

METHACTON SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SINGLE AUDIT**

For the Year Ended June 30, 2011

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, 2011, 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, 2011, 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 31, 2012, 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 47 through 49, 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 31, 2012

MAJOR & MASTRO, LLC
Certified Public Accountants

Handwritten signature in black ink that reads "Major & Mastro LLC". The signature is written in a cursive, stylized font.

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the Methacton School District exceeded its liabilities at the close of the 2011 fiscal year by \$16,714,061. Total current assets exceed current liabilities by \$2,607,830. This compares with net assets of \$14,232,308 and current assets exceeding current liabilities by \$6,061,988 at the close of the 2010 fiscal year.
- As of the close of the current fiscal year, unassigned fund balance for the General Fund was \$4,410,539 or 5.00 percent of the total general fund expenditures. Unassigned fund balance at the end of the 2010 fiscal year was \$4,162,354.

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 five 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 and the Capital Reserve Fund, both 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 \$16,714,061 at the close of the fiscal year ending June 30, 2011. Assets exceeded liabilities by \$14,232,308 at the close of the fiscal year ended June 30, 2010.

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

METHACTON SCHOOL DISTRICT's Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 17,143,807	\$ 19,313,874	\$ 1,231,223	\$ 1,053,958	\$ 18,375,030	\$ 20,367,832
Capital assets	118,352,487	118,157,294			118,352,487	118,157,294
Total assets	\$ 135,496,294	\$ 137,471,168	\$ 1,231,223	\$ 1,053,958	\$ 136,727,517	\$ 138,525,126
Long-term liabilities						
outstanding	\$ 104,246,256	\$ 109,915,573	\$	\$ 71,401	\$ 104,246,256	\$ 109,986,974
Other liabilities	14,469,739	13,270,350	1,297,461	1,035,494	15,767,200	14,305,844
Total liabilities	\$ 118,715,995	\$ 123,185,923	\$ 1,297,461	\$ 1,106,895	\$ 120,013,456	\$ 124,292,818
Net Assets:						
Invested in capital assets, net of related debt	\$ 12,426,332	\$ 8,990,599	\$	\$	\$ 12,426,332	\$ 8,990,599
Restricted	3,000,328	3,634,717			3,000,328	3,634,717
Unrestricted	1,353,639	1,659,929	(66,238)	(52,937)	1,287,401	1,606,992
Total net assets (deficit)	\$ 16,780,299	\$ 14,285,245	\$ (66,238)	\$ (52,937)	\$ 16,714,061	\$ 14,232,308

METHACTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Governmental activities. Governmental activities increased the Methacton School District's net assets by \$2,495,054 and \$1,969,844 for the years ending June 30, 2011 and 2010, respectively. Key elements of this increase are displayed below.

Business-type Activities. Business Type activities, comprised of the District's Food Service Fund, decreased the District's net assets by \$13,301 for the year ended June 30, 2011 compared to a \$20,912 increase in the District's net assets for the year ended June 30, 2010. Key elements are displayed below.

METHACTON SCHOOL DISTRICT'S Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program Revenues						
Charges for Services	\$ 433,806	\$ 190,189	\$ 1,329,810	\$ 1,417,469	\$ 1,763,616	\$ 1,607,658
Operating Grants	9,967,793	9,599,392	304,721	275,324	10,272,514	9,874,716
General Revenues:						
Taxes	68,157,552	64,586,753			68,157,552	64,586,753
Grants, not restricted to specific programs	9,251,766	8,807,965			9,251,766	8,807,965
Investment Income	29,148	179,801	1,405	3,034	30,553	182,835
Gain (loss) on sale of assets	(72,993)	4,000			(72,993)	4,000
Miscellaneous Income	302,021	240,441			302,021	240,441
Transfers	(332,000)	(380,000)	332,000	380,000		
Total Revenues	<u>87,737,093</u>	<u>83,228,541</u>	<u>1,967,936</u>	<u>2,075,827</u>	<u>89,705,029</u>	<u>85,304,368</u>
Expenses:						
Instruction	53,105,953	50,215,363			53,105,953	50,215,363
Support Services	26,575,186	25,242,260			26,575,186	25,242,260
Operation of Non- Instructional Services	1,333,337	1,341,770			1,333,337	1,341,770
Interest on Long-term Debt	4,227,563	4,459,304			4,227,563	4,459,304
Food Service			1,981,237	2,054,915	1,981,237	2,054,915
Total Expenses	<u>85,242,039</u>	<u>81,258,697</u>	<u>1,981,237</u>	<u>2,054,915</u>	<u>87,223,276</u>	<u>83,313,612</u>
Change in Net Assets	2,495,054	1,969,844	(13,301)	20,912	2,481,753	1,990,756
Beginning 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>
Ending Net Assets	<u>\$ 16,780,299</u>	<u>\$ 14,285,245</u>	<u>\$ (66,238)</u>	<u>\$ (52,937)</u>	<u>\$ 16,714,061</u>	<u>\$ 14,232,308</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, unassigned fund balance of the General Fund was \$4,410,539. This unreserved fund balance represents 5.00% 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 \$70,126,897 (79.7%), and \$66,971,805 (80.0%), for the years ended June 30, 2011 and 2010 respectively, of which \$68,027,151 and \$64,948,465 were tax revenues. State funding amounted to \$15,027,366 (17.1%) and \$15,103,898 (18.0%), federal funding amounted to \$2,844,634 (3.2%) and \$1,660,467 (2.0%), for the years ending June 30, 2011 and 2010, respectively.

State and Federal funding continue to provide a relatively small percentage (20.3%) 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, 2011 and 2010:

	Expenditures		Expenditures	
	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
Instruction	\$ 49,882,498	56.5%	\$ 47,755,746	57.4%
Support Service	26,327,409	29.8%	24,210,389	29.1%
Non-Instructional	1,263,856	1.4%	1,095,771	1.3%
Debt Service	10,798,830	12.3%	10,186,375	12.2%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	<u>\$ 88,272,593</u>	<u>100.0%</u>	<u>\$ 83,248,281</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 \$3,663,896 and \$7,203,436 for the years ended June 30, 2011 and 2010, comprised of Construction Funds \$663,568 and \$3,553,434, the Capital Improvement Fund \$0 and \$25,434, and the Capital Reserve Fund \$3,624,568 and \$3,000,328 respectively.

Special Revenue Funds. The Special Revenue Fund in prior years was the Athletic Fund. This fund was combined with the general fund for the year ending June 30, 2011 in accordance with GASB Statement #54.

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 \$66,238 and \$52,937 for the years ended June 30, 2011 and 2010 respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Methacton School District's expenditures and other financing uses for the fiscal year ended June 30, 2011 of \$88,929,593 were lower than the final budget of \$91,189,934 by a total of \$2,260,341. This is primarily the result of savings realized in the following areas: An unexpended budgetary reserve, savings in debt service payments due to lower actual than budgeted variable rate interest rates, lower retirement payments due to the rate set by the state being lower than was budgeted, lower electrical costs due to participation in the MCIU consortium and lower special education costs due to classes being returned to the district as opposed to being purchased as a professional service.

The District's revenues and other financing sources for the fiscal year ended June 30, 2011 were lower than the adopted budget by \$756,437 primarily due to lower subsidy payments from the state for their share of retirement costs due to the lower rate referenced in the previous paragraph.

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 \$118,352,487 and \$118,157,294 as of June 30, 2011 and 2010 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

	Governmental Activities	
	2011	2010
Land	\$ 1,564,425	\$ 1,564,425
Construction in progress	697,679	33,798,217
Site improvements	1,866,063	2,258,463
Buildings and improvements	142,148,747	107,073,559
Machinery and equipment	20,254,678	20,228,429
Accumulated depreciation	<u>(48,179,105)</u>	<u>(46,765,799)</u>
	<u>\$ 118,352,487</u>	<u>\$ 118,157,294</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 \$91,475,000 as well as notes payable of \$14,200,000 and capital lease obligations of \$914,723.

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 2011-2012 will increase for administrative staff (2.00%), support staff (2.75%), Teamsters Union Local 384 (2.25%), and professional staff (4.17%).

Employee health benefit costs for 2011-2012 are anticipated to decrease 2.03%.

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, 2011

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 10,654,282	\$ 1,102,320	\$ 11,756,602
Taxes receivable, net	3,094,333		3,094,333
Due from other governments	2,097,223	85,699	2,182,922
Other receivables	63,689	10,958	74,647
Prepaid assets	58,276		58,276
Inventories		32,246	32,246
Other assets	1,176,004		1,176,004
Total Current Assets	<u>17,143,807</u>	<u>1,231,223</u>	<u>18,375,030</u>
Noncurrent Assets:			
Capital assets:			
Land	1,564,425		1,564,425
Construction in progress	697,679		697,679
Site improvements	1,866,063		1,866,063
Buildings and building improvements	142,148,747		142,148,747
Machinery and equipment	20,254,678		20,254,678
Accumulated depreciation	(48,179,105)		(48,179,105)
Total Noncurrent Assets	<u>118,352,487</u>		<u>118,352,487</u>
TOTAL ASSETS	<u>\$ 135,496,294</u>	<u>\$ 1,231,223</u>	<u>\$ 136,727,517</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 2,067,473	\$ 12,412	\$ 2,079,885
Accrued salaries and benefits	2,068,036	8,891	2,076,927
Internal balances	(1,197,639)	1,197,639	-
Payroll deductions and withholding	3,133,196		3,133,196
Accrued interest	1,131,835		1,131,835
Deferred revenue	9,595	10,359	19,954
Other current liabilities	11,776	12,750	24,526
Portion due or payable within one year			
Bonds payable	6,095,000		6,095,000
Notes payable	680,000		680,000
Capital lease obligation	346,251		346,251
Accumulated compensated absences	124,216	55,410	179,626
Total Current Liabilities	<u>14,469,739</u>	<u>1,297,461</u>	<u>15,767,200</u>
Long-term Liabilities:			
Portion due or payable after one year			
Bonds payable in future years	85,380,000		85,380,000
Notes payable in future years	13,520,000		13,520,000
Bond discounts, premiums and deferred amounts	(44,799)		(44,799)
Capital lease obligation payable in future years	568,472		568,472
Other post-employment benefits	2,462,481		2,462,481
Accumulated compensated absences	2,360,102		2,360,102
Total Long-term Liabilities	<u>104,246,256</u>	<u>-</u>	<u>104,246,256</u>
TOTAL LIABILITIES	<u>118,715,995</u>	<u>1,297,461</u>	<u>120,013,456</u>
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	12,426,332		12,426,332
Restricted for			
Capital projects	3,000,328		3,000,328
Unrestricted	1,353,639	(66,238)	1,287,401
TOTAL NET ASSETS (DEFICIT)	<u>16,780,299</u>	<u>(66,238)</u>	<u>16,714,061</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$ 135,496,294</u>	<u>\$ 1,231,223</u>	<u>\$ 136,727,517</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

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	\$ 35,338,462	\$ 5,020	\$ 2,452,306	\$ (32,881,136)	\$	\$ (32,881,136)
Special programs	13,740,979		4,409,366	(9,331,613)		(9,331,613)
Vocational programs	2,728,275		68,460	(2,659,815)		(2,659,815)
Other instructional programs	1,157,366	69,075	623,618	(464,673)		(464,673)
Adult education programs	140,871	273,939	1,714	134,782		134,782
Support services						
Pupil personnel services	3,078,957		118,147	(2,960,810)		(2,960,810)
Instructional staff services	1,942,741		71,125	(1,871,616)		(1,871,616)
Administration services	4,111,968		36,364	(4,075,604)		(4,075,604)
Pupil health	924,272		243,210	(681,062)		(681,062)
Business services	1,089,290		33,109	(1,056,181)		(1,056,181)
Operation and maintenance of plant services	7,402,855		171,081	(7,231,774)		(7,231,774)
Student transportation services	6,451,677		1,652,769	(4,798,908)		(4,798,908)
Central services	1,494,544		34,232	(1,460,312)		(1,460,312)
Other support services	78,882			(78,882)		(78,882)
Operation of non-instructional services						
Student activities	1,330,813	85,772	52,292	(1,192,749)		(1,192,749)
Community services	2,524			(2,524)		(2,524)
Interest on long-term debt	4,227,563			(4,227,563)		(4,227,563)
TOTAL GOVERNMENTAL ACTIVITIES	85,242,039	433,806	9,967,793	(74,840,440)		(74,840,440)
BUSINESS-TYPE ACTIVITIES						
Food service	1,981,237	1,329,810	304,721		(346,706)	(346,706)
	<u>\$ 87,223,276</u>	<u>\$ 1,763,616</u>	<u>\$ 10,272,514</u>			
GENERAL REVENUES						
Property taxes, levied for general purposes				61,671,126		61,671,126
Earned income, per capita, occupation and amusement taxes				5,752,171		5,752,171
Transfer taxes				734,255		734,255
Grants and entitlements not restricted to specific programs				9,251,766		9,251,766
School facility rental				76,707		76,707
Investment earnings				29,148	1,405	30,553
Miscellaneous				225,314		225,314
Gain (loss) on sale of assets				(72,993)		(72,993)
Transfers				(332,000)	332,000	-
TOTAL GENERAL REVENUES				77,335,494	333,405	77,668,899
CHANGE IN NET ASSETS (DEFICIT)				2,495,054	(13,301)	2,481,753
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR				14,285,245	(52,937)	14,232,308
NET ASSETS (DEFICIT) AT END OF YEAR				\$ 16,780,299	\$ (66,238)	\$ 16,714,061

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2011

	General Fund	Capital Reserve Fund	Nonmajor Funds	Totals
ASSETS				
Cash and cash equivalents	\$ 6,331,895	\$ 3,630,885	\$ 691,502	\$ 10,654,282
Taxes receivable, net of allowance of \$710,070	3,094,333			3,094,333
Due from other governments	2,097,223			2,097,223
Interfund receivables	1,197,639	27,934		1,225,573
Prepaid assets	58,276			58,276
Other receivables	63,689			63,689
TOTAL ASSETS	\$ 12,843,055	\$ 3,658,819	\$ 691,502	\$ 17,193,376
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Interfund payables	\$ 2,900	\$	\$ 27,934	\$ 30,834
Accounts payable	1,408,982	658,491		2,067,473
Payroll deductions and withholdings	3,133,196			3,133,196
Accrued salaries and benefits	2,068,036			2,068,036
Compensated absences	124,216			124,216
Deferred revenue	1,628,034			1,628,034
Other liabilities	8,876			8,876
TOTAL LIABILITIES	8,374,240	658,491	27,934	9,060,665
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	58,276			58,276
Assigned				
Capital projects		3,000,328	663,568	3,663,896
Unassigned	4,410,539			4,410,539
TOTAL FUND BALANCES	4,468,815	3,000,328	663,568	8,132,711
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,843,055	\$ 3,658,819	\$ 691,502	\$ 17,193,376

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, 2011

TOTAL GOVERNMENTAL FUND BALANCES	\$ 8,132,711
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	118,352,487
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	1,618,439
Bond issuance costs are recorded as expenditures in the Governmental Funds. The Statement of Net Assets includes these amounts as other assets.	1,176,004
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	(1,131,835)
Bonds and notes payable	(105,675,000)
Bond premiums, discounts, and deferred amounts	44,799
Capital lease obligation	(914,723)
Other post-employment benefits	(2,462,481)
Accumulated compensated absences	<u>(2,360,102)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 16,780,299</u>

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Capital Reserve Fund	Nonmajor Funds	Totals
REVENUES AND OTHER FINANCING SOURCES				
Local sources	\$ 70,126,897	\$ 3,600	\$ 9,188	\$ 70,139,685
State sources	15,027,366			15,027,366
Federal sources	2,844,634			2,844,634
Other Financing Sources:				
Capital lease obligations	1,134,000			1,134,000
Interfund transfers		350,458		350,458
Proceeds from sale of capital assets	600			600
TOTAL REVENUES AND OTHER FINANCING SOURCES	89,133,497	354,058	9,188	89,496,743
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction	49,882,498		517,041	50,399,539
Support services	26,327,409			26,327,409
Operation of non-instructional services	1,263,856			1,263,856
Facilities acquisition, construction, and improvement services		978,298	2,381,989	3,360,287
Debt service				
Principal	6,550,000			6,550,000
Interest	4,248,830			4,248,830
Other Financing Uses:				
Interfund transfers	657,000		25,458	682,458
TOTAL EXPENDITURES AND OTHER FINANCING USES	88,929,593	978,298	2,924,488	92,832,379
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	203,904	(624,240)	(2,915,300)	(3,335,636)
FUND BALANCE AT BEGINNING OF YEAR (restated*)	4,264,911	3,624,568	3,578,868	11,468,347
FUND BALANCE AT END OF YEAR	\$ 4,468,815	\$ 3,000,328	\$ 663,568	\$ 8,132,711

* Beginning of year fund balance restated for change in accounting principle to conform to GASB #54

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, 2011

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (3,335,636)

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:

Capital outlay	3,404,281
Depreciation expense	(4,269,495)

Proceeds from sale of capital assets is shown as other financing sources in the Governmental Funds, but the gain or loss is reported in the statement of activities. (73,593)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in Governmental Funds. 130,401

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. 6,550,000

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. 729,691

Compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds. (185,378)

Other post-employment benefits do not require the use of current financial resources, therefore, are not reported as expenditures in Governmental Funds. (476,484)

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.

Amortization of issuance costs	(156,139)
Amortization of bond premium/discount	53,006

Interest is reported as an expenditure when due in the Governmental Funds, but is accrued on outstanding debt on the statement of activities. 124,400

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 2,495,054

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
PROPRIETARY FUND**

JUNE 30, 2011

	<u>Enterprise Fund</u>
	Food
	<u>Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,102,320
Due from other governments	85,699
Other receivables	10,958
Inventories	<u>32,246</u>
TOTAL CURRENT ASSETS	<u>1,231,223</u>
TOTAL ASSETS	<u><u>\$ 1,231,223</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Interfund payables	\$ 1,197,639
Accounts payable	12,412
Accrued salaries and benefits	8,891
Compensated absences	55,410
Deferred revenue	10,359
Deposits	<u>12,750</u>
TOTAL CURRENT LIABILITIES	<u>1,297,461</u>
NET ASSETS (DEFICIT)	
Unrestricted	<u>(66,238)</u>
TOTAL NET ASSETS (DEFICIT)	<u>(66,238)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,231,223</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, 2011

	<u>Enterprise Fund</u> Food Service Fund
OPERATING REVENUES	<u>\$ 1,329,810</u>
OPERATING EXPENSES	
Payroll	737,200
Employee benefits	459,616
Supplies	747,471
Purchased services	32,572
Other operating expenses	<u>4,378</u>
TOTAL OPERATING EXPENSES	<u>1,981,237</u>
OPERATING LOSS	<u>(651,427)</u>
NONOPERATING REVENUES	
Earnings on investments	1,405
State sources	76,904
Federal sources	<u>227,817</u>
TOTAL NONOPERATING REVENUES	<u>306,126</u>
LOSS BEFORE TRANSFERS	(345,301)
Operating transfers	<u>332,000</u>
CHANGE IN NET ASSETS	(13,301)
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	<u>(52,937)</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u><u>\$ (66,238)</u></u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2011

		Enterprise Fund
		Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$	1,329,486
Payments to suppliers		(785,915)
Payments for other operating expenses		(4,378)
Payments to employees		(1,229,957)
NET CASH USED BY OPERATING ACTIVITIES		(690,764)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State sources		29,440
Federal sources		229,514
Transfers from other funds		536,339
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		795,293
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments		1,405
NET CASH PROVIDED BY INVESTING ACTIVITIES		1,405
NET INCREASE IN CASH		105,934
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		996,386
CASH AND CASH EQUIVALENTS, END OF YEAR	\$	1,102,320
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$	(651,427)
Adjustments to reconcile operating loss to net cash used by operating activities		
(Increase) Decrease in assets:		
Accounts receivable		(7,685)
Inventory		(11,846)
Increase (decrease) in liabilities:		
Accounts payable		5,974
Accrued salaries and benefits		(13,392)
Compensated absences		(19,749)
Deposits		7,361
NET CASH USED BY OPERATING ACTIVITIES	\$	(690,764)
Schedule of noncash noncapital financing activities		
Donated commodities received	\$	48,386
Donated commodities used	\$	42,353

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

JUNE 30, 2011

	<u>Scholarship Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 72,678	\$ 248,855
Interfund receivables		2,900
	<u>72,678</u>	<u>248,855</u>
TOTAL ASSETS	<u>\$ 72,678</u>	<u>\$ 251,755</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to student organizations	<u>\$</u>	<u>\$ 251,755</u>
TOTAL LIABILITIES	-	251,755
NET ASSETS		
Reserved for scholarships	<u>72,678</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 72,678</u>	<u>\$ 251,755</u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Scholarship Funds</u>
ADDITIONS	
Contributions	\$ 7,438
Investment income	<u>134</u>
TOTAL ADDITIONS	7,572
DEDUCTIONS	
Fees paid and scholarships awarded	<u>9,769</u>
CHANGE IN NET ASSETS	(2,197)
NET ASSETS AT BEGINNING OF YEAR	<u>74,875</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 72,678</u></u>

See accompanying notes to the basic financial statements

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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 2010-2011 was \$1,057,441.

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 Capital 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

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.

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 External Investment Pools.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, 2011.

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, 2011. 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.

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.

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.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance

The District implemented GASB Statement No. 54 for the year ending June 30, 2011. GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain items within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types have also been modified for clarity and consistency.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action (board resolution) of the school board – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance. This classification reflects amounts constrained by the school’s “intent” to be used for specific purposes, but are neither restricted nor committed. The business manager has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Use of fund balance. The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated. Then committed, assigned and unassigned in that order as needed.

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

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, 2011, \$5,743,676 of the District's bank balance of \$6,243,676 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the District's name	\$5,743,676
--	-------------

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.
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.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS, continued

Investments, continued

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, 2011, the District had the following investments:

<u>Investment</u>	<u>Fair Value</u>
PA Local Government Investment Trust	<u>\$ 5,756,265</u>
PA School District Liquid Asset Fund	<u>\$ 389,103</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, 2011, 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, 2011, 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 25.58 mills (\$.02558 per \$1 of assessed valuation) for fiscal year 2011. 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, 2010 levy was assessed at \$2,500,403,896. 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 \$710,070 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, 2011:

	Interfund Receivables	Interfund Payables
General Fund	\$ 1,197,639	\$ 2,900
Capital Reserve Fund	27,934	
Non-major Governmental Funds		27,934
Fiduciary Funds	2,900	
Proprietary, Food Service		1,197,639
	\$ 1,228,473	\$ 1,228,473

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. All balances are 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	\$ 657,000	\$
Non-major Governmental Funds	25,458	
Capital Reserve Fund		350,458
Proprietary, Food Service		332,000
	\$ 682,458	\$ 682,458

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, 2011, was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated				
Land	\$ 1,564,425	\$	\$	\$ 1,564,425
Construction in progress	33,798,217	697,679	33,798,217	697,679
Total capital assets not being depreciated	35,362,642	697,679	33,798,217	2,262,104
Capital assets being depreciated				
Site improvements	2,258,463		392,400	1,866,063
Buildings and improvements	107,073,559	35,188,888	113,700	142,148,747
Machinery and equipment	20,228,429	2,449,931	2,423,682	20,254,678
Total capital assets being depreciated at historical cost	129,560,451	37,638,819	2,929,782	164,269,488
Less accumulated depreciation for				
Site improvements	(1,071,146)	(77,143)	(391,875)	(756,414)
Buildings and improvements	(30,481,329)	(2,559,853)	(43,257)	(32,997,925)
Machinery & equipment	(15,213,324)	(1,632,499)	(2,421,057)	(14,424,766)
Total accumulated depreciation	(46,765,799)	(4,269,495)	(2,856,189)	(48,179,105)
Total capital assets being depreciated, net	82,794,652	33,369,324	73,593	116,090,383
Governmental Activities capital assets, net	\$ 118,157,294	\$ 34,067,003	\$ 33,871,810	\$ 118,352,487

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	\$ 1,882,861
Special programs	729,217
Vocational programs	145,800
Other programs	62,183
Adult education programs	7,246
Support Services	
Pupil personnel services	140,970
Instructional staff services	90,387
Pupil health	42,442
Administrative services	204,750
Business services	54,139
Central services	74,989
Operation and maintenance of plant services	334,354
Pupil transportation	437,946
Other support services	3,654
Operation of non-instructional services	<u>58,557</u>
Total Governmental Activities depreciation expense	<u><u>\$ 4,269,495</u></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, 2011:

Type	Principal Outstanding July 1, 2010	Additions	Repayments	Principal Outstanding June 30, 2011	Due within One Year
General Obligation Note - 1997	\$ 3,215,000	\$	\$ 330,000	\$ 2,885,000	\$ 350,000
General Obligation Note - 1997C	2,140,000		225,000	1,915,000	230,000
General Obligation Note - 2003	9,500,000		100,000	9,400,000	100,000
General Obligation Bond - 2006	9,815,000		65,000	9,750,000	70,000
General Obligation Bond - 2007	7,595,000		1,415,000	6,180,000	1,460,000
General Obligation Bond - 2007A	9,760,000		5,000	9,755,000	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	9,340,000		1,340,000	8,000,000	1,380,000
General Obligation Bond - 2009	30,215,000		5,000	30,210,000	5,000
General Obligation Bond - 2009A	6,210,000		680,000	5,530,000	690,000
General Obligation Bond - 2010	8,115,000			8,115,000	5,000
General Obligation Bond - 2010A	6,320,000		2,385,000	3,935,000	2,480,000
	109,750,000	-	6,550,000	105,675,000	6,775,000
Capital Lease Obligations	510,414	1,134,000	729,691	914,723	346,251
	110,728,055	1,134,000	7,279,691	106,589,723	7,121,251
Compensated Absences	2,289,183	195,135		2,484,318	124,216
Total	\$ 113,060,193	\$ 1,329,135	\$ 7,279,691	\$ 109,074,041	\$ 7,245,467

Interest expense for Bonds and Notes for the year ended June 30, 2011 was \$ 4,248,830.

The following is a summary of business-type long-term liability activity of the District for the year ending June 30, 2011:

Type	Principal Outstanding July 1, 2010	Additions	Repayments	Principal Outstanding June 30, 2011	Due within One Year
Compensated Absences	\$ 75,159	\$	\$ 19,749	\$ 55,410	\$ 55,410

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. LONG-TERM LIABILITIES, continued

Bonds and Notes payable at June 30, 2011 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>\$2,885,000</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>1,915,000</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>9,400,000</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>9,750,000</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>6,180,000</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>9,755,000</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>8,000,000</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>30,210,000</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>5,530,000</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 construction 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 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.

3,935,000

TOTAL

\$ 105,675,000

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

Year Ended June 30,	Principal	Interest	Total
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	7,675,000	3,445,284	11,120,284
2017-2021	43,380,000	12,528,985	55,908,985
2022-2025	26,205,000	2,865,872	29,070,872
	<u>\$ 105,675,000</u>	<u>\$ 34,962,598</u>	<u>\$ 140,637,598</u>

7. CAPITAL LEASES

Methacton School District has the following capital lease obligations.

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%.

On August 1, 2010, the District entered into a lease-purchase agreement with TD Bank for the purchase of transportation and computer equipment. The present value of the lease payments is \$1,134,000. The lease provides for four annual payments of \$294,165. The implicit interest rate is 2.32%.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

7. CAPITAL LEASES, continued

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

Year Ended June 30,	Principal	Interest	Total
2012	\$ 346,251	\$ 21,780	\$ 368,031
2013	280,977	13,189	294,166
2014	287,495	6,670	294,165
	<u>\$ 914,723</u>	<u>\$ 41,639</u>	<u>\$ 956,362</u>

Interest expense for the capital leases for the year ended June 30, 2011, was \$21,578.

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.

The PSERS System issues a *Comprehensive Annual Financial Report (CAFR)* 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 *CAFR* is also available on the Publications page of the PSERS website.

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

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

8. PENSION PLAN, continued

Member Contributions – Active members who joined the system prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25 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, 2011, the rate of employer's contribution was 5.64 percent of covered payroll. The 5.64 percent rate is composed of a pension contribution rate of 5.00 percent for pension benefits and .64 percent for healthcare insurance premium assistance.

The District's contributions to PSERS for the fiscal year ending June 30, 2011, 2010, and 2009, were \$2,510,013, \$2,018,410, and \$1,997,986, respectively, equal to the required contributions for each year.

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 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,

METHACTON SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

9. POSTEMPLOYMENT HEALTHCARE BENEFITS, continued

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 2010-11 fiscal year, there were 186 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 \$1,234,277 has been applied toward the annual OPEB cost.

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, 2011, was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7/1/2010	\$ 2,425,105	63%	\$ 1,985,997
Year ending 6/30/2011	1,719,761	72%	2,462,481

Funded Status and Funding Progress: As of June 30, 2011, the actuarial accrued liability for benefits was \$14,735,226, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$14,735,226. The covered payroll (annual payroll of active participating employees) was \$39,794,279, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 37.03 percent.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

9. POSTEMPLOYMENT HEALTHCARE BENEFITS, continued

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:

<u>Description</u>	
Normal cost (service cost for one year)	\$ 556,876
Interest on Normal Cost	25,059
Amortization of Unfunded Actuarial Accrued Liability	<u>1,211,778</u>
Annual Required Contribution (ARC)	1,793,713
Interest on net OPEB Obligation	89,370
Adjustment to Annual Required Contribution	<u>(163,322)</u>
Annual OPEB Cost (expense)	1,719,761
Contributions toward the OPEB Cost	<u>(1,243,277)</u>
Increase in Net OPEB Obligation	476,484
Net OPEB Obligation, Beginning of Year	<u>1,985,997</u>
Net OPEB Obligation, End of Year	<u><u>\$ 2,462,481</u></u>

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.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

9. POSTEMPLOYMENT HEALTHCARE BENEFITS, continued

The District's OPEB actuarial valuation as of July 1, 2010, used the entry age normal actuarial cost method to estimate both the unfunded liability as of June 30, 2011 and to estimate the District's 2010-11 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 7.5% initially for the 2010-11 fiscal year, reduced by .5% per year to an ultimate rate of 5.5% in 2014. The unfunded actuarial liability is being amortized on a level dollar, 18 year open period, based on a weighted average of service until retirement (active liability) and payment period (retired liability).

10. COMMITMENTS AND CONTINGENCIES

The District has various commitments under long-term construction contracts totaling approximately \$759,322 as of June 30, 2011.

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, 2011.

12. DEFICIT FUND BALANCE

The Food Service Fund had a net deficit of \$66,238 as of year end. This is the effect of operating losses in the food service fund.

METHACTON SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

13. SUBSEQUENT EVENTS

On September 27, 2011, the School District issued General Obligation Bonds Series 2011 in the amount of \$9,875,000. Proceeds will refund General Obligation Bond Series 2006.

On October 25, 2011, the School District issued General Obligation Bonds Series 2011A in the amount of \$4,700,000. Proceeds will refund General Obligation Bond Series 2007.

REQUIRED

SUPPLEMENTARY INFORMATION

METHACTON SCHOOL DISTRICT

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

JUNE 30, 2011

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)
7/1/2010	\$ 0	\$ 14,735,226	\$ 14,735,226	0%	\$ 39,794,279	37.03%
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, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		final budget
				Positive (Negative)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Local sources	\$ 70,670,248	\$ 70,670,248	\$ 70,126,897	\$ (543,351)
State sources	17,190,977	17,190,977	15,027,366	(2,163,611)
Federal sources	990,000	990,000	2,844,634	1,854,634
	<u>88,851,225</u>	<u>88,851,225</u>	<u>87,998,897</u>	<u>(852,328)</u>
Other Financing Sources:				
Capital lease obligations	1,038,709	1,038,709	1,134,000	95,291
Interfund transfers	500,000	500,000	-	(500,000)
Proceeds from sale of capital assets			600	600
	<u></u>	<u></u>	<u>600</u>	<u>600</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>90,389,934</u>	<u>90,389,934</u>	<u>89,133,497</u>	<u>(1,256,437)</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction				
Regular programs	34,885,531	34,885,531	33,265,666	1,619,865
Special programs	13,349,416	13,349,416	12,830,030	519,386
Vocational programs	2,494,579	2,494,579	2,565,235	(70,656)
Other instructional programs	1,585,161	1,585,161	1,094,072	491,089
Adult education programs	96,640	96,640	127,495	(30,855)
Total Instruction	<u>52,411,327</u>	<u>52,411,327</u>	<u>49,882,498</u>	<u>2,528,829</u>
Support services				
Pupil personnel services	2,840,219	2,840,219	2,901,900	(61,681)
Instructional staff services	1,486,115	1,486,115	1,860,644	(374,529)
Administration services	3,986,173	3,986,173	3,836,303	149,870
Pupil health	764,680	764,680	873,678	(108,998)
Business services	960,903	960,903	1,014,378	(53,475)
Operation and maintenance of plant services	7,699,676	7,699,676	7,038,795	660,881
Student transportation	6,751,792	6,751,792	7,182,811	(431,019)
Central services	1,322,108	1,322,108	1,543,672	(221,564)
Other support services	74,675	74,675	75,228	(553)
Total Support Services	<u>25,886,341</u>	<u>25,886,341</u>	<u>26,327,409</u>	<u>(441,068)</u>
Operation of non-instructional services				
Student activities	1,118,521	1,118,521	1,261,332	(142,811)
Community services	4,000	4,000	2,524	1,476
Total Operation of Non-instructional Services	<u>1,122,521</u>	<u>1,122,521</u>	<u>1,263,856</u>	<u>(141,335)</u>
Debt service	<u>11,219,745</u>	<u>11,219,745</u>	<u>10,798,830</u>	<u>420,915</u>
Other financing uses				
Interfund transfers	250,000	250,000	657,000	(407,000)
Budgetary Reserve	300,000	300,000		300,000
	<u></u>	<u></u>	<u></u>	<u></u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>91,189,934</u>	<u>91,189,934</u>	<u>88,929,593</u>	<u>2,260,341</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>(800,000)</u>	<u>(800,000)</u>	<u>203,904</u>	<u>1,003,904</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>4,264,911</u>	<u>4,264,911</u>	<u>4,264,911</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,464,911</u>	<u>\$ 3,464,911</u>	<u>\$ 4,468,815</u>	<u>\$ 1,003,904</u>

See accompanying notes to the required supplementary information

METHACTON SCHOOL DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON

JUNE 30, 2011

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. The budget is presented at a METHACTON School District public board meeting 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.

SUPPLEMENTARY INFORMATION

METHACTON SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2011

	<u>Capital Improvement Fund</u>	<u>2007 Construction Fund</u>	<u>2008 Construction Fund</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ 27,934	\$ 663,568	\$ 691,502
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 27,934</u>	<u>\$ 663,568</u>	<u>\$ 691,502</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Interfund payables	\$ -	\$ 27,934	\$ -	\$ 27,934
TOTAL LIABILITIES	<u>-</u>	<u>27,934</u>	<u>-</u>	<u>27,934</u>
FUND BALANCES				
Assigned:				
Capital projects	-	-	663,568	663,568
TOTAL FUND BALANCES	<u>-</u>	<u>-</u>	<u>663,568</u>	<u>663,568</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 27,934</u>	<u>\$ 663,568</u>	<u>\$ 691,502</u>

METHACTON SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2011

	Capital Improvement Fund	2007 Construction Fund	2008 Construction Fund	Total
REVENUES				
Local sources	\$ 24	\$ 57	\$ 9,107	\$ 9,188
TOTAL REVENUES	<u>24</u>	<u>57</u>	<u>9,107</u>	<u>9,188</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Instruction			517,041	517,041
Facilities acquisition, construction, and improvement services		27,934	2,354,055	2,381,989
Other Financing Uses:				
Interfund transfers	25,458			25,458
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>25,458</u>	<u>27,934</u>	<u>2,871,096</u>	<u>2,924,488</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(25,434)	(27,877)	(2,861,989)	(2,915,300)
FUND BALANCE AT BEGINNING OF YEAR	<u>25,434</u>	<u>27,877</u>	<u>3,525,557</u>	<u>3,578,868</u>
FUND BALANCE AT END OF YEAR	<u>\$</u>	<u>\$</u>	<u>\$ 663,568</u>	<u>\$ 663,568</u>

METHACTON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROJECT	Federal CFDA Number	Pass Through Grantor's Number	Grant Period	Award Amount	Accrued or (Deferred) Revenue at July 1, 2010	Total Received For the Year	Expenditures	Accrued or (Deferred) Revenue at June 30, 2011	Revenue Recognized
US DEPT. OF EDUCATION									
PASSED THROUGH THE PA DEPT. OF EDUCATION									
ESEA TITLE I DELINQUENT	84.010	107-100245	7/01/09-9/30/10	\$ 375,239	\$ 105,738	\$ 200,893	\$ 95,155	\$	\$ 95,155
ESEA TITLE I DELINQUENT	84.010	107-110245	7/01/10-9/30/11	452,287		361,830	374,923	13,093	374,923
ESEA TITLE I	84.010	013-100245	7/1/09-9/30/10	256,795	85,347	102,718	17,371		17,371
ESEA TITLE I	84.010	013-110245	7/1/10-9/30/11	218,775		189,172	218,275	29,103	218,275
TITLE I ACHIEVEMENT GRANT	84.010	077-090245	7/1/08-9/30/09	3,000	1,283	1,283			
TITLE I ACHIEVEMENT GRANT	84.010	077-100245	7/1/09-9/30/10	5,400	4,320	4,320			
TITLE I ACHIEVEMENT GRANT	84.010	077-110245	7/1/10-9/30/11	5,000			5,000	5,000	5,000
ARRA FISCAL STABILIZATION-BASIC ED.	84.394	126-100245	7/1/09-6/30/10	760,375	316,823	316,823			
ARRA FISCAL STABILIZATION-BASIC ED.	84.394	126-110245	7/1/10-6/30/11	748,569		374,285	748,569	374,284	748,569
ARRA TITLE I PART D DELINQUENT	84.389	133-100245	6/11/09-9/30/11	269,375	(42,044)	84,855	177,712	50,813	177,712
ESEA TITLE II	84.367	020-100245	7/1/08-9/30/10	129,044	12,229	68,823	56,594		56,594
ESEA TITLE II	84.367	020-110245	7/1/10-9/30/11	132,293		97,310	87,715	(9,595)	87,715
ARRA EDUCATION JOBS FUND	84.410	140-688425	8/10/10-9/30/11	443,265		443,265	443,265		443,265
DRUG FREE	84.186	100-100245	7/1/09-9/30/10		4,646	6,277	1,631		1,631
PASSED THROUGH MONTGOMERY COUNTY IU									
IDEA	84.027	N/A	7/1/09-6/30/10	895,787	209,691	209,691			
IDEA	84.027	N/A	7/1/10-6/30/11	953,389		838,982	953,389	114,407	953,389
ARRA IDEA	84.391	N/A	2/17/09-9/30/11	1,079,852	66,414	405,888	542,424	202,950	542,424
TITLE III	84.031A	N/A	7/1/10-9/30/11	17,975		4,494	4,494		4,494
TOTAL US DEPT. OF EDUCATION				6,746,420	764,447	3,710,909	3,726,517	780,055	3,726,517
US DEPT. OF JUSTICE									
PASSED THROUGH LOWER PROVIDENCE TOWNSHIP									
COMMUNITY ORIENTED POLICING SERVICES	16.710	N/A	7/1/10-6/30/11	49,814		49,814	49,814		49,814
TOTAL US DEPT. OF JUSTICE				49,814		49,814	49,814		49,814
US DEPT. OF AGRICULTURE									
PASSED THROUGH THE PA DEPT. OF EDUCATION									
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	7/1/09-6/30/10	N/A	27,258	27,258			
NATIONAL SCHOOL LUNCH PROGRAM	N/A	N/A	7/1/09-6/30/10	N/A	5,158	5,158			
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	7/1/10-6/30/11	N/A		146,854	178,287	31,433	178,287
NATIONAL SCHOOL LUNCH PROGRAM	N/A	N/A	7/1/10-6/30/11	N/A		23,432	28,220	4,788	28,220
REGULAR/NEEDY BREAKFAST PROGRAM	10.553	N/A	7/1/09-6/30/10	N/A	1,323	1,323			
REGULAR/NEEDY BREAKFAST PROGRAM	N/A	N/A	7/1/09-6/30/10	N/A	159	159			
REGULAR/NEEDY BREAKFAST PROGRAM	10.553	N/A	7/1/10-6/30/11	N/A		5,693	7,178	1,485	7,178
REGULAR/NEEDY BREAKFAST PROGRAM	N/A	N/A	7/1/10-6/30/11	N/A		692	865	173	865
PASSED THROUGH THE PA DEPT. OF AGRICULTURE									
USDA COMMODITIES	10.555	N/A	7/1/10-6/30/11	N/A	(4,326)	48,386	42,353	(10,359)	42,353
TOTAL US DEPT. OF AGRICULTURE					29,572	258,955	256,903	27,520	256,903
GRAND TOTAL FEDERAL AND STATE AWARDS					\$ 794,019	\$ 4,019,678	\$ 4,033,234	\$ 807,575	\$ 4,033,234

METHACTON SCHOOL DISTRICT

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL
AND STATE AWARDS**

FOR THE YEAR ENDED JUNE 30, 2011

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.



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
Bensalem, 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, 2011, which collectively comprise METHACTON SCHOOL DISTRICT's basic financial statements and have issued our report thereon dated January 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying

schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting (#2011-1). A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 31, 2012.

METHACTON SCHOOL DISTRICT's response to the findings identified in our audit is described in the accompanying corrective action plan. We did not audit METHACTON SCHOOL DISTRICT's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of 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 31, 2012

MAJOR & MASTRO, LLC
Certified Public Accountants

Handwritten signature in black ink that reads "Major & Mastro LLC".



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
Newtown Square, 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, 2011. 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 requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of 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 31, 2012

MAJOR & MASTRO, LLC
Certified Public Accountants



METHACTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of METHACTON SCHOOL DISTRICT.
2. One significant deficiency relating to the audit of the financial statements is 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 is 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 CircularA-133.
5. 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 CircularA-133 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 – Low Income	84.010
ARRA – Title I	84.389
IDEA	84.027
ARRA – IDEA	84.391
State Fiscal Stabilization Fund	84.384
Education Jobs Fund	84.410

METHACTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued

FOR THE YEAR ENDED JUNE 30, 2011

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.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2011-1 Accounts Payable:

Condition: Accounts payable was not recorded for the capital reserve fund, although checks written in July were for June 2011 services. All expenses incurred as of year end should be recorded so the expenditures are recorded in the proper period.

Criteria: Internal controls should be in place to ensure that accounts payable are properly recorded in the bond fund as is done in other funds at year end.

Cause: Controls are not in place to record accounts payable in the capital reserve fund.

Effect: Accounts payable and expenditures are understated in the capital reserve fund.

Recommendation: Procedures should be implemented to ensure that accounts payable is recorded in all funds.

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

None

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2011

January 31, 2012

The Methacton School District respectfully submits the following corrective action plan for the year ended June 30, 2011.

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENTS AUDIT

2011-1 Accounts Payable:

Recommendation: Procedures should be implemented to ensure that accounts payable is recorded in all funds.

Action Taken: All invoices dated July 1 through September 30 are reviewed to determine if the services or goods were received prior to June 30. The invoices in question were for roofing materials to be used for the roof replacements at Woodland Elementary and Audubon Elementary. The district determined that the invoices were for projects approved for the 2011-12 fiscal year and therefore not booked in 2010-11.

Sincerely yours,



Denis McCall
Director of Business Services