

METHACTON SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

For the Year Ended June 30, 2010

METHACTON SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of School Directors
METHACTON SCHOOL DISTRICT
Norristown, 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 METHACTON SCHOOL DISTRICT, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of METHACTON SCHOOL DISTRICT's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the METHACTON SCHOOL DISTRICT as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

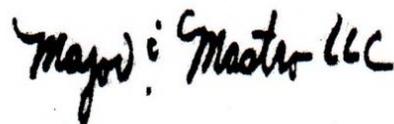
In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2011, on our consideration of METHACTON SCHOOL DISTRICT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 3 through 10 and pages 46 through 48, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

January 18, 2011

MAJOR & MASTRO, LLC
Certified Public Accountants

A handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, slightly slanted style.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2010

INTRODUCTION

Our discussion and analysis of Methacton School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2010.

FINANCIAL HIGHLIGHTS

- The assets of the Methacton School District exceeded its liabilities at the close of the 2010 fiscal year by \$14,232,308. Total current assets exceed current liabilities by \$6,061,988. This compares with net assets of \$12,241,552 and current assets exceeding current liabilities by \$15,812,351 at the close of the 2009 fiscal year.
- As of the close of the current fiscal year, unreserved fund balance for the General Fund was \$4,264,349 or 5.12 percent of the total general fund expenditures. Fund balance at the end of the 2009 fiscal year was \$4,422,816.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Methacton School District's basic financial statements. The Methacton School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the 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 Methacton School District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Methacton School District's assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon 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 flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Methacton School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Methacton School District include general operations of public education.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

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 near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government'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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Methacton School District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, 2008 Construction Fund, and the Capital Reserve Fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Methacton School District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Methacton School District maintains one proprietary fund which is Food Service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Food Service function.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Methacton School District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Methacton School District's assets exceeded liabilities by a total of \$14,232,308 at the close of the fiscal year ending June 30, 2010. Assets exceeded liabilities by \$12,241,552 at the close of the fiscal year ended June 30, 2009.

The following table reflects the current and prior year's information:

METHACTON SCHOOL DISTRICT's Net Assets

	Governmental Activities		Business-type Activities		Totals	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 19,313,874	\$ 31,683,393	\$ 1,053,958	\$ 661,045	\$ 20,367,832	\$ 32,344,438
Capital assets	118,157,294	103,961,343			118,157,294	103,961,343
Total assets	<u>\$ 137,471,168</u>	<u>\$ 135,644,736</u>	<u>\$ 1,053,958</u>	<u>\$ 661,045</u>	<u>\$ 138,525,126</u>	<u>\$ 136,305,781</u>
Long-term liabilities						
outstanding	\$ 109,915,573	\$ 107,458,293	\$ 71,401	\$ 69,034	\$ 109,986,974	\$ 107,527,327
Other liabilities	13,270,350	15,871,042	1,035,494	665,860	14,305,844	16,536,902
Total liabilities	<u>\$ 123,185,923</u>	<u>\$ 123,329,335</u>	<u>\$ 1,106,895</u>	<u>\$ 734,894</u>	<u>\$ 124,292,818</u>	<u>\$ 124,064,229</u>
Net Assets:						
Invested in capital assets, net of related debt	\$ 8,990,599	\$ 6,080,360	\$	\$	\$ 8,990,599	\$ 6,080,360
Restricted	3,634,717	3,494,192			3,634,717	3,494,192
Unrestricted	1,659,929	2,740,849	(52,937)	(73,849)	1,606,992	2,667,000
Total net assets (deficit)	<u>\$ 14,285,245</u>	<u>\$ 12,315,401</u>	<u>\$ (52,937)</u>	<u>\$ (73,849)</u>	<u>\$ 14,232,308</u>	<u>\$ 12,241,552</u>

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Governmental activities. Governmental activities increased the Methacton School District's net assets by \$1,969,844 and \$223,403 for the years ending June 30, 2010 and 2009, respectively. Key elements of this increase are displayed below.

Business-type Activities. Business Type activities, comprised of the District's Food Service Fund, increased the District's net assets by \$20,912 for the year ended June 30, 2010 compared to a \$4,867 decrease in the District's net assets for the year ended June 30, 2009. Key elements are displayed below.

METHACTON SCHOOL DISTRICT'S Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program Revenues						
Charges for Services	\$ 190,189	\$ 264,775	\$ 1,417,469	\$ 1,432,823	\$ 1,607,658	\$ 1,697,598
Operating Grants	9,599,392	8,982,484	275,324	300,496	9,874,716	9,282,980
General Revenues:						
Taxes	64,586,753	61,431,726			64,586,753	61,431,726
Grants, not restricted to specific programs	8,807,965	8,472,375			8,807,965	8,472,375
Investment Income	179,801	574,641	3,034	8,704	182,835	583,345
Gain (loss) on sale of assets	4,000	0			4,000	-
Miscellaneous Income	240,441	329,947			240,441	329,947
Transfers	(380,000)	(360,000)	380,000	360,000		
Total Revenues	<u>83,228,541</u>	<u>79,695,948</u>	<u>2,075,827</u>	<u>2,102,023</u>	<u>85,304,368</u>	<u>81,797,971</u>
Expenses:						
Instruction	50,215,363	49,425,377			50,215,363	49,425,377
Support Services	25,242,260	25,012,323			25,242,260	25,012,323
Operation of Non- Instructional Services	1,341,770	1,291,512			1,341,770	1,291,512
Interest on Long-term Debt	4,459,304	3,743,333			4,459,304	3,743,333
Food Service			2,054,915	2,106,890	2,054,915	2,106,890
Total Expenses	<u>81,258,697</u>	<u>79,472,545</u>	<u>2,054,915</u>	<u>2,106,890</u>	<u>83,313,612</u>	<u>81,579,435</u>
Change in Net Assets	1,969,844	223,403	20,912	(4,867)	1,990,756	218,536
Beginning Net Assets	12,315,401	12,091,998	(73,849)	(68,982)	12,241,552	12,023,016
Ending Net Assets	<u>\$ 14,285,245</u>	<u>\$ 12,315,401</u>	<u>\$ (52,937)</u>	<u>\$ (73,849)</u>	<u>\$ 14,232,308</u>	<u>\$ 12,241,552</u>

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Methacton School District utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Methacton School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Methacton School District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Methacton School District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$4,264,349. This unreserved fund balance represents 5.12% of total general fund expenditures.

General Fund revenues of the Methacton School District came from four basic sources. The largest source was provided by local funding totaling \$66,971,805 (80.0%), and \$63,530,114 (79.4%), for the years ended June 30, 2010 and 2009 respectively, of which \$64,948,465 and \$61,687,437 were tax revenues. State funding amounted to \$15,103,898 (18.0%) and \$15,561,728 (19.5%), federal funding amounted to \$1,660,467 (2.0%) and \$909,511 (1.1%), for the years ending June 30, 2010 and 2009, respectively.

State and Federal funding continue to provide a relatively small percentage (20.0%) of total District revenue. This compels the Methacton School District to rely primarily on the local tax levying powers provided by the Pennsylvania Public School Code and the Local Tax Enabling Act (Act 511 of 1965) to fund the revenue shortfall in order to operate the School District.

General Fund expenditures of the District fall into four major categories and are summarized below for the years ended June 30, 2010 and 2009:

	Expenditures		Expenditures	
	<u>2010</u>	<u>%</u>	<u>2009</u>	<u>%</u>
Instruction	\$ 47,755,746	57.4%	\$ 47,496,882	58.5%
Support Service	24,210,389	29.1%	23,960,887	29.5%
Non-Instructional	1,095,771	1.3%	1,070,973	1.3%
Debt Service	10,186,375	12.2%	8,619,524	10.7%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	<u>\$ 83,248,281</u>	<u>100.0%</u>	<u>\$ 81,148,266</u>	<u>100.0%</u>

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Capital Funds. The Capital Projects Funds have a total fund balance of \$3,578,868 and \$13,163,675 for the years ended June 30, 2010 and 2009, comprised of Construction Funds \$3,553,434 and \$13,138,374, and the Capital Improvement Fund \$25,434 and \$25,301, respectively.

Special Revenue Funds. The Special Revenue Funds have a total fund balance of \$3,625,130 and \$3,173,370 for the years ended June 30, 2010 and 2009, comprised of the Capital Reserve Fund \$3,624,568 and \$3,177,588, and the Athletic Fund \$562 and (\$4,218), respectively.

Proprietary funds. The Methacton School District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Proprietary Funds had negative net assets of \$52,937 and \$73,849 for the years ended June 30, 2010 and 2009 respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Methacton School District's expenditures and other financing uses for the fiscal year ended June 30, 2010 of \$84,113,637 were lower than the final budget of \$87,057,808 by a total of \$2,944,171. This is primarily the result of savings realized in the following areas: Purchase of new buses budgeted were paid through the Capital Reserve Fund, an unexpended budgetary reserve, fuel costs budgeted higher than actual, and savings in actual debt service payments on variable rate bonds.

The District's revenues and other financing sources for the fiscal year ended June 30, 2010 were lower than the adopted budget by \$2,327,638 primarily due to a budgeted capital reserve fund transfer not required, lower than budgeted lease revenue resulting from reduced capital lease purchases, and eroded investment returns.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Methacton School District's investment in capital assets for its governmental activities, net of accumulated depreciation, amounts to \$118,157,294 and \$103,961,343 as of June 30, 2010 and 2009 respectively. The investment in capital assets includes land, construction in progress, buildings, improvements, and machinery and equipment.

Skyview Upper Elementary School, a new \$38.6 million Grade 5-6 facility located on the Arcola Middle School campus was completed and opened to students in September 2010.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

METHACTON SCHOOL DISTRICT'S Capital Assets

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 1,564,425	\$ 1,564,425
Construction in progress	33,798,217	19,174,838
Site improvements	2,258,463	2,153,218
Buildings and improvements	107,073,559	105,196,643
Machinery and equipment	20,228,429	19,118,665
Accumulated depreciation	<u>(46,765,799)</u>	<u>(43,246,446)</u>
	<u>\$ 118,157,294</u>	<u>\$ 103,961,343</u>

More detailed information about the Methacton School District's capital assets can be found in footnotes to the financial statements section of this report.

Long-term debt. At the end of the current fiscal year, the Methacton School District had total bonded debt outstanding of \$97,370,000 as well as notes payable of \$14,855,000 and capital lease obligations of \$510,414.

The Methacton School District maintains an A1 rating from Moody's for general obligation debt.

Additional information on the Methacton School District's long-term debt can be found in the footnotes to the financial statements section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Employee salary costs continue to increase. Salaries for 2010-2011 will increase for administrative staff (1.00%), support staff (3.25%), Teamsters Union Local 384 (4.00%), and professional staff (4.00%).

Employee health benefit costs for 2010-2011 are anticipated to increase 12.76%.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Methacton School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Methacton School District, Director of Business and Operations, 1001 Kriebel Mill Road, Eagleville, PA 19403-1047.

METHACTON SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 13,259,259	\$ 996,386	\$ 14,255,645
Taxes receivable, net	3,041,389		3,041,389
Due from other governments	1,548,085	33,899	1,581,984
Other receivables	31,003	3,273	34,276
Prepaid assets	101,995		101,995
Inventories		20,400	20,400
Other assets	1,332,143		1,332,143
Total Current Assets	19,313,874	1,053,958	20,367,832
Noncurrent Assets:			
Capital assets:			
Land	1,564,425		1,564,425
Construction in progress	33,798,217		33,798,217
Site improvements	2,258,463		2,258,463
Buildings and building improvements	107,073,559		107,073,559
Machinery and equipment	20,228,429		20,228,429
Accumulated depreciation	(46,765,799)		(46,765,799)
Total Noncurrent Assets	118,157,294		118,157,294
TOTAL ASSETS	\$ 137,471,168	\$ 1,053,958	\$ 138,525,126
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 1,587,357	\$ 6,438	\$ 1,593,795
Accrued salaries and benefits	2,778,316	22,283	2,800,599
Internal balances	(993,300)	993,300	-
Payroll deductions and withholding	1,483,876		1,483,876
Accrued interest	1,256,235		1,256,235
Deferred revenue	42,044	4,326	46,370
Other current liabilities	12,594	5,389	17,983
Portion due or payable within one year			
Bonds payable	5,895,000		5,895,000
Notes payable	655,000		655,000
Capital lease obligation	438,769		438,769
Accumulated compensated absences	114,459	3,758	118,217
Total Current Liabilities	13,270,350	1,035,494	14,305,844
Long-term Liabilities:			
Portion due or payable after one year			
Bonds payable in future years	91,475,000		91,475,000
Notes payable in future years	14,200,000		14,200,000
Bond discounts, premiums and deferred amounts	8,207		8,207
Capital lease obligation payable in future years	71,645		71,645
Other post-employment benefits	1,985,997		1,985,997
Accumulated compensated absences	2,174,724	71,401	2,246,125
Total Long-term Liabilities	109,915,573	71,401	109,986,974
TOTAL LIABILITIES	123,185,923	1,106,895	124,292,818
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	8,990,599		8,990,599
Restricted for			
Capital projects	3,634,717		3,634,717
Unrestricted	1,659,929	(52,937)	1,606,992
TOTAL NET ASSETS (DEFICIT)	14,285,245	(52,937)	14,232,308
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 137,471,168	\$ 1,053,958	\$ 138,525,126

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
GOVERNMENTAL ACTIVITIES						
Instruction						
Regular programs	\$ 32,690,078	\$ 22,269	\$ 2,142,162	\$ (30,525,647)	\$	\$ (30,525,647)
Special programs	13,472,729		4,342,164	(9,130,565)		(9,130,565)
Vocational programs	2,571,615		58,409	(2,513,206)		(2,513,206)
Other instructional programs	1,369,290	44,288	506,884	(818,118)		(818,118)
Adult education programs	111,651	104,871	1,678	(5,102)		(5,102)
Support services						
Pupil personnel services	2,974,865		107,721	(2,867,144)		(2,867,144)
Instructional staff services	1,836,438		75,247	(1,761,191)		(1,761,191)
Administration services	4,218,798		29,628	(4,189,170)		(4,189,170)
Pupil health	788,426		246,562	(541,864)		(541,864)
Business services	996,832		29,367	(967,465)		(967,465)
Operation and maintenance						
of plant services	6,973,216		155,039	(6,818,177)		(6,818,177)
Student transportation services	5,893,601		1,819,124	(4,074,477)		(4,074,477)
Central services	1,481,972		34,268	(1,447,704)		(1,447,704)
Other support services	78,112			(78,112)		(78,112)
Operation of non-instructional services						
Student activities	1,339,512	18,761	51,139	(1,269,612)		(1,269,612)
Community services	2,258			(2,258)		(2,258)
Interest on long-term debt	4,459,304			(4,459,304)		(4,459,304)
TOTAL GOVERNMENTAL ACTIVITIES	81,258,697	190,189	9,599,392	(71,469,116)		(71,469,116)
BUSINESS-TYPE ACTIVITIES						
Food service	2,054,915	1,417,469	275,324		(362,122)	(362,122)
	<u>\$ 83,313,612</u>	<u>\$ 1,607,658</u>	<u>\$ 9,874,716</u>			
GENERAL REVENUES						
Property taxes, levied for general purposes				57,956,810		57,956,810
Earned income, per capita, occupation and amusement taxes				5,889,432		5,889,432
Transfer taxes				740,511		740,511
Grants and entitlements not restricted to specific programs				8,807,965		8,807,965
School facility rental				65,644		65,644
Investment earnings				179,801	3,034	182,835
Miscellaneous				174,797		174,797
Gain (loss) on sale of assets				4,000		4,000
Transfers				(380,000)	380,000	-
TOTAL GENERAL REVENUES				73,438,960	383,034	73,821,994
CHANGE IN NET ASSETS (DEFICIT)				1,969,844	20,912	1,990,756
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR				12,315,401	(73,849)	12,241,552
NET ASSETS (DEFICIT) AT END OF YEAR				\$ 14,285,245	\$ (52,937)	\$ 14,232,308

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2010

	General Fund	2008 Construction Fund	Capital Reserve Fund	Nonmajor Funds	Totals
ASSETS					
Cash and cash equivalents	\$ 6,180,334	\$ 3,710,199	\$ 3,299,568	\$ 69,158	\$ 13,259,259
Taxes receivable, net of allowance of \$725,334	3,041,389				3,041,389
Due from other governments	1,548,085				1,548,085
Interfund receivables	993,300		325,000		1,318,300
Prepaid assets	101,995				101,995
Other receivables	31,003				31,003
TOTAL ASSETS	<u>\$ 11,896,106</u>	<u>\$ 3,710,199</u>	<u>\$ 3,624,568</u>	<u>\$ 69,158</u>	<u>\$ 19,300,031</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Interfund payables	\$ 328,718	\$ 184,642	\$ -	\$ 15,285	\$ 328,718
Accounts payable	1,387,430				1,587,357
Payroll deductions and withholdings	1,483,876				1,483,876
Accrued salaries and benefits	2,778,316				2,778,316
Compensated absences	114,459				114,459
Deferred revenue	1,530,082				1,530,082
Other liabilities	8,876				8,876
TOTAL LIABILITIES	<u>7,631,757</u>	<u>184,642</u>	<u>-</u>	<u>15,285</u>	<u>7,831,684</u>
FUND BALANCES					
Unreserved, reported in:					
Special Revenue Funds			3,624,568	562	3,625,130
Capital Projects Funds		3,525,557		53,311	3,578,868
General Fund	4,264,349				4,264,349
TOTAL FUND BALANCES	<u>4,264,349</u>	<u>3,525,557</u>	<u>3,624,568</u>	<u>53,873</u>	<u>11,468,347</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,896,106</u>	<u>\$ 3,710,199</u>	<u>\$ 3,624,568</u>	<u>\$ 69,158</u>	<u>\$ 19,300,031</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

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

JUNE 30, 2010

TOTAL GOVERNMENTAL FUND BALANCES	\$ 11,468,347
Amounts reported for governmental activities on the statement of net assets are different because of the following:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	118,157,294
Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds	1,488,038
Bond issuance costs are recorded as expenditures in the Governmental Funds. The Statement of Net Assets includes these amounts as other assets.	1,332,143
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Accrued interest	(1,256,235)
Bonds and notes payable	(112,225,000)
Bond premiums, discounts, and deferred amounts	(8,207)
Capital lease obligation	(510,414)
Other post-employment benefits	(1,985,997)
Accumulated compensated absences	<u>(2,174,724)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 14,285,245</u>

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	2008 Construction Fund	Capital Reserve Fund	Nonmajor Funds	Totals
REVENUES AND OTHER FINANCING SOURCES					
Local sources	\$ 66,971,805	\$ 197,082	\$ 10,086	\$ 22,914	\$ 67,201,887
State sources	15,103,898				15,103,898
Federal sources	1,660,467				1,660,467
Other Financing Sources:					
Capital lease obligations	215,000				215,000
Interfund transfers			325,000	160,356	485,356
Proceeds from sale of capital assets	4,000				4,000
Proceeds from bond refunding		12,765,457			12,765,457
Bonds issued		6,548,317	1,300,000	200,000	8,048,317
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>83,955,170</u>	<u>19,510,856</u>	<u>1,635,086</u>	<u>383,270</u>	<u>105,484,382</u>
EXPENDITURES AND OTHER FINANCING USES					
Expenditures:					
Instruction	47,755,746				47,755,746
Support services	24,210,389	369,911			24,580,300
Operation of non-instructional services	1,095,771			177,308	1,273,079
Facilities acquisition, construction, and improvement services		15,856,614	1,188,106	506,094	17,550,814
Debt service					
Principal	5,920,000				5,920,000
Interest	4,266,375	3,188			4,269,563
Other Financing Uses:					
Interfund transfers	865,356				865,356
Payment to refund bonds		12,561,038			12,561,038
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>84,113,637</u>	<u>28,790,751</u>	<u>1,188,106</u>	<u>683,402</u>	<u>114,775,896</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(158,467)	(9,279,895)	446,980	(300,132)	(9,291,514)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>4,422,816</u>	<u>12,805,452</u>	<u>3,177,588</u>	<u>354,005</u>	<u>20,759,861</u>
FUND BALANCE AT END OF YEAR	<u>\$ 4,264,349</u>	<u>\$ 3,525,557</u>	<u>\$ 3,624,568</u>	<u>\$ 53,873</u>	<u>\$ 11,468,347</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2010

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (9,291,514)
<p>Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense and capital outlays:</p>	
Capital outlay	17,777,926
Depreciation expense	(3,796,975)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in Governmental Funds.	(361,712)
Bond and note proceeds are other financing sources in the Governmental Funds, but the proceeds increase long-term liabilities in the statement of net assets.	(8,048,317)
Repayment of bond and note principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets.	5,920,000
Repayment of capital lease obligations is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets.	682,641
Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.	40,807
Other post-employment benefits do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds.	(904,550)
<p>The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds. This transaction has no impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>	
Amortization of issuance costs	(284,554)
Amortization of bond premium/discount	117,603
Refunding bonds issued	(12,976,496)
Payment to refund bonds	12,561,038
Bond issuance costs	345,699
Interest is reported as an expenditure when due in the Governmental Funds, but is accrued on outstanding debt on the statement of activities.	188,248
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 1,969,844

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
PROPRIETARY FUND**

JUNE 30, 2010

	<u>Enterprise Fund</u>
	Food
	<u>Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 996,386
Due from other governments	33,899
Other receivables	3,273
Inventories	<u>20,400</u>
TOTAL CURRENT ASSETS	<u>1,053,958</u>
TOTAL ASSETS	<u><u>\$ 1,053,958</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Interfund payables	\$ 993,300
Accounts payable	6,438
Accrued salaries and benefits	22,283
Compensated absences	75,159
Deferred revenue	4,326
Deposits	<u>5,389</u>
TOTAL CURRENT LIABILITIES	<u>1,106,895</u>
NET ASSETS (DEFICIT)	
Unrestricted	<u>(52,937)</u>
TOTAL NET ASSETS (DEFICIT)	<u>(52,937)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,053,958</u></u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Enterprise Fund</u> Food Service Fund
OPERATING REVENUES	<u>\$ 1,417,469</u>
OPERATING EXPENSES	
Payroll	736,545
Employee benefits	437,323
Supplies	870,755
Purchased services	1,874
Other operating expenses	<u>8,418</u>
TOTAL OPERATING EXPENSES	<u>2,054,915</u>
OPERATING LOSS	<u>(637,446)</u>
NONOPERATING REVENUES	
Earnings on investments	3,034
State sources	72,064
Federal sources	<u>203,260</u>
TOTAL NONOPERATING REVENUES	<u>278,358</u>
LOSS BEFORE TRANSFERS	(359,088)
Operating transfers	<u>380,000</u>
CHANGE IN NET ASSETS	20,912
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	<u>(73,849)</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u><u>\$ (52,937)</u></u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND
(FOOD SERVICE FUND)**

FOR THE YEAR ENDED JUNE 30, 2010

	Enterprise Fund <u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,422,605
Payments to suppliers	(868,201)
Payments for other operating expenses	(8,418)
Payments to employees	<u>(1,154,270)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(608,284)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	72,666
Federal sources	191,262
Transfers from other funds	<u>729,131</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>993,059</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>3,034</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,034</u>
NET INCREASE IN CASH	387,809
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>608,577</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 996,386</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (637,446)
Adjustments to reconcile operating loss to net cash used by operating activities	
(Increase) Decrease in assets:	
Accounts receivable	4,501
Inventory	(1,236)
Increase (decrease) in liabilities:	
Accounts payable	5,664
Accrued salaries and benefits	16,633
Compensated absences	2,965
Deposits	<u>635</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (608,284)</u></u>
Schedule of noncash noncapital financing activities	
Donated commodities received	\$ 46,470
Donated commodities used	\$ 49,497

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

JUNE 30, 2010

	<u>Scholarship Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 74,875	\$ 286,890
Interfund receivables		3,718
	<u>74,875</u>	<u>3,718</u>
TOTAL ASSETS	<u>\$ 74,875</u>	<u>\$ 290,608</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to student organizations	<u>\$</u>	<u>\$ 290,608</u>
TOTAL LIABILITIES	-	290,608
NET ASSETS		
Reserved for scholarships	<u>74,875</u>	<u></u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 74,875</u>	<u>\$ 290,608</u>

METHACTON SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Scholarship Funds</u>
ADDITIONS	
Contributions	\$ 18,962
Investment income	<u>337</u>
TOTAL ADDITIONS	19,299
DEDUCTIONS	
Fees paid and scholarships awarded	<u>8,725</u>
CHANGE IN NET ASSETS	10,574
NET ASSETS AT BEGINNING OF YEAR	<u>64,301</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 74,875</u></u>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Methacton School District is located in Fairview Village, Pennsylvania. This District's tax base consists of the Townships of Lower Providence and Worcester.

The Methacton School District is a unit established, organized, and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on a local level, the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the School Law Code of the same (Article II; Act 150, July 8, 1968).

The Methacton School District is governed by a board of nine school directors who are residents of the school district and who are elected every two years, on a staggered basis, for a four year term.

The Board of School Directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person residing in such district, between the ages of six and twenty-one years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any schools herein provided, or to pay any school indebtedness which the school district is required to pay, or to pay any indebtedness that may at any time hereafter, be created by the school district, the board of school directors are vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual State appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949, as amended.

The financial statements of METHACTON SCHOOL DISTRICT (the District) are prepared in accordance with the accounting system and procedures prescribed for school districts by the Commonwealth of Pennsylvania, Department of Education, which conforms to generally accepted accounting principles of the United States of America as applicable to governmental units.

The most significant of the District's accounting policies are described below:

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Financial Reporting Entity

In evaluating the District as a reporting entity, management has addressed all potential component units for which the District may or may not be financially accountable, and, as such, be includable within the District's financial statements. In accordance with Statement of Governmental Accounting Standards Board (GASB) No. 14, as amended by GASB No. 39, the District is financially accountable if it appoints a voting majority of the organization governing board (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the District. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on this criteria, there have been no component units defined within our reporting entity.

Joint Ventures

The District is a participating member of the North Montco Area Vocational-Technical School (NMAVTS). The NMAVTS is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the NMAVTS's annual operating budget. Each participating district pays a pro-rata share of the NMAVTS's operating costs based on the number of students attending the NMAVTS for each District. The District's share of the NMAVTS's operating costs for 2009-2010 was \$1,030,465.

On dissolution of the North Montco Area Vocational Technical School, the net assets of NMAVTS will be shared on a pro-rata basis of each participating district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the district does not have an equity interest in NMAVTS as defined by GASB Statement No. 14, as amended by GASB No. 39, except a residual interest in net assets upon dissolution that should not be reflected in the financial statements. Complete financial statements for the NMAVTS can be obtained from the NMAVTS's administrative office.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Jointly Governed Organizations

The District is a participating member of the Montgomery County Intermediate Unit (MCIU). The MCIU is run by a joint committee consisting of members from each participating District. No participating district appoints a majority of the joint committee.

The board of directors of each participating district must approve MCIU's annual operating budget. The MCIU is a self-sustaining organization that provides services from fees to participating districts. As such, the District has no on-going financial interest or responsibility in the MCIU. The MCIU contracts with participating districts to supply special education services, computer services, and as a conduit for certain federal programs.

Basis of Presentation and Accounting

Government-Wide Financial Statements

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

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

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

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

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

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

Fund Financial Statements

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

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

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

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

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

Fiduciary Funds are reported using the economic resources measurement focus.

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

Governmental Funds

Governmental Funds are those through which most governmental functions of the District are financed. The District has presented the following major governmental funds:

General Fund

The General Fund is for the general operations of the District and all financial transactions not required to be accounted for in another fund.

Capital Reserve Fund

The Capital Reserve Fund is a Special Revenue Fund, which accounts for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting, continued

Governmental Funds, continued

2008 Construction Fund

The 2008 Construction Fund accounts for the financial resources to be used for acquisition or construction of major capital facilities.

Proprietary Funds

Enterprise Fund

The Enterprise Fund accounts for the District's Food Service operations. It is financed and operated in a manner similar to a private business enterprise. The fund accounts for all revenues, food purchases, costs, and expenses for the food service program on the accrual method of accounting. This method recognizes expenses when incurred and revenues when earned. All proprietary activities are accounted for using GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB.

Fiduciary Fund Type

Trust and Agency Funds

These funds are used to account for assets held by the district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and highly-liquid investments with original maturities of less than 90 days.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash, Cash Equivalents, and Investments, continued

Investments are stated at fair value, the amount at which a financial instrument could be exchanged in a current transaction between parties, other than in a forced or liquidation sale. This method of valuation is in compliance with GASB 31, Accounting and Financial Reporting for Certain Investments and for Internal Investment Pools.

Intergovernmental Receivables/Payables

During the course of operations, numerous transactions occur between government units for payment of services and subsidy payments. These receivables and payables are classified as intergovernmental receivables/payables on the balance sheet.

Inventories

Inventories of the Food Service Fund are valued at the lower of cost or market.

Capital Assets

Capital assets, which includes land, site improvements, buildings, building improvements, machinery and equipment, and vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

The District defines capital assets as assets with an estimated useful life in excess of one year and an initial, individual cost equal to or greater than \$5,000. Management has elected to include certain homogeneous asset categories with individual assets that cost more than \$2,500, \$10,000 in the aggregate, as composite groups for financial reporting purposes. Depreciation has been calculated on each class of depreciable property using the straight-line method.

Estimated useful lives are as follows:

	<u>Years</u>
Site improvements	5-45
Buildings and building improvements	10-45
Machinery and equipment	5-45
Vehicles	6-10

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences

Sick Leave

Under the District's various bargaining agreements and plans, professional and eligible support personnel accumulate unused sick days from year to year based on their classification. These accumulated sick days are non-vesting during the employee's tenure. Upon retirement, these employees are eligible for remuneration of unused sick days for the following bargaining units:

- Methacton Education Association - \$60 per day up to a maximum 160 days.
- Methacton Educational Support Personnel Association - \$40 per day up to a maximum 100 days.
- Teamsters Local 384 - \$45 per day up to a maximum of 120 days.
- Methacton Administrators agreement 30% of the per diem rate, up to \$95 per day up to a maximum of 175 days.

To be eligible for this benefit, the employee must be eligible to receive superannuation, early retirement or disability pension from the Public School Employees Retirement System (PSERS), and the employee must have at least ten (10) years of service in the Methacton School District, including previous subdivisions. The employee must be retiring from a full-time position and complete full-time service.

The District maintains records of each employee's accumulated sick days that are vested with employees who are eligible to retire and those under the administrators plan.

Vacation Leave

The District maintains records of each employee's accumulated vacation days, and has valued the accumulated vacation days earned at June 30, 2010.

Deferred Revenues

General Fund deferred revenues represent primarily delinquent taxes not collected within 60 days subsequent to the District's year end and grants received but not expended by year end. It is expected that these receivables will be collected and included in revenues of future fiscal years.

Food Service Fund deferred revenues represent food received in its food service operations that is on hand at June 30, 2010. Such revenues will be recognized when the food commodities are used.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Obligations

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

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

Fund Balance Reserves

In the fund financial statements the School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. There have been no fund balance reserves established by the District.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund receivables/payables”. Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Under Act No. 72 enacted by the general assembly of the Commonwealth of Pennsylvania, the funds deposited with the depository are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit in excess of the Federal Depository Insurance limit. These may be bonds of the United States, any State of the United States, or bonds of any political subdivision of Pennsylvania, or the general state authority or other authorities created by the General Assembly of the Commonwealth of Pennsylvania or insured with the Federal Deposit Insurance Corporation.

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 to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2010, \$8,677,084 of the District’s bank balance of \$8,937,577 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank’s trust department not in the District’s name	\$8,677,084
--	-------------

Investments

The District is permitted to invest funds consistent with sound business practices in the following types of investments:

1. Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentality’s backed by the full faith and credit of the political subdivision.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS, continued

Investments, continued

2. Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by the law therefore shall be pledged by the depository.

3. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933. So long as the following conditions are met: (a) Investments of that company are in the authorized investments for school district funds in the preceding paragraphs, (b) The investment company is managed so as to maintain its shares at a constant net asset value in accordance with 17 CFR 270 2a-7, (c) The investment company is rated in the highest category by a nationally recognized rating agency.

As of June 30, 2010, the District had the following investments:

<u>Investment</u>	<u>Fair Value</u>
PA Local Government Investment Trust	<u>\$ 3,233,566</u>
PA School District Liquid Asset Fund	<u>\$ 2,587,647</u>

Custodial Credit Risk – Investments. 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 has no investments subject to custodial credit risk.

Credit Risk. The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2010, the District’s investments were rated as:

<u>Investment</u>	<u>Standard & Poor’s</u>
PA Local Government Investment Trust	AAA
PA School District Liquid Asset Fund	AAA

Interest Rate Risk. Interest Rate risk is the risk that changes in interest rates will adversely affect an investment’s value. The District does not have a formal policy regarding interest rate risk. As of June 30, 2010, the weighted average maturity of the investments in PLGIT and PSDLAF are both less than 90 days.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

3. SCHOOL TAXES

The tax on real estate, as levied by the School Board, was 24.24 mills (\$.02424 per \$1 of assessed valuation) for fiscal year 2010. Assessed valuation of property is established by the Board of Assessments, and the elected or appointed tax collectors are responsible for collection. Real property in the District for the July 1, 2009 levy was assessed at \$2,497,105,005. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face value period
November 1 – December 31	10% penalty period
January 1	Lien date

For government-wide financial statements, the school district, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes in the amount of \$725,334 as determined by the administration. A portion of the amount estimated to be collectible, which was measurable and available within 60 days, was recognized as revenue and the balance deferred in the fund financial statements.

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2010:

	Interfund Receivables	Interfund Payables
General Fund	\$ 993,300	\$ 328,718
Capital Reserve Fund	325,000	
Fiduciary Funds	3,718	
Proprietary, Food Service		993,300
	\$ 1,322,018	\$ 1,322,018

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. The balance due from the Proprietary fund is not expected to be repaid within one year.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, continued

Interfund transfers are summarized as follows:

	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$ 865,356	\$
Non-major Governmental Funds		160,356
Capital Reserve Fund		325,000
Proprietary, Food Service		380,000
	\$ 865,356	\$ 865,356

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

5. CAPITAL ASSETS

Capital asset activity for Governmental Activities for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated				
Land	\$ 1,564,425	\$	\$	\$ 1,564,425
Construction in progress	19,174,838	15,310,093	686,714	33,798,217
Total capital assets not being depreciated	20,739,263	15,310,093	686,714	35,362,642
Capital assets being depreciated				
Site improvements	2,153,218	105,245		2,258,463
Buildings and improvements	105,196,643	1,876,916		107,073,559
Machinery and equipment	19,118,665	1,387,386	277,622	20,228,429
Total capital assets being depreciated at historical cost	126,468,526	3,369,547	277,622	129,560,451
Less accumulated depreciation for				
Site improvements	(995,591)	(75,555)		(1,071,146)
Buildings and improvements	(28,333,318)	(2,148,011)		(30,481,329)
Machinery & equipment	(13,917,537)	(1,573,409)	(277,622)	(15,213,324)
Total accumulated depreciation	(43,246,446)	(3,796,975)	(277,622)	(46,765,799)
Total capital assets being depreciated, net	83,222,080	(427,428)	-	82,794,652
Governmental Activities capital assets, net	\$ 103,961,343	\$ 14,882,665	\$ 686,714	\$ 118,157,294

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS, continued

Depreciation expense for Governmental Activities was charged as direct expense to programs as follows:

Instruction	
Regular programs	\$ 1,630,789
Special programs	661,676
Vocational programs	126,404
Other programs	67,928
Adult education programs	5,513
Support Services	
Pupil personnel services	133,613
Instructional staff services	84,370
Pupil health	35,509
Administrative services	195,189
Business services	44,135
Central services	67,260
Operation and maintenance of plant services	304,718
Pupil transportation	380,201
Other support services	3,580
Operation of non-instructional services	56,090
Total Governmental Activities depreciation expense	<u>\$ 3,796,975</u>

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES

The following is a summary of governmental long-term liability activity of the District for the year ending June 30, 2010:

Type	Principal Outstanding July 1, 2009	Additions	Repayments	Principal Outstanding June 30, 2010	Due within One Year
General Obligation Note - 1997	\$ 3,530,000	\$	\$ 315,000	\$ 3,215,000	\$ 330,000
General Obligation Note - 1997C	2,355,000		215,000	2,140,000	225,000
General Obligation Bond - 2001A	190,000		190,000	-	
General Obligation Bond - 2002A	3,155,000		3,155,000	-	
General Obligation Note - 2003	9,600,000		100,000	9,500,000	100,000
General Obligation Bond - 2004	3,295,000		3,295,000	-	
General Obligation Bond - 2005	8,615,000		8,615,000	-	
General Obligation Bond - 2006	9,880,000		65,000	9,815,000	65,000
General Obligation Bond - 2007	9,175,000		1,580,000	7,595,000	1,415,000
General Obligation Bond - 2007A	9,765,000		5,000	9,760,000	5,000
General Obligation Bond - 2008	6,225,000			6,225,000	
General Obligation Bond - 2008A	3,775,000			3,775,000	
General Obligation Bond - 2008AA	9,970,000		630,000	9,340,000	1,340,000
General Obligation Bond - 2009	30,220,000		5,000	30,215,000	5,000
General Obligation Bond - 2009A		6,310,000	100,000	6,210,000	680,000
General Obligation Bond - 2010		8,115,000		8,115,000	
General Obligation Bond - 2010A		6,320,000		6,320,000	2,385,000
	<u>109,750,000</u>	<u>20,745,000</u>	<u>18,270,000</u>	<u>112,225,000</u>	<u>6,550,000</u>
Capital Lease Obligations	978,055	215,000	682,641	510,414	438,769
	<u>110,728,055</u>	<u>20,960,000</u>	<u>18,952,641</u>	<u>112,735,414</u>	<u>6,988,769</u>
Compensated Absences	2,332,138		42,955	2,289,183	114,459
Total	<u>\$ 113,060,193</u>	<u>\$ 20,960,000</u>	<u>\$ 18,995,596</u>	<u>\$ 115,024,597</u>	<u>\$ 7,103,228</u>

Interest expense for Bonds and Notes for the year ended June 30, 2010 was \$ 4,269,562.

The following is a summary of business-type long-term liability activity of the District for the year ending June 30, 2010:

Type	Principal Outstanding July 1, 2009	Additions	Repayments	Principal Outstanding June 30, 2010	Due within One Year
Compensated Absences	\$ 72,194	\$ 2,965	\$	\$ 75,159	\$ 3,758

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

Bonds and Notes payable at June 30, 2010 consisted of:

<p>On November 26, 1997, the District issued General Obligation Note Series of 1997. The purpose of this issue is to refund a portion of the General Obligation Note Series A of 1996. The Note has an original principal amount of \$6,000,000, matures in February 2018, and bears interest at a variable rate. Interest is paid monthly on the third to the last day of each month.</p>	<p>\$3,215,000</p>
<p>On December 30, 1997, the District issued General Obligation Note Series C of 1997. The purpose of this issue is to provide funds for construction and renovations. The Note has an original principal amount of \$4,000,000, matures in February 2018, and bears interest at a variable rate. Interest is paid monthly on the third to the last day of each month.</p>	<p>2,140,000</p>
<p>On August 1, 2003, the District issued General Obligation Note Series of 2003. The purpose of this issue is to finance construction projects. The note has an original principal amount of \$10,000,000, matures in August 2015 and bears interest at a variable rate. Interest is paid monthly.</p>	<p>9,500,000</p>
<p>On October 15, 2006, the District issued General Obligation Bond Series of 2006. The purpose of this issue is to refund a portion of the General Obligation Bond Series 2002A. The Bond has an original principal amount of \$10,000,000, matures in November 2023, and bears interest from 3.5% to 4.0%. Interest is paid semi-annually on May 15 and November 15.</p>	<p>9,815,000</p>
<p>On January 1, 2007, the District issued General Obligation Bond Series of 2007. The purpose of this issue is to refund the General Obligation Bond Series 2002 and a portion of the General Obligation Bond Series 2001A. The Bond has an original principal amount of \$10,000,000, matures in October 2014, and bears interest from 3.6% to 3.75%. Interest is paid semi-annually on April 1 and October 1.</p>	<p>7,595,000</p>
<p>On July 15, 2007, the District issued General Obligation Bond Series of 2007A. The purpose of this issue is to finance construction of the Woodland Elementary School. The Bond has an original principal amount of \$9,775,000, matures in March 2019, and bears interest from 3.75% to 4.20%. Interest is paid semi-annually on March 1 and September 1.</p>	<p>9,760,000</p>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

<p>On March 1, 2008, the District issued General Obligation Bond Series of 2008. The purpose of this issue is to finance construction of the Woodland Elementary School. The Bond has an original principal amount of \$6,225,000, matures in March 2019, and bears interest from 3.25% to 3.60%. Interest is paid semi-annually on March 1 and September 1.</p>	<p>6,225,000</p>
<p>On March 1, 2008, the District issued General Obligation Bond Series of 2008A. The purpose of this issue is to finance construction of the 5-6 Elementary School. The Bond has an original principal amount of \$3,775,000, matures in March 2024, and bears interest from 3.85% to 4.00%. Interest is paid semi-annually on March 1 and September 1.</p>	<p>3,775,000</p>
<p>On May 15, 2008, the District issued General Obligation Bond Series of 2008A. The purpose of this issue is to currently refund the outstanding principal of the General Obligation Bonds Series 2003. The Bond has an original principal amount of \$9,970,000, matures in August 2017, and bears interest from 3.85% to 4.00%. Interest is paid semi-annually on February 1 and August 1.</p>	<p>9,340,000</p>
<p>On January 1, 2009, the District issued General Obligation Bond Series of 2009. The purpose of this issue is to finance construction of the 5-6 Elementary School. The Bond has an original principal amount of \$30,220,000, matures in March 2025, and bears interest from 2.65% to 6.25%. Interest is paid semi-annually on March 1 and September 1.</p>	<p>30,215,000</p>
<p>On July 1, 2009, the District issued General Obligation Bond Series of 2009A. The purpose of this issue is to currently refund the outstanding principal of the General Obligation Bonds Series 2001A and Series 2004 and to advance refund a portion of the outstanding General Obligation Bond Series 2002A. The Bond has an original principal amount of \$6,310,000, matures on November 15, 2020, and bears interest from 2% to 3.75%. Interest is paid semi-annually on May 15 and November 15.</p>	<p>6,210,000</p>
<p>On January 5, 2010, the District issued General Obligation Bond Series of 2010. The purpose of this issue is to provide funds for constuction of the Woodland Elementary School and the Skyview Elementary School and to reimburse the District's Capital Reserve Fund for funds which had been advanced to the fund the High School Roof. The Bond has an original principal amount of \$8,115,000, matures on September 15, 2021, and bears interest from 2% to 3.65%. Interest is paid semi-annually on March 15 and September 15.</p>	<p>8,115,000</p>

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

On January 5, 2010, the District issued General Obligation Bond Series of 2010A. The purpose of this issue is to currently refund the outstanding principal of the General Obligation Bonds Series 2005. The Bond has an original principal amount of \$6,320,000, matures on September 15, 2012, and bears interest from 2% to 2.5%. Interest is paid semi-annually on March 15 and September 15.

6,320,000

TOTAL

\$ 112,225,000

Principal and interest payments for Bonds and Notes for the succeeding fiscal years are as follows:

Year Ended June 30,	Principal	Interest	Total
2011	\$ 6,550,000	\$ 4,605,097	\$ 11,155,097
2012	6,775,000	4,348,652	11,123,652
2013	6,980,000	4,150,932	11,130,932
2014	7,195,000	3,935,729	11,130,729
2015	7,465,000	3,687,144	11,152,144
2016-2020	41,575,000	14,192,641	55,767,641
2021-2025	35,685,000	4,647,500	40,332,500
	<u>\$ 112,225,000</u>	<u>\$ 39,567,695</u>	<u>\$ 151,792,695</u>

Advance Refunding

On July 1, 2009, the District issued \$6,310,000 in General Obligation Bonds with interest rates ranging between 2% and 3.75%. The District issued the bonds to finance the advance refunding of \$2,570,000 of the outstanding 2002 A Series bonds. The District advance refunded the 2002 A Series bonds to reduce its total debt service payments by approximately \$191,261.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. CAPITAL LEASES

Methacton School District has the following capital lease obligations.

On November 14, 2006, the District entered into a lease-purchase agreement with LaSalle National Leasing Corporation for the purchase of school buses and computer equipment. The present value of the lease payments is \$992,837. The lease provides for four annual payments of \$263,217. The implicit interest rate is 4.06%.

On September 18, 2007, the District entered into a lease-purchase agreement with LaSalle National Leasing Corporation for the purchase of school buses and computer equipment. The present value of the lease payments is \$1,451,213. The lease provides for four annual payments of \$383,238. The implicit interest rate is 3.78%.

On September 1, 2009, the District entered into a lease-purchase agreement with TD Equipment Finance for the purchase of computer equipment. The present value of the lease payments is \$215,000. The lease provides for two annual payments of \$73,865. The implicit interest rate is 3.10%.

Principal and interest payments for the succeeding fiscal years are as follows:

Year Ended June 30,	Principal	Interest	Total
2011	\$ 438,769	\$ 18,334	\$ 457,103
2012	71,645	2,221	73,866
	<u>\$ 510,414</u>	<u>\$ 20,555</u>	<u>\$ 530,969</u>

Interest expense for the capital leases for the year ended June 30, 2010, was \$11,028.

8. PENSION PLAN

Public School Employees' Retirement System Plan

Substantially, all full-time and part-time employees of the District participate in the Pennsylvania Public School Employees' Retirement System (PSERS), a governmental cost-sharing, multiple-employer defined benefit plan.

The PSERS provides retirement, disability, legislatively mandated ad hoc cost of living adjustments and healthcare insurance premium assistance to eligible annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) assigns the authority to establish and amend benefit provisions to the PSERS Board of Trustees.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

8. PENSION PLAN, continued

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

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

Member Contributions – Active members who joined the system prior to July 22, 1983, and who have had no break in their public school service contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members who returned to public school service or joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Employer Contribution - Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2010, the rate of employer's contribution was 4.78 percent of covered payroll. The 4.78 percent rate is composed of a pension contribution rate of 4.00 percent for pension benefits and .78 percent for healthcare insurance premium assistance.

The District's contributions to PSERS for the fiscal year ending June 30, 2010, 2009, and 2008, were \$2,018,410, \$1,997,986, and \$2,909,835 respectively, equal to the required contributions for each year.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

9. POSTEMPLOYMENT HEALTHCARE BENEFITS

In the fiscal year ended June 30, 2009, the District implemented Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for postemployment health care benefits provided by the District. The requirements of this Statement were implemented prospectively, with the actuarially accrued liability for benefits of \$20,135,530 at June 30, 2009, date of transition amortized using a weighted average blended amortization period of 19 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

Plan Description: The District provides post employment healthcare benefits as set forth in the collective bargaining agreement with the Methacton Education Association (MEA) and the Methacton Administrative Organization (MAO). For retirees effective prior to July 1, 2005, the District will continue to contribute toward the cost of healthcare programs as above, as set forth in the Collective Bargaining Agreement with the Methacton Education Association and Methacton Administrative Organization, providing coverage at 90% of the prescribed levels, adjusted as the program develops under the terms of the CBA with regard to provisions for active employees. Provided coverage shall not exceed the cost for the employee and spouse and will be provided to age 65 or for no more than fourteen (14) years, whichever comes first. For retirees effective after July 1, 2005, the employee must pay full premium for healthcare coverage. The district subsidizes the premium rates paid by retirees by allowing them to participate in the plan at blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The plan is a single-employer defined benefit plan. Separate financial statements are not issued for the plan.

Funding Policy: The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For the 2009-10 fiscal year, there were 164 retired participants. Retiree contributions are based on weighted averages for the medical premiums, increasing at the same rate as the health care cost trend rate. The District's pay-as-you-go cost, including implicit rate subsidy of \$1,520,555 has been applied toward the annual OPEB cost.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

9. POSTEMPLOYMENT HEALTHCARE BENEFITS, continued

Annual OPEB Cost and Net OPEB Obligation: The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010, was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7/1/2009	\$ 2,462,315	56%	\$ 1,081,447
Year ending 6/30/2010	2,425,105	63%	1,985,997

The following table shows the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation:

Description	
Normal cost (service cost for one year)	\$ 826,227
Interest on Normal Cost	37,180
Amortization of Unfunded Actuarial Accrued Liability	<u>1,598,908</u>
Annual Required Contribution (ARC)	2,462,315
Interest on net OPEB Obligation	48,665
Adjustment to Annual Required Contribution	<u>(85,875)</u>
Annual OPEB Cost (expense)	2,425,105
Contributions toward the OPEB Cost	<u>(1,520,555)</u>
Increase in Net OPEB Obligation	904,550
Net OPEB Obligation, Beginning of Year	<u>1,081,447</u>
Net OPEB Obligation, End of Year	<u><u>\$ 1,985,997</u></u>

Funded Status and Funding Progress: As of June 30, 2010, the actuarial accrued liability for benefits was \$20,135,530, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$20,135,530. The covered payroll (annual payroll of active participating employees) was \$38,394,048, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 52.44 percent.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

9. POSTEMPLOYMENT HEALTHCARE BENEFITS, continued

Actuarial Methods and Assumptions: Actuarial valuations of an ongoing plan 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 and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The District's initial OPEB actuarial valuation as of July 1, 2008, used the entry age normal actuarial cost method to estimate both the unfunded liability as of June 30, 2010 and to estimate the District's 2009-10 fiscal year annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 4.5 percent rate of return on invested assets. The actuarial assumptions include a payroll growth of a 3% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 3% to .25%. The actuarial assumptions also include an annual health care cost trend rate of 8.5% initially for the 2008-09 fiscal year, reduced by .5% per year to an ultimate rate of 5% in 2015. The unfunded actuarial liability is being amortized on a level dollar, 19 year open period, based on a weighted average of service until retirement (active liability) and payment period (retired liability). The remaining amortization period at June 30, 2010 is 17 years.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES

The District has various commitments under long-term construction contracts totaling approximately \$1,882,958 as of June 30, 2010.

Claims or Litigation

The District is currently a party, as both plaintiff and defendant, to various claims and litigation arising in the normal course of operations. Certain tax assessment appeals are ongoing. The amount of loss contingency, due to the nature of tax assessment appeals, is not determinable.

11. RISK MANAGEMENT

The School district is exposed to various risks of losses 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. There were no significant reductions in insurance coverages for the fiscal year ending June 30, 2010.

12. DEFICIT FUND BALANCE

The Food Service Fund had a net deficit of \$52,937 as of year end. This is the effect of operating losses in the food service fund.

REQUIRED

SUPPLEMENTARY INFORMATION

METHACTON SCHOOL DISTRICT

**SCHEDULE OF FUNDING PROGRESS FOR THE
POSTEMPLOYMENT BENEFITS PLAN**

JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2008	\$ 0	\$ 20,135,530	\$ 20,135,530	0%	\$ 38,394,048	52.44%

METHACTON SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with final budget Positive (Negative)
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 67,185,429	\$ 67,185,429	\$ 66,971,805	\$ (213,624)
State sources	16,278,363	16,278,363	15,103,898	(1,174,465)
Federal sources	990,000	990,000	1,660,467	670,467
	<u>84,453,792</u>	<u>84,453,792</u>	<u>83,736,170</u>	<u>(717,622)</u>
Other Financing Sources:				
Capital lease obligations	729,016	729,016	215,000	(514,016)
Interfund transfers	1,100,000	1,100,000	-	(1,100,000)
Proceeds from sale of capital assets			4,000	4,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>86,282,808</u>	<u>86,282,808</u>	<u>83,955,170</u>	<u>(2,327,638)</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction				
Regular programs	32,962,941	32,962,941	31,268,085	1,694,856
Special programs	12,510,908	12,510,908	12,663,067	(152,159)
Vocational programs	2,400,662	2,400,662	2,419,099	(18,437)
Other instructional programs	1,324,665	1,324,665	1,299,992	24,673
Adult education programs	96,641	96,641	105,503	(8,862)
Total Instruction	<u>49,295,817</u>	<u>49,295,817</u>	<u>47,755,746</u>	<u>1,540,071</u>
Support services				
Pupil personnel services	2,720,350	2,720,350	2,781,880	(61,530)
Instructional staff services	1,543,348	1,543,348	1,756,611	(213,263)
Administration services	3,841,220	3,841,220	4,059,757	(218,537)
Pupil health	743,511	743,511	739,317	4,194
Business services	945,028	945,028	917,965	27,063
Operation and maintenance of plant services	7,419,250	7,419,250	6,623,676	795,574
Student transportation	6,568,050	6,568,050	5,856,269	711,781
Central services	1,331,366	1,331,366	1,400,382	(69,016)
Other support services	73,298	73,298	74,532	(1,234)
Total Support Services	<u>25,185,421</u>	<u>25,185,421</u>	<u>24,210,389</u>	<u>975,032</u>
Operation of non-instructional services				
Student activities	1,037,963	1,037,963	1,093,514	(55,551)
Community services	2,000	2,000	2,257	(257)
Total Operation of Non-instructional Services	<u>1,039,963</u>	<u>1,039,963</u>	<u>1,095,771</u>	<u>(55,808)</u>
Debt service				
	<u>10,916,607</u>	<u>10,916,607</u>	<u>10,186,375</u>	<u>730,232</u>
Other financing uses				
Interfund transfers	320,000	320,000	865,356	(545,356)
Budgetary Reserve	300,000	300,000		300,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>87,057,808</u>	<u>87,057,808</u>	<u>84,113,637</u>	<u>2,944,171</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>(775,000)</u>	<u>(775,000)</u>	<u>(158,467)</u>	<u>616,533</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>4,422,816</u>	<u>4,422,816</u>	<u>4,422,816</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,647,816</u>	<u>\$ 3,647,816</u>	<u>\$ 4,264,349</u>	<u>\$ 616,533</u>

METHACTON SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON

JUNE 30, 2010

1. Budgetary Data

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

- a. Prior to May 31, the School Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
- b. Public hearings are conducted at the METHACTON School District building to obtain taxpayer comments.
- c. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- d. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund must be approved by the School Board.
- e. Budgetary data are included in the District's management information system and are employed as a management control device during the year.
- f. Budgets for the General Fund are adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. A budget is not required to be adopted for the Capital Reserve fund.

SUPPLEMENTARY INFORMATION

METHACTON SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2010

	<u>Capital Improvement Fund</u>	<u>2007 Construction Fund</u>	<u>Athletic Fund</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 25,434	\$ 43,162	\$ 562	\$ 69,158
TOTAL ASSETS	<u>\$ 25,434</u>	<u>\$ 43,162</u>	<u>\$ 562</u>	<u>\$ 69,158</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$	\$ 15,285	\$	\$ 15,285
TOTAL LIABILITIES	<u>-</u>	<u>15,285</u>	<u>-</u>	<u>15,285</u>
FUND BALANCES				
Unreserved, reported in:				
Special Revenue Funds			562	562
Capital Projects Funds	25,434	27,877		53,311
TOTAL FUND BALANCES	<u>25,434</u>	<u>27,877</u>	<u>562</u>	<u>53,873</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 25,434</u>	<u>\$ 43,162</u>	<u>\$ 562</u>	<u>\$ 69,158</u>

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Capital Improvement Fund</u>	<u>2007 Construction Fund</u>	<u>Athletic Fund</u>	<u>Total</u>
REVENUES AND OTHER FINANCING SOURCES				
Local sources	\$ 133	\$ 1,049	\$ 21,732	\$ 22,914
Other Financing Sources:				
Interfund transfers			160,356	160,356
Bond issued		200,000		200,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>133</u>	<u>201,049</u>	<u>182,088</u>	<u>383,270</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Operation of non-instructional services			177,308	177,308
Facilities acquisition, construction, and improvement services		506,094		506,094
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>-</u>	<u>506,094</u>	<u>177,308</u>	<u>683,402</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	133	(305,045)	4,780	(300,132)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>25,301</u>	<u>332,922</u>	<u>(4,218)</u>	<u>354,005</u>
FUND BALANCE AT END OF YEAR	<u>\$ 25,434</u>	<u>\$ 27,877</u>	<u>\$ 562</u>	<u>\$ 53,873</u>

METHACTON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/ PROJECT	Federal CFDA Number	Pass Through Grantor's Number	Grant Period	Award Amount	Accrued or (Deferred) Revenue at July 1, 2009	Total Received For the Year	Expenditures	Accrued or (Deferred) Revenue at June 30, 2010	Revenue Recognized
ESEA TITLE I DELINQUENT	84.010	107-090245	7/15/08-9/30/09	\$ 329,727	\$ 24,008	\$ 111,617	\$ 87,609	\$	\$ 87,609
ESEA TITLE I DELINQUENT	84.010	107-100245	7/01/09-9/30/10	375,239		174,346	280,084	105,738	280,084
ESEA TITLE I	84.010	013-080245	7/1/07-9/30/08	355,427	20,752		(20,752) a		(20,752)
ESEA TITLE I	84.010	013-090245	7/15/08-9/30/09	302,112	40,987	40,282	(705) b		(705)
ESEA TITLE I	84.010	013-100245	7/1/09-9/30/10	256,795		154,077	239,424	85,347	239,424
TITLE I ACHIEVEMENT GRANT	84.010	077-090245	7/1/08-9/30/09	3,000	(208)	517	2,008	1,283	2,008
TITLE I ACHIEVEMENT GRANT	84.010	077-100245	7/1/09-9/30/10	5,400		1,080	5,400	4,320	5,400
ARRA FISCAL STABILIZATION-BASIC ED.	84.394	126-100245	7/1/09-6/30/10	760,375		443,552	760,375	316,823	760,375
ARRA TITLE I PART D DELINQUENT	84.389	133-100245	6/11/09-9/30/11	269,375		133,607	91,563	(42,044)	91,563
ESEA TITLE II	84.367	020-090245	7/15/08-9/30/09	131,211	3,308	69,979	66,671		66,671
ESEA TITLE II	84.367	020-100245	7/1/08-9/30/10	129,044		60,221	72,449	12,229	72,449
DRUG FREE	84.186	100-030245	9/26/02-9/30/03	15,807	7,805		(7,805) c		(7,805)
DRUG FREE	84.186	100-060245	7/1/05-9/30/06	15,119	(9,558)		9,558 c		9,558
DRUG FREE	84.186	100-090245	7/1/08-9/30/09	12,962	6,651	6,778	127		127
DRUG FREE	84.186	100-100245	7/1/09-9/30/10			4,704	9,350	4,646	9,350
PASSED THROUGH MONTGOMERY COUNTY IU									
IDEA	84.027	N/A	7/1/08-6/30/09	800,094	76,063	76,063			
IDEA	84.027	N/A	7/1/09-6/30/10	895,787		686,096	895,787	209,691	895,787
ARRA IDEA	84.391	N/A	2/17/09-9/30/11	1,079,852		471,014	537,428	66,414	537,428
TOTAL US DEPT. OF EDUCATION				5,737,326	169,808	2,433,933	3,028,571	764,447	3,028,571
US DEPT. OF AGRICULTURE									
PASSED THROUGH THE PA DEPT. OF EDUCATION									
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	7/1/08-6/30/09	N/A	19,804	19,804			
NATIONAL SCHOOL LUNCH PROGRAM	N/A	N/A	7/1/08-6/30/09	N/A	4,561	4,561			
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	7/1/09-6/30/10	N/A		119,176	146,434	27,258	146,434
NATIONAL SCHOOL LUNCH PROGRAM	N/A	N/A	7/1/09-6/30/10	N/A		23,961	29,119	5,158	29,119
REGULAR/NEEDY BREAKFAST PROGRAM	10.553	N/A	7/1/08-6/30/09	N/A	1,011	1,011			
REGULAR/NEEDY BREAKFAST PROGRAM	N/A	N/A	7/1/08-6/30/09	N/A	155	155			
REGULAR/NEEDY BREAKFAST PROGRAM	10.553	N/A	7/1/09-6/30/10	N/A		6,004	7,327	1,323	7,327
REGULAR/NEEDY BREAKFAST PROGRAM	N/A	N/A	7/1/09-6/30/10	N/A		738	897	159	897
PASSED THROUGH THE PA DEPT. OF AGRICULTURE									
USDA COMMODITIES	10.555	N/A	7/1/09-6/30/10	N/A	(7,353)	46,470	49,497	(4,326)	49,497
TOTAL US DEPT. OF AGRICULTURE					18,178	221,880	233,274	29,572	233,274
GRAND TOTAL FEDERAL AND STATE AWARDS					\$ 187,986	\$ 2,655,813	\$ 3,261,845	\$ 794,019	\$ 3,261,845

a - see Notes to Schedule of Expenditures of Federal and State Awards
b - see Notes to Schedule of Expenditures of Federal and State Awards
c - see Notes to Schedule of Expenditures of Federal and State Awards

METHACTON SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

1. GENERAL

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal awards programs of METHACTON SCHOOL DISTRICT. The District reporting entity is defined in Note 1 to the District's financial statements. Federal and state awards passed through other government agencies are included on the schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal and State Awards are presented using the accrual basis of accounting as described in the notes to the financial statements.

3. FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

4. OTHER INFORMATION

- (a) The ESEA Title I receivable and revenue were overstated on the schedule for the year ending June 30, 2009; therefore, the amounts have been reflected as a credit to revenue and expenditures in the June 30, 2010 fiscal year schedule.
- (b) The ESEA Title I receivable and revenue were overstated on the schedule for the year ending June 30, 2009; therefore, the amount has been reflected as revenue and expenditure in the June 30, 2010 fiscal year schedule. The Pennsylvania Department of Education (PDE) adjusted the prior year amount but a revised contract was not issued.
- (c) Receivable and deferred amounts for Drug Free Schools were incorrectly reported on the schedule for the year ending June 30, 2009, therefore, the amounts have been reflected as revenue and expenditures in the June 30, 2010 fiscal year schedule.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

To the Board of School Directors
METHACTON SCHOOL DISTRICT
Norristown, 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 METHACTON SCHOOL DISTRICT as of and for the year ended June 30, 2010, which collectively comprise METHACTON SCHOOL DISTRICT's basic financial statements and have issued our report thereon dated January 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

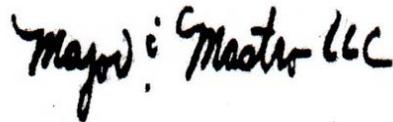
As part of obtaining reasonable assurance about whether METHACTON SCHOOL DISTRICT's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and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

We noted certain other matters that we reported to management of METHACTON SCHOOL DISTRICT in a separate letter dated January 18, 2011.

This report is intended solely for the information and use of management, the Board of School Directors, others within the entity, the U.S. Department of Education, 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.

January 18, 2011

MAJOR & MASTRO, LLC
Certified Public Accountants

A handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, slightly slanted style.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of School Directors
METHACTON SCHOOL DISTRICT
Norristown, Pennsylvania

Compliance

We have audited METHACTON SCHOOL DISTRICT's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of METHACTON SCHOOL DISTRICT's major federal programs for the year ended June 30, 2010. METHACTON SCHOOL DISTRICT's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of METHACTON SCHOOL DISTRICT's management. Our responsibility is to express an opinion on METHACTON SCHOOL DISTRICT's compliance based on our audit.

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

In our opinion, METHACTON SCHOOL DISTRICT complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

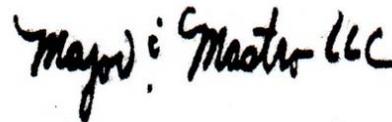
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

This report is intended solely for the information and use of management, the Board of School Directors, others within the entity, the U.S. Department of Education, 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.

January 18, 2011

MAJOR & MASTRO, LLC
Certified Public Accountants



METHACTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of METHACTON SCHOOL DISTRICT.
2. No significant deficiencies relating to the audit of the financial statements 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 METHACTON SCHOOL DISTRICT were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for METHACTON SCHOOL DISTRICT expresses an unqualified opinion on all major federal programs.
6. No audit findings were disclosed relating to major programs that are required to be reported under section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

TITLE I	CFDA #84.010
ARRA TITLE I PART D DELINQUENT	CFDA #84.389
IDEA	CFDA #84.027
ARRA IDEA	CFDA #84.391
ARRA FISCAL STABILIZATION-BASIC ED	CFDA #84.394
8. The threshold for distinguishing Types A and B programs was \$ 300,000.
9. METHACTON SCHOOL DISTRICT was determined to be a low-risk auditee.

METHACTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued

FOR THE YEAR ENDED JUNE 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

None