
| NET ASSETS (DEFICIT) | | | | | | |
| Invested in capital assets, net of related debt | (734,711) | 655,443 | 5,156 | 5,836 | (729,555) | 661,279 |
| Restricted | 3,098,245 | 3,039,892 | - | - | 3,098,245 | 3,039,892 |
| Unrestricted | 1,604,850 | 2,234,879 | (5,249) | (12,894) | 1,599,601 | 2,221,985 |
| Total net assets | <u>\$ 3,968,384</u> | <u>\$ 5,930,214</u> | <u>\$ (93)</u> | <u>\$ (7,058)</u> | <u>\$ 3,968,291</u> | <u>\$ 5,923,156</u> |

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2009

The District's total assets as of June 30, 2009 were \$16,629,222 of which \$9,473,417 or 56.97% consisted of cash and investments and \$5,139,731 or 30.91% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2009 were \$12,660,931 of which \$9,651,639 or 76.23% consisted of general obligation debt used to acquire and construct capital assets.

Of the District's total net assets at June 30, 2009, \$1,803,345 is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors. The District's unrestricted net assets decreased during 2009 primarily due to the approval of a new early retirement incentive plan for senior professional staff and administrators with an estimated cost of \$828,000 which has been recorded as a non-current liability as of June 30, 2009.

The largest portion of the District's net assets is its restricted net assets which totaled \$3,098,245 as of June 30, 2009. All of the District's restricted net assets related to amounts restricted for capital expenditures through Board resolution.

A 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. As of June 30, 2009, the District had a negative investment in capital assets net of related debt of \$729,555. The District's investment in capital assets net of related debt decreased due to expensing costs incurred and capitalized during prior years for the master facilities plan for construction of a new K-12 building totaling \$1,804,240 which was discontinued through a resolution of the School Board. As a result, the District is repaying the debt incurred to pay for the costs incurred for the new K-12 building but does not have a capital asset recorded to offset the liability, resulting in negative investment in capital assets net of related debt.

The following table presents condensed information for the *Statement of Activities* of the District for 2009 and 2008:

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|----------------------------|-------------------|-----------------------------|----------------|-------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| REVENUES | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 75,004 | \$ 88,755 | \$167,797 | \$201,171 | \$ 242,801 | \$ 289,926 |
| Operating grants and contributions | 3,149,106 | 3,424,595 | 204,100 | 177,436 | 3,353,206 | 3,602,031 |
| Capital grants and contributions | - | - | - | - | - | - |
| General revenues | | | | | | |
| Property taxes levied for general purposes | 11,319,858 | 12,999,557 | - | - | 11,319,858 | 12,999,557 |
| Taxes levied for specific purposes | 118,900 | 168,919 | - | - | 118,900 | 168,919 |
| Grants and entitlements not restricted to specific programs | 3,355,671 | 2,882,794 | - | - | 3,355,671 | 2,882,794 |
| Investment earnings | 265,588 | 1,407,176 | - | - | 265,588 | 1,407,176 |
| Total revenues | <u>18,284,127</u> | <u>20,971,796</u> | <u>371,897</u> | <u>378,607</u> | <u>18,656,024</u> | <u>21,350,403</u> |

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2009

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|-----------------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|---------------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| EXPENSES | | | | | | |
| Instruction | 13,216,567 | 12,743,822 | - | - | 13,216,567 | 12,743,822 |
| Instructional student support services | 927,411 | 895,912 | - | - | 927,411 | 895,912 |
| Administrative and financial support services | 1,323,322 | 1,789,526 | - | - | 1,323,322 | 1,789,526 |
| Operation and maintenance of plant services | 1,591,846 | 1,624,946 | - | - | 1,591,846 | 1,624,946 |
| Pupil transportation | 559,138 | 500,089 | - | - | 559,138 | 500,089 |
| Student activities | 426,414 | 393,215 | - | - | 426,414 | 393,215 |
| Community services | 21,556 | 31,511 | - | - | 21,556 | 31,511 |
| Interest and amortization expense related to long- term debt | 331,463 | 3,306,069 | - | - | 331,463 | 3,306,069 |
| Food service | - | - | 408,932 | 403,666 | 408,932 | 403,666 |
| Total expenses | 18,397,717 | 21,285,090 | 408,932 | 403,666 | 18,806,649 | 21,688,756 |
| Change in net assets before loss on disposal of capital assets and transfers | (113,590) | (313,294) | (37,035) | (25,059) | (150,625) | (338,353) |
| Loss on disposal of capital assets | (1,804,240) | (153,630) | - | - | (1,804,240) | (153,630) |
| Transfers | (44,000) | - | 44,000 | - | - | - |
| CHANGE IN NET ASSETS | <u>\$(1,961,830)</u> | <u>\$(466,924)</u> | <u>\$ 6,965</u> | <u>\$(25,059)</u> | <u>\$(1,954,865)</u> | <u>\$(491,983)</u> |

The District's net assets decreased by \$1,954,865 which as noted above was primarily due to the approval of a new early retirement incentive plan for senior professional staff and administrators at an estimated cost of \$828,000 and the write off of costs incurred during prior years for the master facilities plan for the construction of a new K-12 building of \$1,804,240.

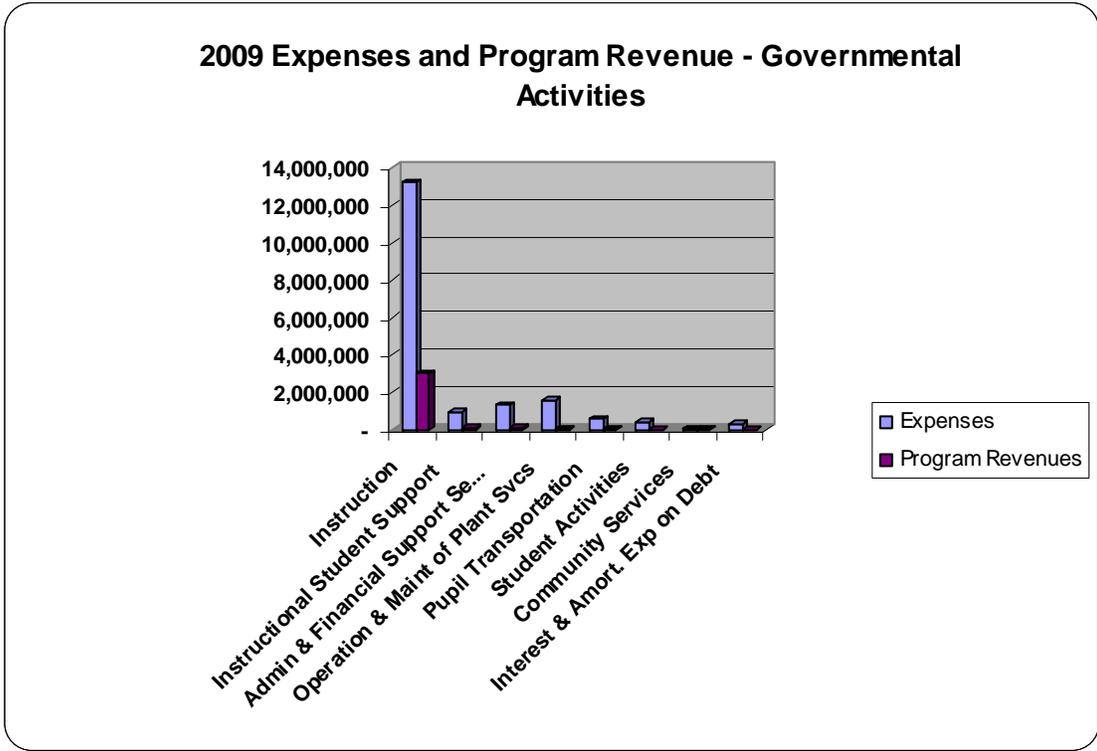
Overall, the District's financial position has been improving, due mainly to expense efficiency measures; but challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts have a potential to offset these gains in future fiscal years. Management of 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.

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.

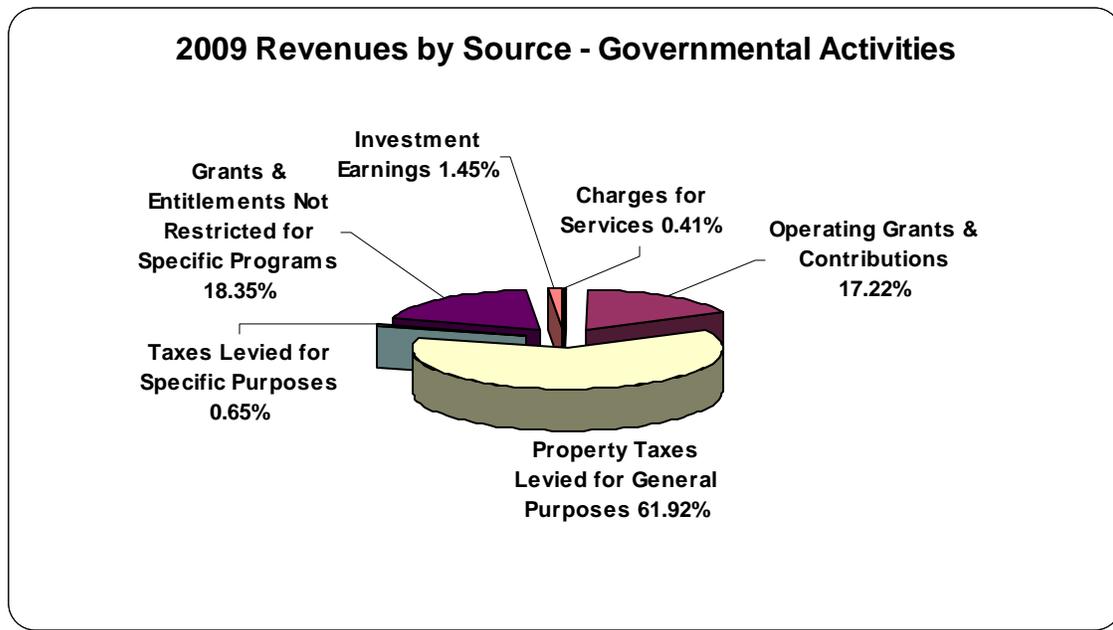
SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2009



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, 2009

GOVERNMENTAL FUNDS

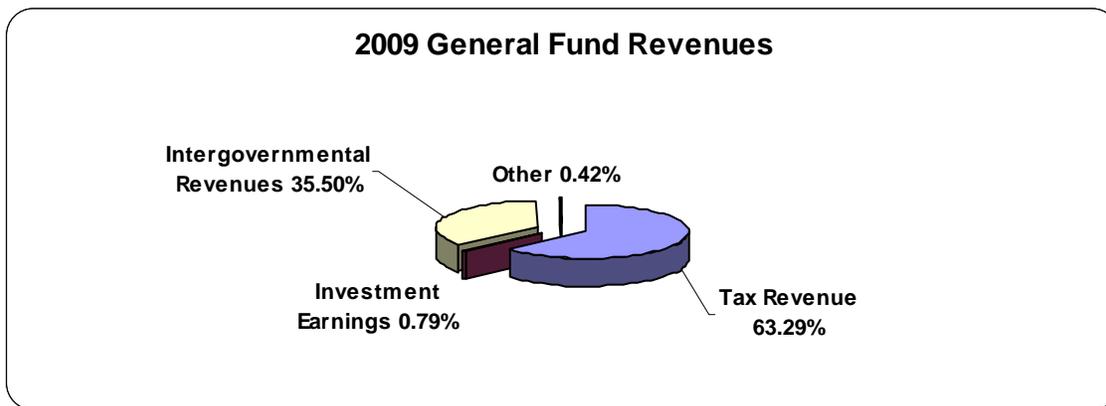
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2009, the District's governmental funds reported a combined fund balance of \$9,698,944 which is a decrease of \$578,892 over the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2009 and 2008 and the total 2009 change in governmental fund balances.

| | <u>2009</u> | <u>2008</u> | <u>Change</u> |
|-----------------------------|--------------------|---------------------|--------------------|
| General Fund | \$3,020,073 | \$ 2,793,081 | \$ 226,992 |
| Capital Reserve Fund | 3,098,245 | 3,039,892 | 58,353 |
| Capital Projects Fund | 3,578,609 | 4,444,706 | (866,097) |
| Non-major Governmental Fund | <u>2,017</u> | <u>157</u> | <u>1,860</u> |
| | <u>\$9,698,944</u> | <u>\$10,277,836</u> | <u>\$(578,892)</u> |

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2008-2009 fiscal year, the General Fund fund balance was \$3,020,073 representing an increase of \$226,992 in relation to the prior year. The increase 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 2008-2009 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 63.29% of General Fund revenues are derived from local taxes.



General Fund Revenues

| | <u>2009</u> | <u>2008</u> | <u>\$ Change</u> | <u>% Change</u> |
|----------------------------|---------------------|---------------------|----------------------|-----------------|
| Taxes | \$11,587,014 | \$12,920,489 | \$(1,333,475) | -10.32 |
| Intergovernmental revenues | 6,499,723 | 6,266,819 | 232,904 | 3.72 |
| Investment earnings | 144,451 | 270,962 | (126,511) | -87.58 |
| Other | <u>75,972</u> | <u>84,385</u> | <u>(8,413)</u> | <u>-11.07</u> |
| | <u>\$18,307,160</u> | <u>\$19,542,655</u> | <u>\$(1,235,495)</u> | <u>-6.32</u> |

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

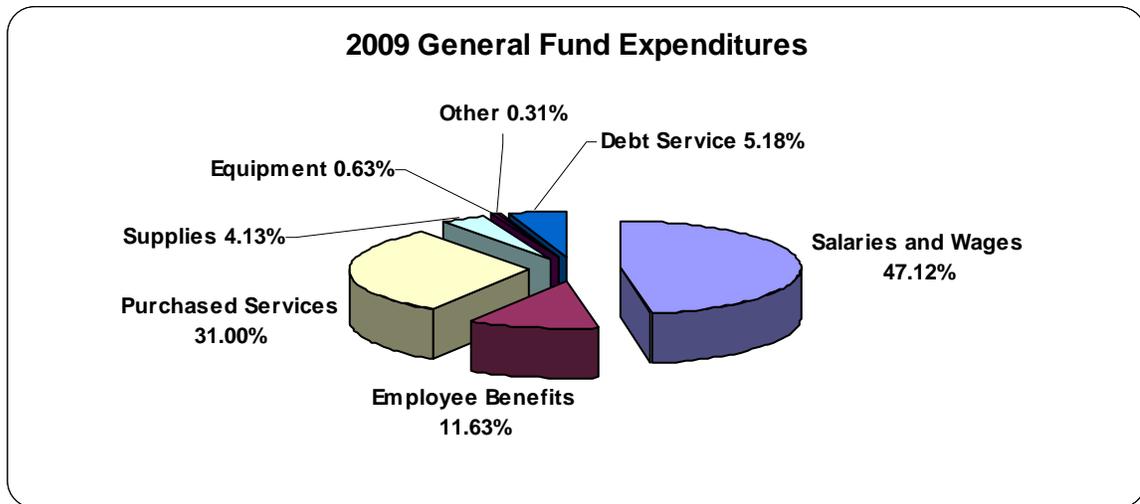
June 30, 2009

The decrease in taxes is attributable to the decrease in the real estate tax millage rate from 205.10 in 2008 to 187.30 in 2009 for a decrease of 8.68% in the overall millage rate.

Increase in intergovernmental revenues is due to revenues distributed under the provisions of Act 1 in the amount of \$386,383 to be used for the purpose of reducing property taxes. Increases received through the property tax relief allocation under Act 1 were offset by decreases in other funding from the State and the retirement subsidy because of a decrease in the employer annual contribution percentage.

Decrease in investment earnings is commensurate with decline in interest rates during 2009.

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>2009</u> | <u>2008</u> | <u>\$ Change</u> | <u>% Change</u> |
|--------------------|---------------------|---------------------|--------------------|-----------------|
| Salaries and wages | \$ 8,545,571 | \$ 8,336,845 | \$ 208,726 | 2.50 |
| Employee benefits | 2,110,011 | 2,168,808 | (58,797) | -2.71 |
| Purchased services | 5,622,370 | 5,864,065 | (241,695) | -4.12 |
| Supplies | 748,960 | 957,919 | (208,959) | -21.81 |
| Equipment | 113,380 | 233,335 | (119,955) | -51.41 |
| Other | 56,985 | 22,820 | 34,165 | 149.72 |
| Debt service | 939,628 | 1,453,565 | (513,937) | -35.42 |
| | <u>\$18,136,905</u> | <u>\$19,037,357</u> | <u>\$(900,452)</u> | <u>-4.73</u> |

Current collective bargaining unit contracts in place call for increases in salaries and wages on average ranging from 2.50% to 3.00%.

Although the District experienced increases in costs associated with medical insurance and social security benefits, these costs were offset by a decrease in retirement benefits due to a decrease in the required annual contribution from 7.13% in 2007-2008 to 4.78% in 2008-2009 resulting in an overall decrease in employee benefits of \$58,797.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2009

The cumulative decrease in purchased services and supplies was \$450,654 due to a concerted effort by the District to implement cost efficiencies in 2008-2009. A majority of the decrease was realized through reductions in contracted services related to special education services, savings related to the temporary closing of the M.R. Reiter Elementary School for the second half of the school year and cuts in State funding sources for various programs.

Equipment expense decreased by \$119,955 due to less funding available through the Classrooms for the Future grant and general cost efficiencies implemented by the District.

During 2007-2008, the District defeased \$22 million in outstanding bonds payable. As a result, total debt service payments for 2008-2009 decreased by \$513,937.

CAPITAL RESERVE FUND

The Capital Reserve Fund had a modest increase in its fund balance of \$58,353 for a cumulative balance of \$3,098,245 as of June 30, 2009. The increase was entirely the result of investment earnings. The Capital Reserve Fund was established for major capital improvements and deferred maintenance.

CAPITAL PROJECTS FUND

The Capital Projects Fund fund balance decreased by \$866,097 as proceeds from general obligation debt were expended for renovation projects to the District's buildings. The remaining fund balance of \$3,578,609 as of June 30, 2009 is reserved for capital expenditures.

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 \$315,819 less than budgeted amounts and actual expenditures and other financing uses were \$1,654,806 less than budgeted amounts resulting in a net overall positive variance of \$1,338,987 for the 2008-2009 fiscal year. Major budgetary highlights for 2008-2009 were as follows:

- Actual state source revenues received were \$298,585 less than budget. The majority of the variance was related to amounts budgeted for the Pre-K grant not approved by the State.
- Actual regular instruction program expenditures were \$504,921 less than budget. The positive variance was the result of limiting the use of substitute teachers and paraprofessionals and less than anticipated amounts spent related to grants.
- Actual special education program expenditures were \$478,875 less than budget. The positive variance can be attributed to the efficiencies instituted by a new Special Education/Pupil Services Director.
- Actual administrative services expenditures were \$129,148 less than budget. The positive variance was due to the elimination of the position for the Assistant Principal at the High School and the hiring of an "Acting" Elementary School Principal at a salary less than that of the prior Elementary School Principal.
- The operation and maintenance of plan services expenditures were \$198,953 less than budget. The positive variance was the result of the elimination of overtime and savings realized from the temporary closing of the M.R. Reiter Elementary School for the second half of the 2008-2009 school year.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2009

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 services operations. The net assets of the business-type activities and proprietary fund increased by \$6,965. As of June 30, 2009, the business-type activities and proprietary fund had a deficit of \$93. Total revenues decreased by \$6,710 from the prior year primarily due to a decrease in the number of meals served including breakfast and lunch (107,097 in 2009 vs. 113,823 in 2008) even though the District raised prices for both. Decrease in total revenues correlates with the District's declining enrollment. The 2009 operating loss in the food service operations and 2008 deficit in net assets 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, 2009 amounted to \$5,139,731 net of accumulated depreciation. This investment in capital assets includes construction-in-progress, buildings and improvements and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$1,313,368 or 20.35%. The decrease was the result of the expensing of construction-in-progress for a master facilities plan for a new K-12 building of \$1,804,240 as noted above. Current year capital additions were \$886,497 and depreciation expense was \$395,625.

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

| | |
|--|-----------|
| • Intermediate/High School HVAC and window project | \$535,948 |
| • High School electrical project | \$150,916 |
| • District-wide computer equipment | \$ 95,869 |

NON-CURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$9,651,639 consisting of \$6,890,000 in bonds payable, a \$1,530,000 note payable and a \$1,231,639 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 \$544,406 or 5.34% during the fiscal year. The reduction in general obligation debt was the result of \$469,000 in scheduled debt service payments and \$75,406 of amortization on the bond premium.

The District maintains a AAA rating from Standard & Poors for its general obligation debt.

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 \$43,325,814 which is significantly in excess of the District's general obligation debt.

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.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2009

The liability for the District's early retirement plan increased by \$763,236 due to the offering of a new plan in 2009 net of current year payments for existing plans. As a result of employees opting to retire under the early retirement incentive plan, the District's liability for compensated absences decreased by \$268,704 as 11 senior professional staff and administrators were paid for their accumulated unused vacation, personal and sick days upon retirement.

During 2009, the District implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-Retirement Benefits Other than Pensions", which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other nonpension benefits. The District's other post-employment benefits include medical and life insurance benefits for certain eligible retirees and their spouses. The District's net obligation for post-employment benefits, based on an actuarial valuation, was \$76,108 as of June 30, 2009. Since the District prospectively implemented GASB Statement No. 45, the beginning net obligation for post-employment benefits was zero at the date of transition.

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 \$351,651 in appropriations of ARRA funds to spend by September 30, 2011. These funds included Title I, Title I Neglected and Delinquent and IDEA (Individual with Disabilities Education Act). 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 have prescriptive requirements to usage and will not be available for appropriation in 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.)

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2009

- Fluctuating oil prices will continue to increase overall costs associated with transportation and many goods that are purchased through the District's vendors.
- The deregulation of electricity costs in January 2010 could increase the District's utility costs by 20% or greater.
- In conjunction with its actuaries, the Public School Employees' Retirement System ("**PSERS**") has developed tentative projections for the employer contribution rate for the next five years to assist in the District's future budget planning. These tentative projections are based on the actual investment return that was recently reported for the 2008-2009 fiscal year and potential actuarial experience losses. Official employer contribution rate projections will not be available until the actuarial valuation is completed in December 2009. The official employer contribution rate for 2010-2011 and future rate projections will be available after the PSERS' Board of Trustees meeting on December 11, 2009 in Harrisburg. Until this time, the following projections should be considered tentative: 8.40% in 2010-2011; 10.70% in 2011-2012; 29.55% in 2012-2013; 32.45% in 2013-2014 and 33.95% in 2014-2015. Currently, the employer contribution rate for 2009-2010 is 4.78%.

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 (DEFICIT)

June 30, 2009 with summarized comparative totals for 2008

| | Governmental Activities | Business-Type Activities | Totals | |
|---|----------------------------|-----------------------------|---------------------|---------------------|
| | | | 2009 | 2008 |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash | \$ 8,615,074 | \$ 15,343 | \$ 8,630,417 | \$ 9,524,497 |
| Investments | 843,000 | - | 843,000 | 969,000 |
| Taxes receivable | 751,621 | - | 751,621 | 875,002 |
| Due from other governments | 894,454 | 32,270 | 926,724 | 656,543 |
| Internal balances | (43,413) | 43,413 | - | - |
| Other receivables | 125,260 | - | 125,260 | 141,001 |
| Inventories | - | 8,725 | 8,725 | 8,959 |
| Total current assets | <u>11,185,996</u> | <u>99,751</u> | <u>11,285,747</u> | <u>12,175,002</u> |
| NON-CURRENT ASSETS | | | | |
| Capital assets, net | 5,134,575 | 5,156 | 5,139,731 | 6,453,099 |
| Debt issuance costs, net | 203,744 | - | 203,744 | 216,218 |
| Total non-current assets | <u>5,338,319</u> | <u>5,156</u> | <u>5,343,475</u> | <u>6,669,317</u> |
| Total assets | <u>16,524,315</u> | <u>104,907</u> | <u>16,629,222</u> | <u>18,844,319</u> |
| LIABILITIES AND NET ASSETS (DEFICIT) | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | 457,398 | 103,808 | 561,206 | 675,880 |
| Accrued salaries and benefits | 482,014 | - | 482,014 | 534,031 |
| Deferred revenue | - | 1,192 | 1,192 | 4,253 |
| Accrued interest payable | 71,209 | - | 71,209 | 147,442 |
| Total current liabilities | <u>1,010,621</u> | <u>105,000</u> | <u>1,115,621</u> | <u>1,361,606</u> |
| NON-CURRENT LIABILITIES | | | | |
| Due within one year | 1,312,437 | - | 1,312,437 | 685,429 |
| Due in more than one year | 10,232,873 | - | 10,232,873 | 10,874,128 |
| Total non-current liabilities | <u>11,545,310</u> | <u>-</u> | <u>11,545,310</u> | <u>11,559,557</u> |
| Total liabilities | <u>12,555,931</u> | <u>105,000</u> | <u>12,660,931</u> | <u>12,921,163</u> |
| NET ASSETS (DEFICIT) | | | | |
| Invested in capital assets, net of related debt | (734,711) | 5,156 | (729,555) | 661,279 |
| Restricted | 3,098,245 | - | 3,098,245 | 3,039,892 |
| Unrestricted | 1,604,850 | (5,249) | 1,599,601 | 2,221,985 |
| Total net assets (deficit) | <u>\$ 3,968,384</u> | <u>\$ (93)</u> | <u>\$ 3,968,291</u> | <u>\$ 5,923,156</u> |

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF ACTIVITIES

Year ended June 30, 2009 with summarized comparative totals for 2008

| | <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>2009</u> | <u>2008</u> |
| GOVERNMENTAL ACTIVITIES | | | | | | | | |
| Instruction | \$13,216,567 | \$ 38,861 | \$2,974,575 | \$ - | \$(10,203,131) | \$ - | \$(10,203,131) | \$ (9,591,679) |
| Instructional student support | 927,411 | - | 56,715 | - | (870,696) | - | (870,696) | (857,453) |
| Administrative and financial support services | 1,323,322 | - | 51,988 | - | (1,271,334) | - | (1,271,334) | (1,592,129) |
| Operation and maintenance of plant services | 1,591,846 | - | 32,626 | - | (1,559,220) | - | (1,559,220) | (1,541,120) |
| Pupil transportation | 559,138 | - | 21,144 | - | (537,994) | - | (537,994) | (500,089) |
| Student activities | 426,414 | 4,087 | 10,640 | - | (411,687) | - | (411,687) | (366,493) |
| Community services | 21,556 | 32,056 | - | - | 10,500 | - | 10,500 | (31,511) |
| Interest and amortization expense related to long-term debt | 331,463 | - | 1,418 | - | (330,045) | - | (330,045) | (3,291,266) |
| Total governmental activities | <u>18,397,717</u> | <u>75,004</u> | <u>3,149,106</u> | <u>-</u> | <u>(15,173,607)</u> | <u>-</u> | <u>(15,173,607)</u> | <u>(17,771,740)</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | | | | |
| Food service | 408,932 | 167,797 | 204,100 | - | - | (37,035) | (37,035) | (25,059) |
| Total primary government | <u>\$18,806,649</u> | <u>\$242,801</u> | <u>\$3,353,206</u> | <u>\$ -</u> | <u>(15,173,607)</u> | <u>(37,035)</u> | <u>(15,210,642)</u> | <u>(17,796,799)</u> |
| GENERAL REVENUES | | | | | | | | |
| Property taxes levied for general purposes | | | | | 11,319,858 | - | 11,319,858 | 12,999,557 |
| Taxes levied for specific purposes | | | | | 118,900 | - | 118,900 | 168,919 |
| Grants and entitlements not restricted to specific programs | | | | | 3,355,671 | - | 3,355,671 | 2,882,794 |
| Investment earnings | | | | | 265,588 | - | 265,588 | 1,407,176 |
| Loss on disposal of capital assets | | | | | | | | |
| (See Note 4) | | | | | (1,804,240) | - | (1,804,240) | (153,630) |
| Transfers | | | | | (44,000) | 44,000 | - | - |
| Total general revenues, loss on disposal of capital assets and transfers | | | | | <u>13,211,777</u> | <u>44,000</u> | <u>13,255,777</u> | <u>17,304,816</u> |
| CHANGE IN NET ASSETS | | | | | (1,961,830) | 6,965 | (1,954,865) | (491,983) |
| NET ASSETS | | | | | | | | |
| Beginning of year | | | | | 5,930,214 | (7,058) | 5,923,156 | 6,415,139 |
| End of year | | | | | <u>\$ 3,968,384</u> | <u>\$ (93)</u> | <u>\$ 3,968,291</u> | <u>\$ 5,923,156</u> |

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2009 with summarized comparative totals for 2008

| | Major Funds | | | Non-Major Governmental Fund | Totals | |
|--|--------------------|----------------------------|-----------------------------|-----------------------------------|---------------------|---------------------|
| | General Fund | Capital Reserve Fund | Capital Projects Fund | | 2009 | 2008 |
| | ASSETS | | | | | |
| Cash | \$1,909,396 | \$3,098,245 | \$3,605,416 | \$2,017 | \$ 8,615,074 | \$ 9,524,497 |
| Investments | 843,000 | - | - | - | 843,000 | 969,000 |
| Taxes receivable | 751,621 | - | - | - | 751,621 | 875,002 |
| Due from other governments | 894,454 | - | - | - | 894,454 | 628,067 |
| Due from other funds | - | - | - | - | - | 22,534 |
| Other receivables | 51,440 | - | 73,820 | - | 125,260 | 141,001 |
| Total assets | \$4,449,911 | \$3,098,245 | \$3,679,236 | \$2,017 | \$11,229,409 | \$12,160,101 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 361,078 | \$ - | \$ 96,320 | \$ - | \$ 457,398 | \$ 649,483 |
| Due to other funds | 39,106 | - | 4,307 | - | 43,413 | - |
| Accrued salaries and benefits | 482,014 | - | - | - | 482,014 | 534,031 |
| Deferred revenues | 547,640 | - | - | - | 547,640 | 698,751 |
| Total liabilities | 1,429,838 | - | 100,627 | - | 1,530,465 | 1,882,265 |
| FUND BALANCES | | | | | | |
| Reserved | - | 3,098,245 | 3,578,609 | - | 6,676,854 | 7,484,598 |
| Unreserved | 3,020,073 | - | - | 2,017 | 3,022,090 | 2,793,238 |
| Total fund balances | 3,020,073 | 3,098,245 | 3,578,609 | 2,017 | 9,698,944 | 10,277,836 |
| Total liabilities and fund balances | \$4,449,911 | \$3,098,245 | \$3,679,236 | \$2,017 | \$11,229,409 | \$12,160,101 |

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, 2009

| | |
|---|----------------------------|
| TOTAL GOVERNMENTAL FUND BALANCES | \$ 9,698,944 |
| 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. | 5,134,575 |
| 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. | 203,744 |
| 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. | 547,640 |
| 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. | (11,545,310) |
| 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>(71,209)</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 3,968,384</u> |

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

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

Year ended June 30, 2009 with summarized comparative totals for 2008

| | Major Funds | | | Non-Major Governmental Fund | Totals | |
|--|---------------------|----------------------------|-----------------------------|-----------------------------------|---------------------|----------------------|
| | General Fund | Capital Reserve Fund | Capital Projects Fund | | 2009 | 2008 |
| | | | | | | |
| REVENUES | | | | | | |
| Local sources | \$11,807,438 | \$ 58,353 | \$ 62,784 | \$ 4,087 | \$11,932,662 | \$ 14,286,924 |
| State sources | 5,252,631 | - | - | - | 5,252,631 | 5,129,542 |
| Federal sources | 1,247,091 | - | - | - | 1,247,091 | 1,137,277 |
| Total revenues | <u>18,307,160</u> | <u>58,353</u> | <u>62,784</u> | <u>4,087</u> | <u>18,432,384</u> | <u>20,553,743</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Instruction | 12,342,920 | - | - | - | 12,342,920 | 12,475,042 |
| Support services | 4,434,599 | - | - | - | 4,434,599 | 4,734,719 |
| Operation of noninstructional services | 419,758 | - | - | 18,227 | 437,985 | 416,949 |
| Facilities acquisition, construction and improvement services | - | - | 780,881 | - | 780,881 | 153,630 |
| Debt service | 939,628 | - | - | - | 939,628 | 1,471,858 |
| Total expenditures | <u>18,136,905</u> | <u>-</u> | <u>780,881</u> | <u>18,227</u> | <u>18,936,013</u> | <u>19,252,198</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>170,255</u> | <u>58,353</u> | <u>(718,097)</u> | <u>(14,140)</u> | <u>(503,629)</u> | <u>1,301,545</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Payment of debt – defeasement | - | - | - | - | - | (24,449,779) |
| Refund of prior year receipts | (31,263) | - | - | - | (31,263) | - |
| Transfers in | 148,000 | - | - | 16,000 | 164,000 | 774,647 |
| Transfers out | (60,000) | - | (148,000) | - | (208,000) | (774,647) |
| Total other financing sources (uses) | <u>56,737</u> | <u>-</u> | <u>(148,000)</u> | <u>16,000</u> | <u>(75,263)</u> | <u>(24,449,779)</u> |
| NET CHANGE IN FUND BALANCES | 226,992 | 58,353 | (866,097) | 1,860 | (578,892) | (23,148,234) |
| FUND BALANCES | | | | | | |
| Beginning of year | <u>2,793,081</u> | <u>3,039,892</u> | <u>4,444,706</u> | <u>157</u> | <u>10,277,836</u> | <u>33,426,070</u> |
| End of year | <u>\$ 3,020,073</u> | <u>\$3,098,245</u> | <u>\$3,578,609</u> | <u>\$ 2,017</u> | <u>\$ 9,698,944</u> | <u>\$ 10,277,836</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, 2009

| | |
|---|-----------------------------|
| NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS | \$ (578,892) |
| 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. | 491,552 |
| The effect of the disposal of capital assets is to decrease net assets. In the statement of activities, the loss on disposal of capital assets is reported, but is not reported in the governmental funds because it does not provide current financial resources. | (1,804,240) |
| 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. | (148,257) |
| 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. | 531,932 |
| 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>(453,925)</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$(1,961,830)</u> |

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENTS OF NET ASSETS (DEFICIT) – PROPRIETARY FUND

June 30, 2009 and 2008

| | <u>Food Service Fund</u> | |
|-----------------------------------|--------------------------|-------------------|
| | <u>2009</u> | <u>2008</u> |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 15,343 | \$ - |
| Due from other governments | 32,270 | 28,476 |
| Due from other funds | 43,413 | - |
| Inventories | <u>8,725</u> | <u>8,959</u> |
| Total current assets | <u>99,751</u> | <u>37,435</u> |
| NON-CURRENT ASSETS | | |
| Capital assets, net | <u>5,156</u> | <u>5,836</u> |
| Total assets | <u>104,907</u> | <u>43,271</u> |
| LIABILITIES | | |
| LIABILITIES | | |
| Accounts payable | 103,808 | 26,397 |
| Due to other funds | - | 22,534 |
| Deferred revenue | <u>1,192</u> | <u>1,398</u> |
| Total liabilities | <u>105,000</u> | <u>50,329</u> |
| NET ASSETS (DEFICIT) | | |
| NET ASSETS (DEFICIT) | | |
| Invested in capital assets | 5,156 | 5,836 |
| Unrestricted | <u>(5,249)</u> | <u>(12,894)</u> |
| Total net assets (deficit) | <u>\$ (93)</u> | <u>\$ (7,058)</u> |

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT) – PROPRIETARY FUND

Years ended June 30, 2009 and 2008

| | <u>Food Service Fund</u> | |
|---------------------------------------|--------------------------|-------------------|
| | <u>2009</u> | <u>2008</u> |
| OPERATING REVENUES | | |
| Charges for services | \$ 167,797 | \$ 184,935 |
| OPERATING EXPENSES | | |
| Salaries | 174,466 | 171,011 |
| Employee benefits | 41,868 | 42,040 |
| Other purchased services | 26,288 | 24,322 |
| Supplies | 165,600 | 165,613 |
| Depreciation | 680 | 680 |
| Other | 30 | - |
| Total operating expenses | <u>408,932</u> | <u>403,666</u> |
| Operating loss | <u>(241,135)</u> | <u>(218,731)</u> |
| NON-OPERATING REVENUES | | |
| State sources | 14,027 | 14,985 |
| Federal sources | <u>190,073</u> | <u>178,687</u> |
| Total non-operating revenues | <u>204,100</u> | <u>193,672</u> |
| Net loss before transfers | (37,035) | (25,059) |
| TRANSFERS IN | <u>44,000</u> | <u>-</u> |
| CHANGE IN NET ASSETS (DEFICIT) | 6,965 | (25,059) |
| NET ASSETS (DEFICIT) | | |
| Beginning of year | <u>(7,058)</u> | <u>18,001</u> |
| End of year | <u>\$ (93)</u> | <u>\$ (7,058)</u> |

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENTS OF CASH FLOWS – PROPRIETARY FUND

Years ended June 30, 2009 and 2008

| | <u>Food Service Fund</u> | |
|--|--------------------------|--------------------|
| | <u>2009</u> | <u>2008</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 167,591 | \$ 182,844 |
| Cash paid for operating expenses | <u>(375,664)</u> | <u>(361,965)</u> |
| Net cash used for operating activities | <u>(208,073)</u> | <u>(179,121)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State sources | 14,011 | 14,899 |
| Federal sources | 165,405 | 161,047 |
| Transfers in | <u>44,000</u> | <u>-</u> |
| Net cash provided by noncapital financing activities | <u>223,416</u> | <u>175,946</u> |
| Net increase (decrease) in cash | 15,343 | (3,175) |
| CASH | | |
| Beginning of year | <u>-</u> | <u>3,175</u> |
| End of year | <u>\$ 15,343</u> | <u>\$ -</u> |
| Reconciliation of operating loss to net cash provided by (used for) operating activities: | | |
| Operating income (loss) | \$(241,135) | \$(218,731) |
| Adjustments to reconcile operating loss to net cash (used for) operating activities | | |
| Depreciation | 680 | 680 |
| Donated commodities used | 20,889 | 16,236 |
| (Increase) decrease in | | |
| Due from other funds | (43,413) | - |
| Inventories | 234 | (4,906) |
| Increase (decrease) in | | |
| Accounts payable | 77,412 | 7,246 |
| Due to other funds | (22,534) | 22,445 |
| Deferred revenue | <u>(206)</u> | <u>(2,091)</u> |
| Net cash used for operating activities | <u>\$(208,073)</u> | <u>\$(179,121)</u> |
| SUPPLEMENTAL DISCLOSURE | | |
| Noncash noncapital financing activity | | |
| USDA donated commodities | <u>\$ 20,889</u> | <u>\$ 16,236</u> |

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS

June 30, 2009

| | <u>Private- Purpose Trust</u> | <u>Agency</u> |
|---|---------------------------------------|---------------|
| ASSETS | | |
| Cash | \$32,951 | \$17,162 |
| LIABILITIES | | |
| Accounts payable | - | \$17,162 |
| NET ASSETS | | |
| Net assets held in trust for scholarships | <u>\$32,951</u> | |

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

STATEMENTS OF CHANGES IN NET ASSETS – FIDUCIARY FUND

Years ended June 30, 2009 and 2008

| | Private-Purpose Trust Fund | |
|------------------------------------|---------------------------------------|------------------------|
| | <u>2009</u> | <u>2008</u> |
| ADDITIONS | | |
| Local contributions | \$ 1,914 | \$ 5,666 |
| DEDUCTIONS | | |
| Scholarships awarded and fees paid | <u>5,163</u> | <u>3,460</u> |
| CHANGE IN NET ASSETS | (3,249) | 2,206 |
| NET ASSETS | | |
| Beginning of year | <u>36,200</u> | <u>33,994</u> |
| End of year | <u>\$32,951</u> | <u>\$36,200</u> |

See accompanying notes

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District of Borough of Morrisville (the "**District**") operates two elementary schools and a 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 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 entity-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, 2009

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 to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment, which are financed by the issuance of general obligation debt.

The Capital Reserve Fund accounts for the proceeds of specific revenue sources that are legally restricted to capital expenditures.

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, 2009

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, 2009

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 2008-2009 was 187.3 mills (\$18.73 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.

Inventories

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 – 20-50 years and furniture and equipment – 3-20 years.

Impairment of Long-Lived Assets

The District reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the assets to future net cash flows (undiscounted and with interest charges) expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There were no asset impairments required to be recognized at June 30, 2009.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

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, 2008, 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.

GASB Statement No. 45

The GASB has issued Statement No. 45 ("**GASB No. 45**"), "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions," which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other post-employment benefits ("**OPEB**").

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

GASB No. 45 is effective in three phases based on a government's total annual revenues. The general provisions of GASB No. 45 were implemented by the District for the fiscal year ended June 30, 2009 (**See Note 6**).

(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 Reserve and Capital Projects funds.

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 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 Board of School Directors 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 Board approval. 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.

Deficit Net Assets

The Food Service Fund had a deficit in net assets of \$93 at June 30, 2009. The deficit will be funded by future charges for services and transfers from the General Fund.

(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, 2009, the carrying amount of the District's deposits was \$8,680,530 and the bank balance was \$9,267,570. Of the bank balance, \$522,337 was covered by federal depository insurance, and \$38,651 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, 2009, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating agency.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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, 2009, 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 | \$343,000 |
| Term investment due within one year – PLGIT state investment pool | <u>500,000</u> |
| | <u>\$843,000</u> |

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, 2009.

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, 2009.

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, 2009 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|--------------------|---------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Construction-in-progress | \$ 1,804,240 | \$ 724,871 | \$1,804,240 | \$ 724,871 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 9,148,211 | 53,373 | - | 9,201,584 |
| Furniture and equipment | <u>1,408,751</u> | <u>108,253</u> | - | <u>1,517,004</u> |
| Total capital assets being depreciated | <u>10,556,962</u> | <u>161,626</u> | - | <u>10,718,588</u> |
| Less accumulated depreciation for | | | | |
| Buildings and improvements | (4,894,644) | (224,834) | - | (5,119,478) |
| Furniture and equipment | <u>(1,019,295)</u> | <u>(170,111)</u> | - | <u>(1,189,406)</u> |
| Total accumulated depreciation | <u>(5,913,939)</u> | <u>(394,945)</u> | - | <u>(6,308,884)</u> |
| Total capital assets being depreciated, net | <u>4,643,023</u> | <u>(233,319)</u> | - | <u>4,409,704</u> |
| Governmental activities, net | <u>\$ 6,447,263</u> | <u>\$ 491,552</u> | <u>\$1,804,240</u> | <u>\$ 5,134,575</u> |
| Business-type activities | | | | |
| Machinery and equipment | \$ 275,653 | \$ - | \$ - | \$ 275,653 |
| Less accumulated depreciation | <u>(269,817)</u> | <u>(680)</u> | - | <u>(270,497)</u> |
| Business-type activities, net | <u>\$ 5,836</u> | <u>\$ (680)</u> | <u>\$ -</u> | <u>\$ 5,156</u> |

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

During the 2009 fiscal year, the School Board, through a resolution, decided to renovate existing facilities rather than to construct a new building. As a result, costs of \$1,804,240 previously incurred and capitalized as construction-in-progress for the master facilities plan for the new building have been written off and included in loss on disposal of capital assets on the statement of activities.

During the 2009 fiscal year, the boiler at one of the District's elementary schools exploded rendering the facility unusable for the 2009-2010 school year. As of June 30, 2009, the carrying amount of the building was approximately \$150,000. The District has contracted to return the building to its original condition before the explosion through an insurance claim.

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

| | |
|---|-------------------------|
| Governmental activities | |
| Instruction | \$293,580 |
| Instructional student support | 20,963 |
| Administrative and financial support services | 33,724 |
| Operation and maintenance of plant services | 37,207 |
| Student activities | <u>9,471</u> |
| Total depreciation expense – governmental activities | <u>\$394,945</u> |
| Business-type activities | <u>\$ 680</u> |

As of June 30, 2009, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed as of June 30, 2009 are as follows:

| <u>Description</u> | <u>Project Amount</u> | <u>Completed Through June 30, 2009</u> | <u>Remaining Commitments</u> |
|---|---------------------------|--|----------------------------------|
| Intermediate/High School – HVAC and window project | \$3,833,269 | \$535,948 | \$3,297,321 |
| Intermediate/High School – electrical project | 270,556 | 150,916 | 119,640 |
| Grandview Elementary School – window project | <u>693,319</u> | <u>38,007</u> | <u>655,312</u> |
| | <u>\$4,797,144</u> | <u>\$724,871</u> | <u>\$4,072,273</u> |

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

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

| <u>Receivable To</u> | <u>Amount</u> | <u>Payable From</u> | <u>Amount</u> |
|----------------------|------------------------|-----------------------|------------------------|
| General Fund | \$ 4,307 | Capital Projects Fund | \$ 4,307 |
| Food Service Fund | <u>43,413</u> | General Fund | <u>43,413</u> |
| | <u>\$47,720</u> | | <u>\$47,720</u> |

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses. The balances are generally repaid shortly after year-end.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

A summary of interfund transfers for the year ended June 30, 2009 is as follows:

| <u>Transfers In</u> | <u>Amount</u> | <u>Transfers Out</u> | <u>Amount</u> |
|-----------------------------|------------------|----------------------|------------------|
| Food Service Fund | \$ 44,000 | General Fund | \$ 44,000 |
| General Fund | 148,000 | Capital Project Fund | 148,000 |
| Non-major Governmental Fund | <u>16,000</u> | General Fund | <u>16,000</u> |
| | <u>\$208,000</u> | | <u>\$208,000</u> |

Transfers represent monies to subsidize costs associated with athletic programs, food service operations and debt service payments.

(6) NON-CURRENT LIABILITIES

The following summarizes the changes in non-current liabilities for the year ended June 30, 2009:

| | <u>Balance</u> <u>July 1, 2008</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>June 30, 2009</u> | <u>Amount</u> <u>Due Within</u> <u>One Year</u> |
|--------------------------------------|---------------------------------------|--------------------|--------------------|--|---|
| Governmental activities | | | | | |
| General obligation debt | | | | | |
| Bonds payable | \$ 7,275,000 | \$ - | \$ 385,000 | \$ 6,890,000 | \$ 405,000 |
| Note payable | 1,614,000 | - | 84,000 | 1,530,000 | 88,000 |
| Bond premium | <u>1,307,045</u> | <u>-</u> | <u>75,406</u> | <u>1,231,639</u> | <u>75,406</u> |
| Total general obligation debt | <u>10,196,045</u> | <u>-</u> | <u>544,406</u> | <u>9,651,639</u> | <u>568,406</u> |
| Other long-term liabilities | | | | | |
| Early retirement incentive | 568,622 | 894,000 | 130,764 | 1,331,858 | 744,031 |
| Compensated absences | 754,409 | 349,866 | 618,570 | 485,705 | - |
| Capital leases | 40,481 | - | 40,481 | - | - |
| OPEB obligation | <u>-</u> | <u>76,108</u> | <u>-</u> | <u>76,108</u> | <u>-</u> |
| Total other long-term debt | <u>1,363,512</u> | <u>1,319,974</u> | <u>789,815</u> | <u>1,893,671</u> | <u>744,031</u> |
| Total long-term debt | <u>\$11,559,557</u> | <u>\$1,319,974</u> | <u>\$1,334,221</u> | <u>\$11,545,310</u> | <u>\$1,312,437</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, 2009

General obligation debt outstanding as of June 30, 2009 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 | \$ 865,000 |
| Series of 2006 | 3.50% – 5.00% | \$6,500,000 | 04/01/2026 | <u>6,025,000</u> |
| Total general obligation bonds | | | | <u>6,890,000</u> |
| General obligation note | | | | |
| Series of 2001 | 4.113% | \$3,000,000 | 09/25/2021 | <u>1,530,000</u> |
| Total obligation debt | | | | <u>\$8,420,000</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> |
|-----------------------------|--------------------|--------------------|---------------------|
| 2010 | \$ 493,000 | \$ 378,486 | \$ 871,486 |
| 2011 | 512,000 | 358,662 | 870,662 |
| 2012 | 532,000 | 338,090 | 870,090 |
| 2013 | 556,000 | 317,013 | 873,013 |
| 2014 | 581,000 | 293,875 | 874,875 |
| 2015-2019 | 2,238,000 | 1,169,902 | 3,407,902 |
| 2020-2024 | 2,523,000 | 601,788 | 3,124,788 |
| 2025-2026 | <u>985,000</u> | <u>74,500</u> | <u>1,059,500</u> |
| | <u>\$8,420,000</u> | <u>\$3,532,316</u> | <u>\$11,952,316</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, 2009, \$20,795,000 of bonds outstanding are considered defeased. The District has authorized to call the remaining defeased bonds for redemption on October 1, 2016.

Derivative Financial Instrument

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 December 31, 2008 was a liability of \$77,812. 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, 2009

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; a specified minimum number of employees must opt into the ERIP; and the retiring employee must be eligible to receive other pension benefits provided through the Public School Employees' Retirement System (**See Note 8**). 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. As of June 30, 2009, there were 26 retirees receiving benefits under the District's ERIP plans. For the year ended June 30, 2009, the District paid \$130,764 in ERIP benefits to retirees.

Other Post-Employment Benefits

For 2009, the District has implemented GASB No. 45 for certain post-employment healthcare and life insurance benefits provided by the District. GASB No. 45 generally provides for prospective implementation—that is, employers set the beginning net OPEB obligation at zero at the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for other post-employment benefits liability at the date of transition.

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 in accordance with the parameters of GASB No. 45. 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 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 obligation | \$ 193,387 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost (expense) | 193,387 |
| Contributions made | <u>(117,279)</u> |
| Increase in net OPEB obligation | 76,108 |
| Net OPEB obligation – beginning of year | - |
| Net OPEB obligation – end of year | <u>\$ 76,108</u> |

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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. The remaining amortization period at June 30, 2009 was 7 years.

(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 \$71,605 for 2009. Costs incurred under the modular classroom lease are being reimbursed pursuant to an insurance claim.

Future minimum lease payments under these agreements are as follows:

| | |
|------|------------------|
| 2010 | \$104,898 |
| 2011 | 76,098 |
| 2012 | 27,323 |
| 2013 | 26,555 |
| 2014 | <u>21,113</u> |
| | <u>\$255,987</u> |

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Lessor

The District leases a building to a non-profit corporation under a lease agreement that expires on January 2, 2018, provides for annual rent of \$27,632, and may be terminated by either party with proper notification. The District's right to terminate this lease expires on December 31, 2010. The tenant may terminate this lease at any time during the lease term. At the conclusion of the lease agreement, so long as the tenant has paid the District all amounts due under the lease agreement, the District will transfer ownership of the building to the tenant.

The District also leases another building to a private entity under a non-cancelable lease agreement that expires on June 16, 2014 and may be extended for an additional five-year term at the option of the tenant.

Under the terms of both lease agreements, the tenant is responsible for all expenses associated with the buildings.

Rental income for both buildings was \$32,597 for 2009.

Future minimum lease payments to be received under these agreements are as follows:

| | |
|------|------------------|
| 2010 | \$ 47,004 |
| 2011 | 19,372 |
| 2012 | 19,372 |
| 2013 | 19,372 |
| 2014 | <u>17,757</u> |
| | <u>\$122,877</u> |

(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/cafr/index.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, 2009, the rate of employer contribution was 4.67% of covered payroll. The District's contributions to PSERS for the years ended June 30, 2009, 2008 and 2007 were \$370,185, \$526,718 and \$476,382, respectively, equal to the required contribution for each year. The Commonwealth contributes to PSERS by reimbursing the District 50% of its contribution each year.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

(9) JOINT VENTURES

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 2009 was \$607,612.

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 2009 was \$58,722.

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

Year ending June 30.

| | |
|-----------|-------------------|
| 2010 | \$ 59,202 |
| 2011 | 59,269 |
| 2012 | 59,246 |
| 2013 | 59,220 |
| 2014 | 59,221 |
| 2015-2019 | <u>295,314</u> |
| | <u>\$ 591,472</u> |

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.

(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.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

(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 2009. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended June 30, 2009

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance With Final Budget Positive (Negative)</u> |
|--|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local sources | \$11,902,646 | \$11,902,646 | \$11,807,438 | \$ (95,208) |
| State sources | 5,551,216 | 5,551,216 | 5,252,631 | (298,585) |
| Federal sources | 1,169,117 | 1,169,117 | 1,247,091 | 77,974 |
| Total revenues | <u>18,622,979</u> | <u>18,622,979</u> | <u>18,307,160</u> | <u>(315,819)</u> |
| EXPENDITURES | | | | |
| Instruction | | | | |
| Regular programs | 8,566,780 | 8,587,082 | 8,082,161 | 504,921 |
| Special programs | 3,883,410 | 3,847,387 | 3,368,512 | 478,875 |
| Vocational programs | 839,132 | 858,333 | 832,331 | 26,002 |
| Other instructional programs | 57,211 | 64,343 | 59,916 | 4,427 |
| Total instruction | <u>13,346,533</u> | <u>13,357,145</u> | <u>12,342,920</u> | <u>1,014,225</u> |
| Support services | | | | |
| Pupil support services | 673,457 | 677,565 | 580,306 | 97,259 |
| Instructional staff services | 291,011 | 276,021 | 188,018 | 88,003 |
| Administrative services | 1,039,478 | 887,776 | 758,628 | 129,148 |
| Pupil health | 176,654 | 176,654 | 113,024 | 63,630 |
| Business services | 379,376 | 397,169 | 378,950 | 18,219 |
| Operation and maintenance of plant services | 1,733,989 | 1,763,240 | 1,564,287 | 198,953 |
| Student transportation services | 512,500 | 560,214 | 559,138 | 1,076 |
| Information services | 311,575 | 314,081 | 280,269 | 33,812 |
| Other support services | 14,000 | 14,000 | 11,979 | 2,021 |
| Total support services | <u>5,132,040</u> | <u>5,066,720</u> | <u>4,434,599</u> | <u>632,121</u> |
| Operation of non-instructional services | | | | |
| Student activities | 384,640 | 427,017 | 398,202 | 28,815 |
| Community services | 49,500 | 30,562 | 21,556 | 9,006 |
| Total operation of non-instructional services | <u>434,140</u> | <u>457,579</u> | <u>419,758</u> | <u>37,821</u> |
| Debt service | | | | |
| | 930,261 | 961,530 | 939,628 | 21,902 |
| Total expenditures | <u>19,842,974</u> | <u>19,842,974</u> | <u>18,136,905</u> | <u>1,706,069</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,219,995)</u> | <u>(1,219,995)</u> | <u>170,255</u> | <u>1,390,250</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Refund of prior year receipts | - | - | (31,263) | (31,263) |
| Transfers in | 148,000 | 148,000 | 148,000 | - |
| Transfers out | (40,000) | (40,000) | (60,000) | (20,000) |
| Total other financing sources (uses) | <u>108,000</u> | <u>108,000</u> | <u>56,737</u> | <u>(51,263)</u> |
| NET CHANGE IN FUND BALANCE | <u>(1,111,995)</u> | <u>(1,111,995)</u> | <u>226,992</u> | <u>1,338,987</u> |
| FUND BALANCE | | | | |
| Beginning of year | 2,793,081 | 2,793,081 | 2,793,081 | - |
| End of year | <u>\$ 1,681,086</u> | <u>\$ 1,681,086</u> | <u>\$ 3,020,073</u> | <u>\$ 1,338,987</u> |

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2009

| <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, 2009

| <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, 2008</u> | <u>Revenue Recognized</u> | <u>Expenditures</u> | <u>Accrued (Deferred) Revenue June 30, 2009</u> |
|---|--------------------|----------------------------|--------------------------------------|--|---------------------|--------------------------------|--|---------------------------|---------------------|---|
| <u>U.S. Department of Education</u> | | | | | | | | | | |
| <u>Passed-Through the Pennsylvania Department of Education</u> | | | | | | | | | | |
| Title I – Improving Basic Programs | I | 84.010 | 013-080267 | 07/01/07 – 09/30/08 | \$202,429 | \$ 53,610 | \$ 48,809 | \$ 4,801 | \$ 4,801 | \$ - |
| Title I – Improving Basic Programs | I | 84.010 | 013-090267 | 07/01/08 – 09/30/09 | 199,109 | 185,784 | - | 199,109 | 199,109 | 13,325 |
| Title I – Academic Achievement | I | 84.010 | 077-090267 | 07/01/08 – 09/30/09 | 5,000 | 2,000 | - | 5,000 | 5,000 | 3,000 |
| Title II – Improving Teacher Quality | I | 84.367 | 020-080267 | 07/01/07 – 09/30/08 | 58,590 | 19,530 | 11,502 | 11,934 | 11,934 | 3,906 |
| Title II – Improving Teacher Quality | I | 84.367 | 020-090267 | 07/01/08 – 09/30/09 | 58,340 | 50,561 | - | 58,340 | 58,340 | 7,779 |
| Drug Free Schools | I | 84.186 | 100-090267 | 07/01/08 – 09/30/09 | 3,294 | 3,294 | - | 3,294 | 3,294 | - |
| Learn and Save America | I | 94.004 | 019-082009 | 04/06/09 – 06/30/09 | 1,500 | 1,500 | - | 1,500 | 1,500 | - |
| 21 st Century Community Learning Centers | I | 84.287 | FC #41-00026606 | 10/01/07 – 09/30/08 | 236,576 | - | 20,824 | 31,263 | 31,263 | 52,087 |
| 21 st Century Community Learning Centers | I | 84.287 | FC #41-00026606 | 10/01/08 – 09/30/09 | 246,576 | - | - | 205,692 | 205,692 | 205,692 |
| 21 st Century Community Learning Centers | I | 84.287 | FC #41-00043153 | 12/01/07 – 06/30/08 | 277,406 | 184,528 | 184,528 | - | - | - |
| 21 st Century Community Learning Centers | I | 84.287 | FC #41-00043153 | 07/01/08 – 06/30/09 | 465,618 | 102,468 | - | 465,618 | 465,618 | 363,150 |
| <u>Passed Through the Bucks County I. U.</u> | | | | | | | | | | |
| Title III – Language Instruction | I | 84.365 | 010-080267 | 07/01/07 – 06/30/08 | 9,591 | 1,984 | 1,984 | - | - | - |
| I.D.E.A. | I | 84.027 | 062-08-0-22 | 07/01/07 – 06/30/08 | 179,785 | 52,821 | 52,821 | - | - | - |
| I.D.E.A. | I | 84.027 | 062-09-0-22 | 07/01/08 – 06/30/09 | 217,519 | <u>153,599</u> | <u>-</u> | <u>217,519</u> | <u>217,519</u> | <u>63,920</u> |
| Total U.S. Department of Education | | | | | | <u>811,679</u> | <u>320,468</u> | <u>1,204,070</u> | <u>1,204,070</u> | <u>712,859</u> |

| <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, 2008</u> | <u>Revenue Recognized</u> | <u>Expenditures</u> | <u>Accrued (Deferred) Revenue June 30, 2009</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 | 07/01/06 – 06/30/08 | N/A | 20,777 | 20,777 | - | - | - |
| National School Lunch Program | I | 10.555 | N/A | 07/01/08 – 06/30/09 | N/A | 118,077 | - | 143,543 | 143,543 | 25,466 |
| Breakfast Program | I | 10.553 | N/A | 07/01/07 – 06/30/08 | N/A | 5,358 | 5,358 | - | - | - |
| Breakfast Program | I | 10.553 | N/A | 07/01/08 – 06/30/09 | N/A | 21,193 | - | 25,640 | 25,640 | 4,447 |
| After School Snacks | I | 10.555 | N/A | 07/01/08 – 06/30/09 | N/A | 4,182 | - | 4,182 | 4,182 | - |
| State Matching Share | S | N/A | N/A | 07/01/07 – 06/30/08 | N/A | 2,341 | 2,341 | - | - | - |
| State Matching Share | S | N/A | N/A | 07/01/08 – 06/30/09 | N/A | 11,670 | - | 14,027 | 14,027 | 2,357 |
| <u>Passed-Through PA Department of Agriculture</u> | | | | | | | | | | |
| USDA Donated Commodities | I | 10.555 | N/A | 07/01/08 – 06/30/09 | N/A | 20,889 | - | 20,889 | 20,889 | - |
| Total U.S. Department of Agriculture | | | | | | <u>204,487</u> | <u>28,476</u> | <u>208,281</u> | <u>208,281</u> | <u>32,270</u> |
| Total Federal Awards and Certain State Grants | | | | | | <u>\$1,016,166</u> | <u>\$348,944</u> | <u>\$1,412,351</u> | <u>\$1,412,351</u> | <u>\$745,129</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, 2009

(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 2008-2009 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, 2009 was \$38,839.

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2009

There were no audit findings for the year ended June 30, 2008.



**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, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 3, 2009.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

Briggs, Bunting & Dougherty, LLP

Philadelphia, Pennsylvania
December 3, 2009



REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO 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 are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal program is 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 its major federal program 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 are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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 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.

Briggs, Bunting & Dougherty, LLP

**Philadelphia, Pennsylvania
December 3, 2009**

SCHOOL DISTRICT OF BOROUGH OF MORRISVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2009

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 significant 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 were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.
5. The 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 program tested as a major program was:

21st Century Community Learning Centers – CFDA Number 84.287
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