

NORTH PENN SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2012

INTRODUCTORY SECTION

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FINANCIAL SECTION



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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the North Penn School District as of and for the year ended June 30, 2012, which collectively comprise the North Penn School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Penn School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the North Penn School District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2013, on our consideration of the North Penn School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 21, budgetary comparison information on pages 57 through 59 and postemployment benefits other than pension funding progress on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

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

Maillie Falconiero + Company, LLP

Oaks, Pennsylvania
January 29, 2013

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

This section of the North Penn School District's annual financial report presents its discussion and analysis of the School District's financial performance during the fiscal year ending June 30, 2012. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

DISTRICT HIGHLIGHTS

By 2014, No Child Left Behind (NCLB) mandates that all students must achieve proficiency on state assessments. North Penn School District district-wide scores for 2012 Pennsylvania System of School Assessments (PSSAs) show we are making necessary strides to reach this goal.

As school districts move closer to 100 percent proficiency, it becomes increasingly more difficult to make large gains toward the goal. More aggressive progress must be made in student subgroups in order to reach Adequate Yearly Progress (AYP) across all schools. Next year's goal of 89% proficient in mathematics and 91% proficient in reading will be even more difficult to achieve across all subgroups.

With programs and strategies in place and staff equipped with successful instructional strategies, NPSD students continue to improve academically. In particular, special education students have made great strides. On the PSSA for the 2011-2012 school year, the 11th grade Individual Educational Plan (IEP) students ranked first in the county with the highest percent proficient in mathematics, as well as second in the county with highest percent proficient in reading. At the secondary level, co-teaching occurred across multiple content areas as a result of intensive professional development on the co-teaching model. Overall, 64% of North Penn students with IEPs are included in the regular education class 80% or more of their day. This is an increase of 3% from the previous year.

Special education students at the elementary level are supported in regular education classes through a variety of models including consultation/collaboration between the regular education teacher and the special education teacher, paraprofessional support and Response to Instruction and Intervention (RTII).

During the 2011-2012 school year, the district partnered with the Montgomery County Intermediate Unit and the Pennsylvania Training and Technical Assistance Network (PaTTAN) to implement the Membership, Participation, and Learning (MPL) initiative for students with complex support needs. This initiative is a collaborative model that includes school teams and parents to plan strategies, resources, and supports based on individual student needs. Six of the 13 elementary schools participate in the MPL project. The MPL initiative is currently in year two and has been received with much success.

Elementary Education

Since NCLB was enacted in 2002, NPSD has improved overall student proficiency as it moves toward 100 percent. The 2011-2012 school year was no different as overall student achievement continued to increase. Eleven NPSD elementary schools did meet AYP status. However, Inglewood and A. M. Kulp elementary schools missed the mark in one or two of its student subgroups. These schools wrote a state-mandated improvement plan so that achievement of these subgroups is accelerated during the 2012-2013 school year.

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

North Penn teachers, support staff and administration have worked diligently to develop a solid foundation in instructional strategies for teaching language arts. The implementation of Response to Instruction and Intervention (RTII) at various grade levels helps to build on this foundation. RTII is a comprehensive, multi-tiered regular education intervention strategy used to enable early identification and intervention for students at academic risk. The training embedded in the district's implementation of RTII has allowed educators to hone their instructional practice to support students with their fundamental reading skills. Using RTII, educators have learned techniques to use to intervene and monitor the impact of their interventions.

As we have completed the three year project of RTII implementation in grades K-3 at the elementary level, we have experienced continued growth in our student achievement in the foundational skills of literacy. Dynamic Indicators of Basic Early Literacy Skills (DIBELS) results from all of our elementary schools indicate our training and implementation of the RTII components are producing positive results for our teachers and students. Through RTII data analysis discussions, teachers have been provided with ongoing professional development on teaching techniques to enhance their core language arts instruction. Tiered instructional groups have also focused on the foundational skills of literacy. Primary teachers are seeing an increase in student achievement in the areas of phonemic awareness, phonics and accuracy rates which will lead to stronger readers and writers in the later grades. The foundation established in grades K-3 and the knowledge of the RTII process will be used to support and guide the implementation of RTII in grades 4-6, where we will continue to plan targeted instruction to meet the needs of our students during the 2012-2013 school year.

During the 2011-2012 school year, NPSD received a Keystones to Opportunity (KTO) literacy grant from the state worth \$1.17 million to improve proficiency for all subgroups, birth through 12th grade. During the 2012-2013 school year, new and expanded programs funded by the grant will directly impact elementary students' success in the areas of reading and writing. Strategies will include expanding RTII to grades 4 through 6 and implementing data review protocols to match interventions and student needs.

The grant will also fund NPSD's efforts to engage pre-kindergarten students, their families and child care providers so these young learners are better prepared to succeed in kindergarten and beyond.

Partnering with the North Penn United Way, these efforts include training pre-k partners in pre-literacy skills, training NPSD staff in early-intervention services, providing books to families with young children, developing parent workshops and literacy, and providing opportunities for pre-k providers and kindergarten teachers to collaborate.

Secondary Education

NPSD secondary students and staff worked hard during the 2011-2012 school year to continue their upward academic trend. In particular, it was a banner year for North Penn High School. For the second year in a row, NPHS earned the recognition of being named one of the top high schools in the nation by both *Newsweek* and *The Washington Post*.

Maybe the best news of all, though, is that NPHS achieved Adequate Yearly Progress (AYP) status on the PSSA. For the past several years, NPHS engaged in state-mandated school improvement planning due to one or more subgroups not achieving AYP. The school's administration and staff have implemented interventions and programs to improve achievement for all students.

Their hard work has paid off as the high school met all AYP targets for the second consecutive year, an accomplishment that will release the high school from state-mandated corrective action planning for these subgroups.

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

Another point of pride is in the area of Advanced Placement (AP) classes and exams. In 2012, 644 NPHS students took one or more AP tests at a total of 1,304 tests taken. Of those tests, 30% scored a 5 or higher and 83% scored a 3 or better.

The KTO Grant also supports literacy at the secondary level. Specific strategies include expanding programs such as Read 180, Language!, Wilson and the Reading Apprenticeship model. It will also support co-teaching training and support.

School Nutrition Services

In the 2011-2012 school year, School Nutrition Services (SNS) earned the Bronze Level Award for the federal Healthier US School Challenge (HUSSC) at North Wales Elementary School. The award includes the Bronze Award plaque as well as \$500 to help promote nutrition education at the school. As a result, School Nutrition Services is applying for the Bronze Level for all our elementary schools for the 2012-2013 school year.

SNS continued to encourage families to apply for free and reduced priced meals, providing a wide variety of student-friendly meals while operating a fiscally responsible program. SNS upgraded its Point of Sale program to increase accountability and expand capabilities in program reporting.

During the 2011-2012 school year, SNS absorbed approximately \$220,000 in cafeteria assistant expenses, increased à la carte sales by \$114,000 and state subsidies by \$105,000, while decreasing food costs \$140,000 and equipment repair costs \$40,000.

Technology

A Digital Resources and Options Steering Committee spent much of the year developing a plan to best prepare students for the demands of a competitive global economy and society, as well as for 21st century learning skills. The committee studied the use of mobile devices in NPSD schools. From e-readers and tablets to cell phones and the concept of "Bring Your Own Device" to school, the topics addressed the impact on education and professional development.

Other successes of the NPSD Technology Department include: the NPSD's Brandywine Virtual Academy opened for students; implementation of a power management system to automatically shut down computers; increased professional development opportunities in the area of technology integration; development of an administrative goal tracking system; and expansion of NPSD's intranet for better internal communication and sharing of best practices.

Human Resources/Professional Development

During the 2011-2012 school year, 923 professional opportunities were provided to staff and more than 2,360 hours were spent on this important endeavor. NPSD continued its efforts to improve staff understanding and application of cultural competency and strengthened its commitment to attracting and retaining a diverse staff through its Partners in Equity and Closing the Achievement Gap committees which merged into one during the last school year.

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

Facilities and Energy Management

Continuous monitoring and adjusting of energy use in NPSD's 18 buildings resulted in improved energy performance and reduced costs by 25 percent from the previous year. All but one building, the Support Services Center, has achieved the Energy Star Label. The Energy Star Portfolio Rating for NPSD increased to 92 from 72 in June of 2011. Several curtailment activities were conducted this year and the Alliance to Save Energy was active with eight of our schools, producing additional energy savings through their work.

NPSD completed renovation and construction projects at North Wales and Nash elementary schools and began work at Inglewood Elementary School. Work at this school will continue through August 2013. This \$14 million project provides for renovations to the current building including accessibility upgrades, roof and window replacements, kitchen alterations, classroom renovations, HVAC and plumbing renovations, electrical upgrades, and security upgrades. The project also includes the construction of additional areas to house a new main office and health suite, a receiving area and gymnasium storage.

In January 2012, the school board approved new rates for rental of NPSD facilities. Revenues increased from just under \$60,000 for 2010-2011 to nearly \$130,000 for 2011-2012. The revenues from outside organizations, individuals and businesses who use NPSD facilities help to offset the cost of upkeep, maintenance, staffing, electricity, etc.

Communication

NPSD continued to provide opportunities for open and two-way communication. Superintendent Dietrich held several types of community, staff and student engagement events to provide district information and receive feedback. In the spring of 2012, more than 400 community and staff members attended a Q & A session regarding the budget. A second forum was held weeks later to provide a budget update and poll via a text messaging service on subjects such as advertising and transportation. Those not present at these events were able to watch live online and post questions for Dr. Dietrich.

Other communication efforts included a live online chat with Dr. Dietrich conducted by *The Reporter*, staff meetings with NPSD employees concerning the budget, seven Community Conversations with the Superintendent and 11 meetings with students through the Superintendent's Student Council. From September 1, 2011 to June 27, 2012, NPSD sent 196 press releases to local media outlets including print, radio and television. Of those 196, 149 resulted in news articles that have been linked to a specific press release. North Penn Television (NPTV) covered 120 school district events and posted 70 videos online. In 2011-2012, NPSD received 58 Right-to-Know requests; this figure is up from 33 received the previous year.

In the world of online and social media, the NPSD Twitter feed attained 1,232 followers by the end of 2011-2012. Since joining Twitter in 2009, NPSD has tweeted 403 times. In addition, the NPTV YouTube site received more than 252,000 individual views since 2009 and 2,764,031 people visited NPSD's website viewing 10,108,543 pages just this past year.

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

Fiscal Responsibility

As always, NPSD focused efforts during the 2011-2012 school year on reducing costs on the operational side of the school district so that resources could be targeted for its core mission of educating students. Operating with a 0 percent increase from the 2010-2011 school year, NPSD tightened spending in all areas of the organization to improve efficiencies and reduce costs. This included living with staff vacancies, increased teaching schedules at the secondary level, SNS efficiencies, transportation consolidations and switching to self-funded health care.

Increasing revenues also took priority and NPSD focused on disputing real estate assessments, changed the facility usage fees and established a fee for student parking at NPHS. Additionally, the school board established the Alternative Revenue Committee (ARC) to study other revenue enhancement possibilities. This small group of community members moved forward concepts such as advertising in schools and alumni development.

The 2012-2013 school year started with important news about how students will be assessed. The Pennsylvania Department of Education (PDE) announced that the 11th grade PSSA will not happen in 2013 and will be replaced by the Keystone exams in Algebra I, Biology, and English Literature--and all 11th grade students in 2012-2013 are required to take them. Rolling out this new measure this year and in additional grades and subjects that are aligned to the Common Core state standards in the years to come will be a major endeavor.

Another focus of the school year will be in developing a plan to expand the use of digital resources and the technological infrastructure to support the needs identified in the plan. NPSD facilities and boundaries must also be assessed and a plan developed to ensure our buildings are equally equipped to educate 21st century learners. In early 2013 the third edition of the NPHS Alumni Directory will be published, and with that a way for NPSD to better engage our graduates. With the information gleaned from the directory, NPSD hopes to communicate more frequently with alumni and develop an alumni engagement plan.

NPSD will also step into the realm of advertising. The newly-approved policy allowing advertising, sponsorships, etc., will be further detailed and implemented with the goal of bringing revenue into NPSD this school year. As always, NPSD will continue to operate as efficiently as possible. Living with the Act 1 index, NPSD is committed to spending money where it matters most--on our students. Efforts to decrease or maintain costs in operational areas will continue. Although NPSD started the 2012-2013 year with approximately 100 less staff members than just two years ago, the organization is better focused, streamlined and working toward the common goal of being in the top 5 percent of school districts in the state.

NPSD Fast Facts

- More than 90,000 people live in the North Penn community, which spans approximately 42 square miles. The school district includes children from boroughs of Hatfield, Lansdale and North Wales, the townships of Hatfield, Montgomery, Towamencin and Upper Gwynedd, and the village of Line Lexington.
- Approximately 12,657 students attended NPSD's 18 schools last year, which includes 13 elementary schools, three middle schools, one alternative school and one high school.
- 22 percent of students participate in the free and reduced meal program.

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

- During the 2011-2012 school year, 1,992 staff members served NPSD students in our 18 schools, Educational Services Center (ESC), Transportation Center and Support Services Center (SSC).
- Just over 15 percent of our student body claimed 69 different languages as their home language, with the top five languages (excluding English) being Bengali (395 students), Korean (357 students), Gujarati (299 students), Vietnamese (159 students) and Chinese (94 students).

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

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

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

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

FINANCIAL HIGHLIGHTS

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

For the General Fund, actual revenues were \$2.6 million above the original budget revenues. Actual expenditures totaled \$192 million and included expenditures for additional grants received subsequent to budget preparation.

OVERVIEW OF THE FINANCIAL STATEMENTS

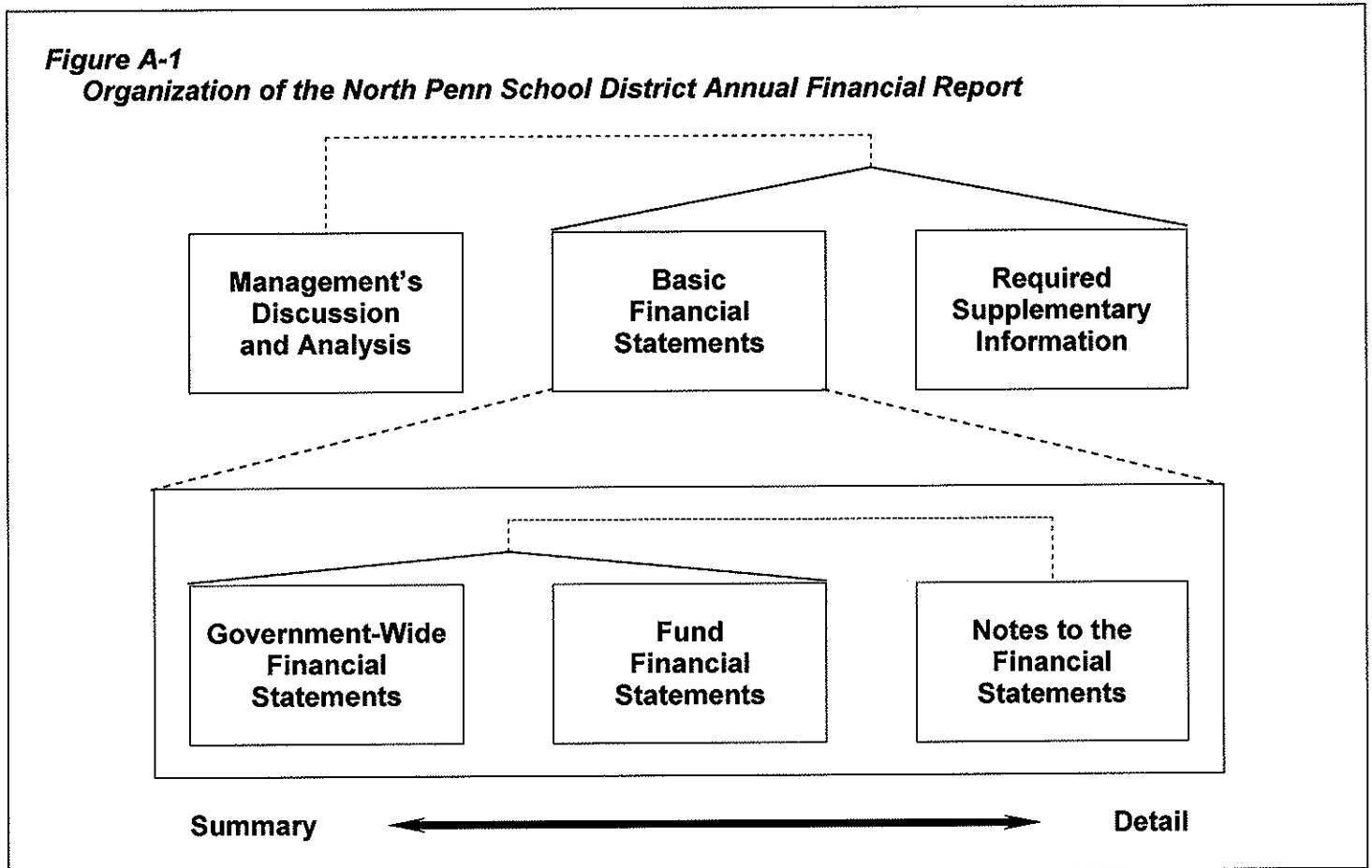
The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

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

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

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

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



NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

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

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

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

Government-Wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

The District has three kinds of funds:

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

- Net assets increased by \$14.1 million and total assets increased by \$10.1 million of the School District's governmental activities, due to renovations and a new bond issue. Net assets of the business-type activities decreased by \$300 thousand (Figure A-3).
- Program specific revenues in the form of charges for services and grants and contributions accounted for \$32.9 million or 16% of total revenues. General revenues accounted for \$175 million or 84% (Figure A-4).
- Governmental expenses totaled \$198.3 million of which \$121 million was spent on instructional services, \$55.7 million was spent on support services, \$2.5 million was spent on non-instructional programs, \$8.2 million was used for debt principal payments, \$4.3 million was used for bond interest payments and \$6.6 million was spent on facilities acquisition.
- The North Penn Educational Support Personnel Association (NPESPA) has extended the five-year agreement through June 30, 2014.
- The North Penn Education Association (NPEA), an affiliation of the Pennsylvania State Education Teachers Association, represents the professional staff of the District. The five-year collective bargaining agreement expires August 31, 2014.
- The District administrators have a three-year agreement with the Board of School Directors that expires June 30, 2014.

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

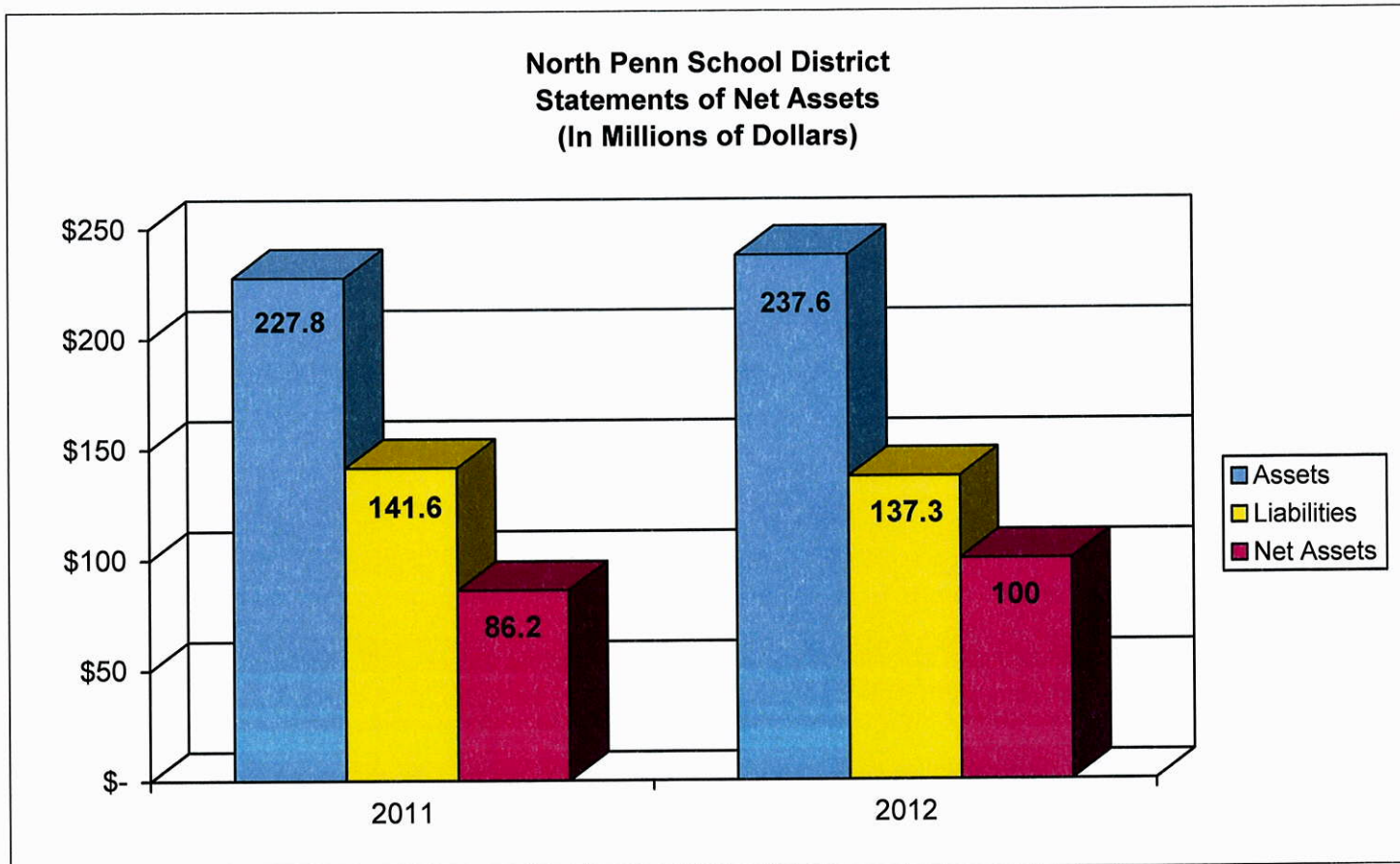


Figure A-3
Condensed Statements of Net Assets (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2011-2012
	2011	2012	2011	2012	2011	2012	
Current and other assets	\$ 57.8	\$ 67.9	\$ 1.2	\$ 0.9	\$ 59.0	\$ 68.8	
Capital assets, net	168.7	168.7	0.1	0.1	168.8	168.8	
TOTAL ASSETS	226.5	236.6	1.3	1.0	227.8	237.6	4.3%
Current and other liabilities	29.6	35.8	0.4	0.4	30.0	36.2	
Long-term liabilities	111.6	101.4	-	-	111.6	101.4	
TOTAL LIABILITIES	141.2	137.2	0.4	0.4	141.6	137.6	-2.8%
Invested in capital assets, net of related debt	70.0	72.5	0.1	0.1	70.1	72.6	
Unrestricted	15.3	26.9	0.8	0.5	16.1	27.4	
TOTAL NET ASSETS	\$ 85.3	\$ 99.4	\$ 0.9	\$ 0.6	\$ 86.2	\$ 100.0	16.0%

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

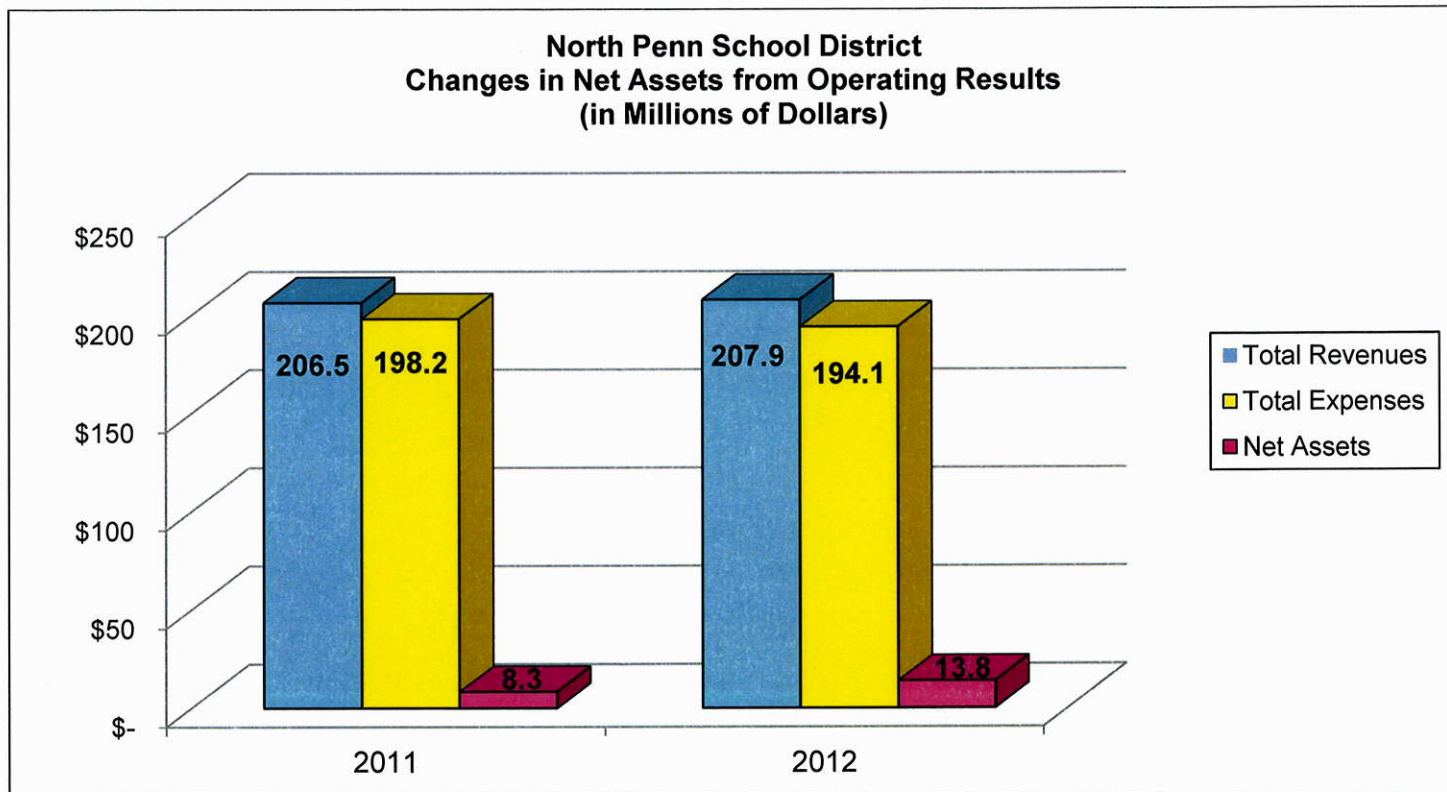


Figure A-4
Changes in Net Assets from Operating Results (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2011-2012
	2011	2012	2011	2012	2011	2012	
REVENUES							
Program revenues	\$ 27.0	\$ 25.5	\$ 7.4	\$ 7.4	\$ 34.4	\$ 32.9	
General revenues	172.1	175.0	-	-	172.1	175.0	
TOTAL REVENUES	199.1	200.5	7.4	7.4	206.5	207.9	0.7%
EXPENSES							
	190.8	186.5	7.4	7.6	198.2	194.1	-2.1%
CHANGE IN NET ASSETS	\$ 8.3	\$ 14.0	\$ -	\$ (0.2)	\$ 8.3	\$ 13.8	66.3%

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

Governmental Activities

Governmental activities consist of the General Fund, Bond Funds and the Debt Service Fund. Total governmental assets increased by \$10.1 million and total liabilities decreased by \$4 million due to capital project expenditures and paying down debt. The District's Total Net Assets increased by approximately \$14.1 million.

The District depends heavily on local taxes to fund the District's programs. For 2011-2012, local sources comprised 80.8% of total revenue, of which current real estate taxes were \$142.1 million, delinquent real estate taxes were \$2.95 million, transfer taxes were \$1.8 million and earned income taxes were \$12.9 million. Other revenue comes from state subsidies (16.2%) and federal grants and other sources (3.0%). Federal funding was increased due to stimulus ARRA funding to the district.

Business-Type Activities

Business-type activities include the School Nutrition Services Program, the Extended School Care Program and the Community Education Program. Each Enterprise Fund is operated separately. These programs had operating and non-operating revenues of \$7.4 million and expenses of approximately \$7.6 million, resulting in a small loss for the year. The programs are designed to operate at or near break-even so that the cost for the services offered will benefit the District residents. School Nutritional Services prices were frozen for the 11-12 year to hold the line on expenses for district families. Business-type activities received no support from tax revenues.

The School Nutrition Services Program provided 1,056,127 lunches and 199,451 breakfasts last year, as well as catering for the District's meetings and gatherings. The Department has been working to comply with the federally mandated Wellness Program by providing more nutritious choices and cutting back on non-nutritious snacks. The School Nutrition Services Program receives both federal and state subsidies for lunch and breakfast programs. It also receives some government commodities on a routine basis. The majority of revenue comes from sales to students and other users of its services.

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

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

General Fund Budgetary Highlights

The economic environment is mixed over the past year. Delinquent tax collection increased 20% and real estate transfer taxes decreased slightly, while earned income taxes remained flat. Real estate collections remained strong, as did interim real estate taxes. Interest income was 35% under budget due to poor interest rates. On the expenditure side, actual expenditures for the year were less than budgeted expenditures, notably Support Services were \$6.9 million below the budgeted amount.

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

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

The District maintains fixed asset records for the above capital assets as well as for any item costing over \$1,000 with a life extending at least one year. Each department or school is responsible for the protection of these assets.

The District maintains more than 6,400 computers for students and staff. Technology equipment is replaced when the functionality requires it, not based on a set time period. The District maintains approximately 145 buses and 18 vans that transport the District's students over 2 million miles per year. The District also transports 2,995 non-public students each year.

Regular improvements to the buildings of the District are ongoing. Renovations at General Nash Elementary School have been completed. Inglewood Elementary School renovations began in June.

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

	Governmental Activities		Business-Type Activities		Total District		Total Percentage Change 2011-2012
	2011	2012	2011	2012	2011	2012	
Land and site improvements	\$ 8.1	\$ 8.1	\$ -	\$ -	\$ 8.1	\$ 8.1	
Construction in progress	17.7	1.8	-	-	17.7	1.8	
Buildings	134.9	150.7	-	-	134.9	150.7	
Furniture and equipment	8.0	8.0	0.1	0.1	8.1	8.1	
	<u>\$ 168.7</u>	<u>\$ 168.6</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ 168.8</u>	<u>\$ 168.7</u>	-0.1%

Debt

Long-term debt decreased by \$10.2 million, primarily due to principal payments on all bond issues. The short-term debt increased by \$1.4 due to the schedule of bond, note and lease obligations (Note I). The District continues to pay down outstanding debt (Figure A-6).

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

The overall decrease in other general obligation debt is a result of the District's practice of leasing computers, buses and maintenance vehicles. The liability for new capital leases, which includes technology and vehicle leases, decreased by \$540,000.

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

	<u>2011</u>	<u>2012</u>	<u>Total Percentage Change 2011-2012</u>
LONG-TERM DEBT			
General obligation bonds and notes	\$ 103.4	\$ 93.3	
Other general obligation debt	8.2	8.1	
TOTAL LONG-TERM DEBT	<u>111.6</u>	<u>101.4</u>	
SHORT-TERM DEBT			
General obligation bonds and notes	8.2	9.3	
Other general obligation debt	1.7	2.0	
TOTAL SHORT-TERM DEBT	<u>9.9</u>	<u>11.3</u>	
TOTAL	<u>\$ 121.5</u>	<u>\$ 112.7</u>	7.8%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

NORTH PENN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

NORTH PENN SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 55,857,532	\$ 560,789	\$ 56,418,321
Investments	828	203,647	204,475
Taxes receivable	3,648,834	-	3,648,834
Internal balances	13,726	(13,726)	-
Due from other governments	3,559,538	61,554	3,621,092
Other receivables	142,889	22,589	165,478
Inventories	158,106	84,885	242,991
Prepaid expenses	3,752,906	4,091	3,756,997
Deferred charges, net of accumulated amortization	748,532	-	748,532
Capital assets, net of accumulated depreciation			
Land	8,006,732	-	8,006,732
Site improvements	95,214	-	95,214
Buildings and building improvements	150,747,772	-	150,747,772
Furniture and equipment	7,990,460	83,454	8,073,914
Construction in progress	1,838,706	-	1,838,706
	<u>236,561,775</u>	<u>1,007,283</u>	<u>237,569,058</u>
TOTAL ASSETS	\$ 236,561,775	\$ 1,007,283	\$ 237,569,058
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 8,205,722	\$ 66,549	\$ 8,272,271
Accrued salaries and benefits	14,778,852	45,178	14,824,030
Accrued interest	1,415,574	-	1,415,574
Unearned revenue	99,791	258,355	358,146
Long-term liabilities			
Portion due or payable within one year			
Bonds and note payable	9,318,000	-	9,318,000
Lease-purchase obligations	1,660,645	-	1,660,645
Compensated absences	331,946	-	331,946
Portion due or payable after one year			
Bonds and note payable	93,334,119	-	93,334,119
Lease-purchase obligations	471,698	-	471,698
Compensated absences	3,901,776	-	3,901,776
Net OPEB obligation	3,720,612	-	3,720,612
	<u>137,238,735</u>	<u>370,082</u>	<u>137,608,817</u>
TOTAL LIABILITIES	137,238,735	370,082	137,608,817
NET ASSETS			
Invested in capital assets, net of related debt	72,485,882	83,454	72,569,336
Unrestricted	26,837,158	553,747	27,390,905
	<u>99,323,040</u>	<u>637,201</u>	<u>99,960,241</u>
TOTAL NET ASSETS	99,323,040	637,201	99,960,241
TOTAL LIABILITIES AND NET ASSETS	\$ 236,561,775	\$ 1,007,283	\$ 237,569,058

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
GOVERNMENTAL ACTIVITIES							
Instruction							
Regular programs	\$ 83,755,760	\$ -	\$ 4,807,031	\$ -	\$ (78,948,729)	\$ -	\$ (78,948,729)
Special programs	33,559,116	-	1,833,688	-	(31,725,428)	-	(31,725,428)
Vocational education	3,806,760	-	-	-	(3,806,760)	-	(3,806,760)
Other instructional programs	1,423,648	62,019	10,971,323	-	9,609,694	-	9,609,694
Nonpublic school programs	12,668	-	619	-	(12,049)	-	(12,049)
Higher education programs	189	-	-	-	(189)	-	(189)
Support services							
Pupil personnel services	7,196,315	-	2,165,418	-	(5,030,897)	-	(5,030,897)
Instructional staff services	4,334,542	-	343,904	-	(3,990,638)	-	(3,990,638)
Administration services	11,003,541	-	526,790	-	(10,476,751)	-	(10,476,751)
Pupil health services	2,328,524	-	413,752	-	(1,914,772)	-	(1,914,772)
Business services	2,272,012	-	78,509	-	(2,193,503)	-	(2,193,503)
Operation and maintenance of plant services	14,476,847	-	497,679	-	(13,979,168)	-	(13,979,168)
Student transportation services	13,920,518	-	3,370,366	-	(10,550,152)	-	(10,550,152)
Central services	1,973,261	-	77,021	-	(1,896,240)	-	(1,896,240)
Other services	197,920	-	-	-	(197,920)	-	(197,920)
Operation of non-instructional services							
Student activities	2,378,329	105,875	106,193	-	(2,166,261)	-	(2,166,261)
Community services	68,014	-	159	-	(67,855)	-	(67,855)
Interest on long-term debt	3,831,284	-	-	177,392	(3,653,892)	-	(3,653,892)
TOTAL GOVERNMENTAL ACTIVITIES	186,539,248	167,894	25,192,452	177,392	(161,001,510)	-	(161,001,510)
BUSINESS-TYPE ACTIVITIES							
School nutrition services	5,162,885	3,267,276	1,719,800	-	-	(175,809)	(175,809)
Extended care	2,049,813	2,028,172	15,593	-	-	(6,048)	(6,048)
Community education	390,997	391,898	-	-	-	901	901
TOTAL BUSINESS-TYPE ACTIVITIES	7,603,695	5,687,346	1,735,393	-	-	(180,956)	(180,956)
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 194,142,943	\$ 5,855,240	\$ 26,927,845	\$ 177,392	(161,001,510)	(180,956)	(161,182,466)
GENERAL REVENUES							
Taxes							
Property taxes, levied for general purposes					147,936,297	-	147,936,297
Public utility taxes					219,112	-	219,112
Earned income taxes					12,912,015	-	12,912,015
Grants and contributions not restricted to specific programs					13,347,613	-	13,347,613
Investment earnings					367,318	1,132	368,450
Receipts from member districts					119,859	-	119,859
Gain on sale of capital assets					37,201	-	37,201
Miscellaneous					105,615	-	105,615
TOTAL GENERAL REVENUES					175,045,030	1,132	175,046,162
CHANGE IN NET ASSETS					14,043,520	(179,824)	13,863,696
NET ASSETS AT BEGINNING OF YEAR					85,279,520	817,025	86,096,545
NET ASSETS AT END OF YEAR					\$ 99,323,040	\$ 637,201	\$ 99,960,241

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT**BALANCE SHEET
GOVERNMENTAL FUNDS***June 30, 2012*

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 48,418,223	\$ 7,439,309	\$ 55,857,532
Investments	828	-	828
Taxes receivable	3,648,834	-	3,648,834
Due from other funds	19,124	2,800,000	2,819,124
Due from other governments	3,559,538	-	3,559,538
Other receivables	142,889	-	142,889
Inventories	158,106	-	158,106
Prepaid items	3,752,906	-	3,752,906
	<u>3,752,906</u>	<u>-</u>	<u>3,752,906</u>
TOTAL ASSETS	\$ <u>59,700,448</u>	\$ <u>10,239,309</u>	\$ <u>69,939,757</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 7,228,657	\$ 977,065	\$ 8,205,722
Due to other funds	5,830,778	-	5,830,778
Deferred revenue	3,051,702	-	3,051,702
Accrued salaries and benefits	14,778,852	-	14,778,852
Current portion of compensated absences	162,509	-	162,509
	<u>162,509</u>	<u>-</u>	<u>162,509</u>
TOTAL LIABILITIES	<u>31,052,498</u>	<u>977,065</u>	<u>32,029,563</u>
FUND BALANCES			
Nonspendable, inventories			
Inventory	158,106	-	158,106
Prepaid items	3,752,906	-	3,752,906
Restricted for capital projects	-	5,710,585	5,710,585
Committed to			
Capital projects	-	2,802,755	2,802,755
Retirement rate stabilization	10,206,187	-	10,206,187
Assigned to			
Self-funded insurance	500,000	-	500,000
Debt service	-	748,904	748,904
Unassigned	14,030,751	-	14,030,751
	<u>14,030,751</u>	<u>-</u>	<u>14,030,751</u>
TOTAL FUND BALANCES	<u>28,647,950</u>	<u>9,262,244</u>	<u>37,910,194</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>59,700,448</u>	\$ <u>10,239,309</u>	\$ <u>69,939,757</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT

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

June 30, 2012

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 37,910,194
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land	8,006,732
Site improvements	95,214
Buildings and building improvements	150,747,772
Furniture and equipment	7,990,460
Construction in progress	1,838,706
<p>Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Deferred charges	1,094,492
Accumulated amortization	(345,960)
<p>The assets and liabilities of certain Internal Service Funds are not included in the fund financial statements but are included in the governmental activities on the statement of net assets.</p>	
	3,025,380
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(1,415,574)
Bonds and notes payable	(102,652,119)
Lease-purchase obligations	(2,132,343)
Compensated absences	(4,071,213)
Net OPEB obligation	(3,720,612)
<p>Some of the School District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>	
	<u>2,951,911</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 99,323,040</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Local sources	\$ 161,554,247	\$ 43,349	\$ 161,597,596
State sources	32,424,849	-	32,424,849
Federal sources	<u>6,019,197</u>	<u>-</u>	<u>6,019,197</u>
TOTAL REVENUES	<u>199,998,293</u>	<u>43,349</u>	<u>200,041,642</u>
EXPENDITURES			
Instruction	120,985,108	-	120,985,108
Support services	55,716,849	-	55,716,849
Operation of non-instructional services	2,455,147	-	2,455,147
Facilities acquisition, construction and improvement services	124,980	6,444,968	6,569,948
Debt service	<u>12,553,056</u>	<u>-</u>	<u>12,553,056</u>
TOTAL EXPENDITURES	<u>191,835,140</u>	<u>6,444,968</u>	<u>198,280,108</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>8,163,153</u>	<u>(6,401,619)</u>	<u>1,761,534</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	37,201	-	37,201
Transfers in	625,000	2,804,372	3,429,372
Transfers out	<u>(2,800,000)</u>	<u>(629,372)</u>	<u>(3,429,372)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,137,799)</u>	<u>2,175,000</u>	<u>37,201</u>
NET CHANGE IN FUND BALANCES	6,025,354	(4,226,619)	1,798,735
FUND BALANCES AT BEGINNING OF YEAR	<u>22,622,596</u>	<u>13,488,863</u>	<u>36,111,459</u>
FUND BALANCES AT END OF YEAR	<u>\$ 28,647,950</u>	<u>\$ 9,262,244</u>	<u>\$ 37,910,194</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT

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

Year Ended June 30, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARD

\$ 1,798,735

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$8,350,193) exceeded capital outlays (\$6,416,259) in the current period.

(1,933,934)

Deferred charges are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the term lives of debt instruments as amortization expense. This is the amount of amortization in the current period.

(139,562)

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

503,925

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

759,592

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

8,234,000

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds.

Accrued interest not reflected in Governmental Funds

(132,258)

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

2,100,615

SUBTOTAL ADJUSTMENTS FORWARD

\$ 9,392,378

NORTH PENN SCHOOL DISTRICT

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

Year Ended June 30, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS FORWARDED	\$ 1,798,735
SUBTOTAL ADJUSTMENTS FORWARDED	9,392,378
<p>In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).</p>	280,924
<p>The net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.</p>	(453,897)
<p>Internal Service Funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain Internal Service Funds is reported with governmental activities.</p>	<u>3,025,380</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 14,043,520</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Enterprise Funds	Internal Service Fund Self-Insurance Fund
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 59,357	\$ 295,562	\$ 205,870	\$ 560,789	\$ -
Investments	203,647	-	-	203,647	-
Due from other funds	-	5,398	-	5,398	3,025,380
Due from other governments	61,554	-	-	61,554	-
Other receivables	5,903	6,809	9,877	22,589	-
Inventories	84,885	-	-	84,885	-
Prepaid expenses	750	3,341	-	4,091	-
TOTAL CURRENT ASSETS	<u>416,096</u>	<u>311,110</u>	<u>215,747</u>	<u>942,953</u>	<u>3,025,380</u>
CAPITAL ASSETS					
Furniture and equipment	1,340,254	-	-	1,340,254	-
Accumulated depreciation	(1,256,800)	-	-	(1,256,800)	-
TOTAL CAPITAL ASSETS	<u>83,454</u>	<u>-</u>	<u>-</u>	<u>83,454</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 499,550</u>	<u>\$ 311,110</u>	<u>\$ 215,747</u>	<u>\$ 1,026,407</u>	<u>\$ 3,025,380</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Due to other funds	\$ 18,953	\$ -	\$ 171	\$ 19,124	\$ -
Accounts payable	42,778	4,468	19,303	66,549	-
Accrued salaries and benefits	407	22,708	22,063	45,178	-
Deferred revenue	110,102	92,160	56,093	258,355	-
TOTAL CURRENT LIABILITIES	<u>172,240</u>	<u>119,336</u>	<u>97,630</u>	<u>389,206</u>	<u>-</u>
NET ASSETS					
Invested in capital assets, net of related debt	83,454	-	-	83,454	-
Unrestricted	243,856	191,774	118,117	553,747	3,025,380
TOTAL NET ASSETS	<u>327,310</u>	<u>191,774</u>	<u>118,117</u>	<u>637,201</u>	<u>3,025,380</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 499,550</u>	<u>\$ 311,110</u>	<u>\$ 215,747</u>	<u>\$ 1,026,407</u>	<u>\$ 3,025,380</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Enterprise Funds	Internal Service Fund Self- Insurance Fund
OPERATING REVENUES					
Charges for services	\$ 3,267,276	\$ 2,028,172	\$ 391,898	\$ 5,687,346	\$ -
Premiums transferred from General Fund	-	-	-	-	3,025,380
TOTAL OPERATING REVENUES	<u>3,267,276</u>	<u>2,028,172</u>	<u>391,898</u>	<u>5,687,346</u>	<u>3,025,380</u>
OPERATING EXPENSES					
Salaries	1,828,764	1,281,717	123,147	3,233,628	-
Employee benefits	962,629	595,021	27,799	1,585,449	-
Purchased professional and technical service	49,340	2,684	188,546	240,570	-
Purchased property service	12,624	-	-	12,624	-
Other purchased service	5,565	17,963	26,727	50,255	-
Supplies	2,290,727	151,363	24,778	2,466,868	-
Depreciation	11,493	-	-	11,493	-
Other operating expenses	1,743	1,065	-	2,808	-
TOTAL OPERATING EXPENSES	<u>5,162,885</u>	<u>2,049,813</u>	<u>390,997</u>	<u>7,603,695</u>	<u>-</u>
OPERATING INCOME (LOSS)	<u>(1,895,609)</u>	<u>(21,641)</u>	<u>901</u>	<u>(1,916,349)</u>	<u>3,025,380</u>
NONOPERATING REVENUES					
Investment income	247	790	95	1,132	-
State sources	165,741	15,593	-	181,334	-
Federal sources	1,554,059	-	-	1,554,059	-
TOTAL NONOPERATING REVENUES	<u>1,720,047</u>	<u>16,383</u>	<u>95</u>	<u>1,736,525</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>(175,562)</u>	<u>(5,258)</u>	<u>996</u>	<u>(179,824)</u>	<u>3,025,380</u>
NET ASSETS AT BEGINNING OF YEAR	<u>502,872</u>	<u>197,032</u>	<u>117,121</u>	<u>817,025</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 327,310</u>	<u>\$ 191,774</u>	<u>\$ 118,117</u>	<u>\$ 637,201</u>	<u>\$ 3,025,380</u>

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2012

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Total Enterprise Funds	Internal Service Fund Self- Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 3,266,703	\$ 2,013,618	\$ 370,530	\$ 5,650,851	\$ -
Payments to employees	(2,726,345)	(1,828,078)	(130,851)	(4,685,274)	-
Payments to suppliers	(2,123,823)	(190,400)	(224,760)	(2,538,983)	-
Payments to other governments	(67,210)	(47,388)	(5,101)	(119,699)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(1,650,675)</u>	<u>(52,248)</u>	<u>9,818</u>	<u>(1,693,105)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Facility acquisition, construction and improvements	(51,018)	-	-	(51,018)	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Federal sources	1,326,477	-	-	1,326,477	-
State sources	168,610	15,593	-	184,203	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,495,087</u>	<u>15,593</u>	<u>-</u>	<u>1,510,680</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	187,005	-	-	187,005	-
Earnings on investments	247	790	95	1,132	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>187,252</u>	<u>790</u>	<u>95</u>	<u>188,137</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,354)	(35,865)	9,913	(45,306)	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>78,711</u>	<u>331,427</u>	<u>195,957</u>	<u>606,095</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 59,357</u>	<u>\$ 295,562</u>	<u>\$ 205,870</u>	<u>\$ 560,789</u>	<u>\$ -</u>

NORTH PENN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2012

	Business-Type Activities			Governmental Activities	
	Enterprise Funds				Internal Service Fund
	School Nutrition Services Fund	Extended Care Fund	Community Education Fund		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (1,895,609)	\$ (21,641)	\$ 901	\$ (1,916,349)	\$ 3,025,380
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	11,493	-	-	11,493	-
Donated foods	244,196	-	-	244,196	-
(Increase) decrease in					
Due from other funds	-	(11,194)	-	(11,194)	(3,025,380)
Other receivables	13,324	(3,266)	(8,577)	1,481	-
Inventories	43,022	-	-	43,022	-
Prepaid expenses	(750)	1,284	-	534	-
Increase (decrease) in					
Due to other funds	(12,257)	-	7,012	(5,245)	-
Accounts payable	(38,035)	(7,415)	8,279	(37,171)	-
Accrued salaries and benefits	(2,162)	1,272	14,994	14,104	-
Deferred revenue	(13,897)	(11,288)	(12,791)	(37,976)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (1,650,675)	\$ (52,248)	\$ 9,818	\$ (1,693,105)	\$ -
SUPPLEMENTAL DISCLOSURES					
Noncash activities					
Donated foods	\$ 244,196	\$ -	\$ -	\$ 244,196	\$ -

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

	<u>Scholarship Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 201,039	\$ 498,453
Investments	11,756	-
Accounts receivable	<u>-</u>	<u>7,937</u>
TOTAL ASSETS	212,795	<u>\$ 506,390</u>
LIABILITIES		
Accounts payable	<u>83,080</u>	<u>\$ 506,390</u>
NET ASSETS		
Held in trust for benefits and other purposes	<u>\$ 129,715</u>	

See accompanying notes to the basic financial statements.

NORTH PENN SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2012

	<u>Scholarship Trust Funds</u>
ADDITIONS	
Contributions	\$ 2,074
Investment earnings	<u>7,938</u>
TOTAL ADDITIONS	10,012
DEDUCTIONS	
Scholarships awarded and fees paid	<u>6,012</u>
CHANGE IN NET ASSETS	4,000
NET ASSETS AT BEGINNING OF YEAR	<u>125,715</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 129,715</u></u>

See accompanying notes to the basic financial statements.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Basis of Presentation and Accounting

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

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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

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

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

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

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

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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

Trust Funds are reported using the economic resources measurement focus.

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

Fund Accounting

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

Governmental Funds

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

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

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

Proprietary Funds

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by an activity to other departments, funds, or component units of the School District on a cost-reimbursement basis. Because the principal users of the internal services are the School District's governmental activities, the financial statements of the Internal Service Fund are consolidated into the governmental activities column when presented in the government-wide financial statements.

Self-Insurance Fund - The Self-Insurance Fund is used to account for all financial transactions related to the administration of the School District's self-insured health plans.

Fiduciary Funds

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

Cash and Cash Equivalents

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

Investments

Investments are valued at fair value.

Short-Term Interfund Receivables/Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the Governmental Funds balance sheet. Short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the statement of net assets, except for amounts due between governmental and business-type activities, which, when present, are shown as internal balances.

Inventories and Prepaid Items

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

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

Deferred Revenue

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

Long-Term Obligations

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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

Compensated Absences

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

Fund Equity

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

Net Assets

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

Fund Balance

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

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints. Fund balance types of this category are inventories and prepaid expenditures.

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

- **Restricted** - Amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation. Fund balance types in this category include amounts for capital projects.
- **Committed** - Amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and do not lapse at year-end. Fund balance of this type is the Medical Rate Stabilization and Retirement Rate Stabilization. Since the School District is self-funded for insurance, the Board of School Directors has committed funds for any fluctuations to medical rate increases. Since the School District is required to contribute to the retirement plan, the retirement Rate Stabilization fund has been set up by the Board of School Directors to provide for any fluctuations to the rate increases.
- **Assigned** - Amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the School District Manager and/or School District Finance Director. Fund balance of this type includes amounts for debt service along with funds to be set aside for self-insurance funding.
- **Unassigned** - Amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. It is the policy of the School District to follow state requirements that unassigned fund balance will not exceed 8% of the subsequent year operating budget in the unassigned category.

The Board of School Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. Assigned fund balance is intended to be used by the government for specific purposes but does not meet the criteria to be classified as restricted or committed. The details of the fund balances are included in the Governmental Funds balance sheet (page 24). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of School Directors. The School District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

Use of Estimates

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

New Accounting Pronouncements

GASB 62 - In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The objective of GASB Statement No. 62 is to incorporate into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board Statements and Interpretations, (2) Accounting Principles Board Opinions and (3) Accounting Research Bulletins of the AICPA. The requirements of this statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. The effect of implementation of this statement has not yet been determined.

GASB 63 - In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. The objective of GASB Statement No. 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. State and local governments enter into transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. Concepts Statement No. 4, *Elements of Financial Statements*, identifies those consumptions or acquisitions as deferred outflows of resources and deferred inflows of resources, respectively, and distinguishes them from assets and liabilities. This statement provides guidance for reporting deferred outflows of resources and deferred inflows of resources balances. Concepts Statement No. 4 identifies net position as the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. This statement provides guidance for reporting net position within a framework that includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities. The requirements of this statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. The effect of implementation of this statement has not yet been determined.

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE B CASH AND INVESTMENTS

Cash

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$59,727,339 of the School District's bank balance of \$61,432,656 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the School District's name	\$ <u>59,727,339</u>
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Interest Rate Risk - The School District's investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments

As of June 30, 2012, the School District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities Less Than One Year
State investment pools	\$ 204,475	\$ 204,475
Mutual funds	11,756	11,756
	\$ 216,231	\$ 216,231

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

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

The School District's investment policy does not further limit its investment choices. As of June 30, 2012, the School District's investment in the state investment pool was rated AAAM by Standard & Poor's.

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

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

NOTE C TAXES - REAL ESTATE AND OTHER

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

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

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

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

NOTE D RECEIVABLES

Receivables at June 30, 2012, consisted of taxes, other revenue and intergovernmental grants and entitlements. The real estate taxes receivable account represents real estate transfer taxes and prior year uncollected tax levies. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of receivables by fund is as follows:

	General Fund	School Nutrition Services Fund	Extended Care Fund	Community Education Fund	Agency Funds
Real estate taxes	\$ 3,375,609	\$ -	\$ -	\$ -	\$ -
Earned income taxes	273,225	-	-	-	-
Federal subsidies	1,361,602	54,529	-	-	-
State subsidies	2,101,411	7,025	-	-	-
Intergovernmental	96,525	-	-	-	-
Other revenue	<u>142,889</u>	<u>5,903</u>	<u>6,809</u>	<u>9,877</u>	<u>7,937</u>
	<u>\$ 7,351,261</u>	<u>\$ 67,457</u>	<u>\$ 6,809</u>	<u>\$ 9,877</u>	<u>\$ 7,937</u>

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE E INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2012, is as follows:

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	School Nutrition Services Fund	\$ 18,953
General Fund	Community Education Fund	171
Other Governmental Funds	General Fund	2,800,000
Extended Care Fund	General Fund	5,398
Self-Insurance Fund	General Fund	<u>3,025,380</u>
		<u>\$ 5,849,902</u>

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

Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 625,000
Other Governmental Funds	General Fund	2,800,000
Other Governmental Funds	Other Governmental Funds	<u>4,372</u>
		<u>\$ 3,429,372</u>

The School District typically transfers funds from the Debt Service Fund to the General Fund to pay for principal and interest due on outstanding bonds and notes payable. The Board also approved a transfer of excess fund balance above the subsequent year's budget from the General Fund to the Capital Reserve Fund.

NOTE F CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	<u>Balance June 30, 2011</u>	<u>Additions/ Reclasses</u>	<u>Deletions/ Reclasses</u>	<u>Balance June 30, 2012</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 8,006,732	\$ -	\$ -	\$ 8,006,732
Construction in progress	17,709,561	6,397,467	(22,268,322)	1,838,706
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>25,716,293</u>	<u>6,397,467</u>	<u>(22,268,322)</u>	<u>9,845,438</u>
Capital assets being depreciated				
Site improvements	238,726	-	-	238,726
Buildings and building improvements	207,119,760	21,819,247	-	228,939,007
Furniture and equipment	24,026,922	2,425,560	(97,963)	26,354,519
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>231,385,408</u>	<u>24,244,807</u>	<u>(97,963)</u>	<u>255,532,252</u>
Accumulated depreciation				
Site improvements	(131,485)	(12,027)	-	(143,512)
Buildings and building improvements	(72,252,905)	(5,938,330)	-	(78,191,235)
Furniture and equipment	(16,062,186)	(2,399,836)	97,963	(18,364,059)
TOTAL ACCUMULATED DEPRECIATION	<u>(88,446,576)</u>	<u>(8,350,193)</u>	<u>97,963</u>	<u>(96,698,806)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>142,938,832</u>	<u>15,894,614</u>	<u>-</u>	<u>158,833,446</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>168,655,125</u>	<u>22,292,081</u>	<u>(22,268,322)</u>	<u>168,678,884</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	1,303,915	51,018	(14,679)	1,340,254
Accumulated depreciation	(1,259,986)	(11,493)	14,679	(1,256,800)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	<u>43,929</u>	<u>39,525</u>	<u>-</u>	<u>83,454</u>
CAPITAL ASSETS, net	<u>\$ 168,699,054</u>	<u>\$ 22,331,606</u>	<u>\$ (22,268,322)</u>	<u>\$ 168,762,338</u>

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Depreciation expense was charged to governmental functions as follows:

INSTRUCTION	
Regular programs	\$ 4,115,495
Special programs	748,690
Other instructional programs	137,043
SUPPORT SERVICES	
Pupil personnel services	190,371
Instructional staff services	98,072
Administration services	303,997
Pupil health services	47,047
Business services	65,551
Operation and maintenance of plant services	742,676
Student transportation services	1,455,717
Central and other services	419,098
OPERATION OF NON-INSTRUCTIONAL SERVICES	
Student activities	<u>26,436</u>
	<u>\$ 8,350,193</u>

NOTE G LEASES

Capital Leases

The School District has entered into lease agreements as lessee for financing the acquisition of computers and buses. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Computer equipment	\$ 4,810,000
Buses	<u>2,638,465</u>
	7,448,465
Accumulated depreciation	<u>(4,947,466)</u>
	<u>\$ 2,500,999</u>

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

<u>Year Ending June 30,</u>	
2013	\$ 1,367,392
2014	740,291
2015	<u>90,378</u>
	2,198,061
Amount representing interest	<u>(65,718)</u>
 PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
	 \$ <u><u>2,132,343</u></u>

NOTE H LONG-TERM DEBT

General Obligation Bonds and Note

The School District issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. At June 30, 2012, the outstanding balance of general obligation bonds and note issued was \$97,558,000.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 9,318,000	\$ 4,196,975
2014	9,675,000	3,843,289
2015	10,045,000	3,478,225
2016	10,460,000	3,062,162
2017	10,970,000	2,550,137
2018 to 2021	<u>47,090,000</u>	<u>5,512,812</u>
	 \$ <u><u>97,558,000</u></u>	 \$ <u><u>22,643,600</u></u>

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE I CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
GENERAL OBLIGATION BONDS AND NOTES							
Bonds							
Series A of 2003	3.50% to 3.75%	3/1/2015	\$ 2,650,000	\$ -	\$ -	\$ 2,650,000	\$ 2,195,000
Series of 2008	3.50% to 4.25%	3/1/2018	19,810,000	-	(5,000)	19,805,000	5,000
Series of 2009	3.00% to 5.00%	9/1/2016	15,200,000	-	(4,185,000)	11,015,000	1,990,000
Series A of 2009	2.00%	3/1/2012	2,225,000	-	(2,225,000)	-	-
Series of 2010	2.00% to 5.00%	3/1/2020	20,615,000	-	(5,000)	20,610,000	980,000
Series A of 2010	.50% to 5.00%	3/1/2020	20,065,000	-	(5,000)	20,060,000	5,000
Series of 2011	3.00% to 5.00%	3/1/2021	17,930,000	-	(5,000)	17,925,000	5,000
Note							
Series of 2007	3.74%	3/1/2014	7,297,000	-	(1,804,000)	5,493,000	4,138,000
			<u>105,792,000</u>	<u>-</u>	<u>(8,234,000)</u>	<u>97,558,000</u>	<u>9,318,000</u>
Deferred amounts							
Issuance premium			7,285,733	-	(865,668)	6,420,065	-
Deferred amount on refunding			<u>(1,432,022)</u>	<u>-</u>	<u>106,076</u>	<u>(1,325,946)</u>	<u>-</u>
TOTAL GENERAL OBLIGATION BONDS AND NOTE			111,645,711	-	(8,993,592)	102,652,119	9,318,000
CAPITAL LEASES			2,275,265	1,957,693	(2,100,615)	2,132,343	1,660,645
COMPENSATED ABSENCES			4,352,137	184,116	(302,531)	4,233,722	331,946
NET OPEB OBLIGATION			<u>3,266,715</u>	<u>1,010,547</u>	<u>(556,650)</u>	<u>3,720,612</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES			<u>\$ 121,539,828</u>	<u>\$ 3,152,356</u>	<u>\$ (11,953,388)</u>	<u>\$ 112,738,796</u>	<u>\$ 11,310,591</u>

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

NOTE J DEFEASED DEBT

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

As of June 30, 2012, the School District has defeased debt outstanding of \$20,750,000.

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE K DEFERRED REVENUE

General Fund

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

At June 30, 2012, deferred revenue consisted of delinquent taxes receivable of \$2,951,911.

Also included in deferred revenue is \$99,791 representing funds received to be used for future expenditures.

School Nutrition Services Fund

Deferred revenue of \$110,102 in the School Nutrition Services Fund represents the carryover of student deposits.

Extended Care Fund

Deferred revenue of \$92,160 represents deposits received for 2012-2013 school year programs.

Community Education Fund

Deferred revenue of \$56,093 represents deposits received for 2012-2013 school year programs.

NOTE L PENSIONS

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

Plan Description

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

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

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

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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

Funding Policy

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

Contribution Rates

Member Contributions

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.
- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2012, the rate of employer's contribution was 8.65% of covered payroll. The 8.65% rate is composed of a pension contribution rate of 8.00% for pension benefits and .65% for healthcare insurance premium assistance.

The School District's contribution to PSERS for the years ended June 30, 2012, 2011 and 2010, was \$9,281,049, \$6,199,218 and \$5,025,659, respectively, equal to the required contribution for each year.

NOTE M COMPENSATED ABSENCES AND EARLY RETIREMENT INCENTIVE PLAN

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

The liability to current employees is estimated and will change since unused vacation will be paid at the rate of pay in effect at the time of separation. These accumulated leaves are recorded as an expenditure in the period taken or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years, which was \$1,259,733 at June 30, 2012, is recorded in compensated absences on the statement of net assets.

The School District pays various per diem rates to retirees for unused sick time. Compensation payable in future years, which was \$2,637,495 at June 30, 2012, is recorded in compensated absences on the statement of net assets.

In addition, included in this balance is \$336,494 of future payments related to obligations under the School District's Early Retirement Incentive Plan.

NOTE N POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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

Normal cost	\$ 583,659
Amortization of unfunded actuarial accrued liability	480,435
ANNUAL REQUIRED CONTRIBUTION (ARC)	<u>1,064,094</u>
Interest on net OPEB obligation	147,002
Adjustment to ARC	<u>(200,549)</u>
ANNUAL OPEB EXPENSE	1,010,547
Net OPEB contributions during the year	<u>(556,650)</u>
INCREASE IN NET OPEB OBLIGATION	453,897
Net OPEB obligation at beginning of year	<u>3,266,715</u>
NET OPEB OBLIGATION AT END OF YEAR	<u>\$ 3,720,612</u>

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 1,257,585	56.8%	\$ 2,644,699
2010	1,248,687	50.2%	3,266,715
2011	1,010,547	55.1%	3,720,612

Funded Status and Funding Progress

According to the actuarial report dated July 1, 2011, the actuarial accrued liability for benefits was \$7,825,755 and the actuarial value of assets was \$0 as of June 30, 2012, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$100,531,783, and the ratio of the UAAL to the covered payroll was 7.78%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information on page 60, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

In the July 1, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements of .5% to an ultimate rate of 5.5% after five years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 26 years.

NOTE O COMMITMENTS AND CONTINGENCIES

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

The School District has various commitments under long-term construction contracts of approximately \$13,160,000 as of June 30, 2012.

NOTE P RISK MANAGEMENT

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE Q JOINT VENTURE

The School District is a participating member of the North Montco Technical Career Center (the "Center"). The Center is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The Board of School Directors of each participating district must approve the Center's annual operating budget. Each participating district pays a pro rata share of the Center's operating costs based on the number of students attending the Center from each district. The School District's share of the Center's operating costs for 2011-2012 was \$3,806,760.

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

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

Future minimum sublease payments are as follows:

<u>Year Ending June 30,</u>	
2013	\$ 161,350
2014	168,265
2015	170,570
2016	177,485
2017	184,400
2018 to 2022	1,007,285
2023 to 2027	1,212,430
2028 to 2031	<u>1,157,110</u>
	<u>\$ 4,238,895</u>

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE R DONATED FOODS

The School Nutrition Services Fund generally contains inventories which consist of both food commodities donated by the federal government and other food and supply inventories. Donated food inventory is valued at last unit cost in accordance with the recommendations of the Food Nutrition Service of the Department of Agriculture and are expensed as used. There were no donated foods in the Proprietary Fund's inventory balance at June 30, 2012.

NOTE S SELF-INSURANCE

In July 2011, the School District elected to sponsor a self-insured employee welfare benefit plan for health care coverage for the 2011-2012 school year. An administrative services agreement was signed with a third-party insurance company (claims administrator) to administer the costs and claims associated with the plan. The agreement required the School District to establish a deposit with the administrator. These funds are reported as prepaid expenses on the statement of net assets in the amount of \$3,733,383. The deposit will be used to pay claims, retention charges and broker commissions incurred prior to but paid after the date of determination. The deposit is intended to secure only the School District's obligations to the claims administrator and has no effect, application, or operation regarding the School District's direct obligation to the benefit program. The claims administrator may, in its discretion, require a greater or lesser deposit amount from the School District to secure the School District's obligations under the agreement. If the claims administrator requires a lesser amount, the School District will receive a refund or credit.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH PENN SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 162,143,517	\$ 159,783,307	\$ 161,554,247	\$ 1,770,940
State sources	32,904,612	32,571,562	32,424,849	(146,713)
Federal sources	2,385,520	5,772,545	6,019,197	246,652
TOTAL REVENUES	<u>197,433,649</u>	<u>198,127,414</u>	<u>199,998,293</u>	<u>1,870,879</u>
EXPENDITURES				
Instruction	117,111,108	120,649,594	120,985,108	(335,514)
Support services	61,935,337	62,657,456	55,716,849	6,940,607
Operation of non-instructional services	2,219,473	2,255,093	2,455,147	(200,054)
Facilities acquisition, construction and improvement services	146,000	146,000	124,980	21,020
Debt service	14,928,543	12,486,294	12,553,056	(66,762)
TOTAL EXPENDITURES	<u>196,340,461</u>	<u>198,194,437</u>	<u>191,835,140</u>	<u>6,359,297</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,093,188</u>	<u>(67,023)</u>	<u>8,163,153</u>	<u>8,230,176</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	37,201	37,201
Transfers in	625,000	625,000	625,000	-
Transfers out	-	-	(2,800,000)	(2,800,000)
Budgetary reserve	(3,000,000)	(1,839,789)	-	1,839,789
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,375,000)</u>	<u>(1,214,789)</u>	<u>(2,137,799)</u>	<u>(923,010)</u>
NET CHANGE IN FUND BALANCE	<u>(1,281,812)</u>	<u>(1,281,812)</u>	<u>6,025,354</u>	<u>7,307,166</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>22,622,596</u>	<u>22,622,596</u>	<u>22,622,596</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 21,340,784</u>	<u>\$ 21,340,784</u>	<u>\$ 28,647,950</u>	<u>\$ 7,307,166</u>

See accompanying notes to the budgetary comparison schedule.

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2012

NOTE A BUDGETARY INFORMATION

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

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

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

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2012

NOTE B EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2012, expenditures exceeded appropriations in the following General Fund department levels (the legal level of budgetary control):

Instruction	\$	335,514
Operation of non-instructional services		200,054
Debt service		66,762

These excess expenditures were funded by available fund balance in the General Fund.

NORTH PENN SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
Year Ended June 30, 2012

SCHEDULE OF FUNDING PROGRESS

<u>Valuation Date</u> July 1,	<u>(a)</u> Actuarial Value of Assets	<u>(b)</u> Entry Age Actuarial Liability (AAL)	<u>(c)</u> Unfunded AAL (UAAL) (b)-(a)	<u>(d)</u> Funded Ratio (a)/(b)	<u>(e)</u> Covered Payroll	<u>(f)</u> UAAL as a Percentage of Covered Payroll (c)/(e)
2006	\$ -	\$ 18,217,305	\$ 18,217,305	0%	\$ 87,626,911	20.79%
2009	-	9,110,857	9,110,857	0%	100,074,244	9.10%
2011	-	7,825,755	7,825,755	0%	100,531,783	7.78%

SUPPLEMENTARY INFORMATION SECTION

NORTH PENN SCHOOL DISTRICT

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

June 30, 2012

	Capital Project Funds			Debt Service Fund	Total Other Governmental Funds
	Capital Reserve Fund	2006 Note Fund	2011 Bond Fund		
ASSETS					
Cash and cash equivalents	\$ 2,755	\$ 180,617	\$ 6,507,033	\$ 748,904	\$ 7,439,309
Due from other funds	<u>2,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,800,000</u>
TOTAL ASSETS	<u>\$ 2,802,755</u>	<u>\$ 180,617</u>	<u>\$ 6,507,033</u>	<u>\$ 748,904</u>	<u>\$ 10,239,309</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 977,065	\$ -	\$ 977,065
FUND BALANCES					
Restricted for capital projects	-	180,617	5,529,968	-	5,710,585
Committed to capital projects	2,802,755	-	-	-	2,802,755
Assigned to debt service	-	-	-	748,904	748,904
TOTAL FUND BALANCES	<u>2,802,755</u>	<u>180,617</u>	<u>5,529,968</u>	<u>748,904</u>	<u>9,262,244</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,802,755</u>	<u>\$ 180,617</u>	<u>\$ 6,507,033</u>	<u>\$ 748,904</u>	<u>\$ 10,239,309</u>

NORTH PENN SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	Capital Project Funds			Debt Service Fund	Total Other Governmental Funds
	Capital Reserve Fund	2006 Note Fund	2011 Bond Fund		
REVENUES					
Local sources	\$ 28,424	\$ 91	\$ 14,186	\$ 648	\$ 43,349
EXPENDITURES					
Facilities acquisition, construction and improvement services	29,923	-	6,415,045	-	6,444,968
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,499)</u>	<u>91</u>	<u>(6,400,859)</u>	<u>648</u>	<u>(6,401,619)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	2,800,000	-	4,372	-	2,804,372
Transfers out	-	-	-	(629,372)	(629,372)
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,800,000</u>	<u>-</u>	<u>4,372</u>	<u>(629,372)</u>	<u>2,175,000</u>
NET CHANGE IN FUND BALANCES	2,798,501	91	(6,396,487)	(628,724)	(4,226,619)
FUND BALANCES AT BEGINNING OF YEAR	<u>4,254</u>	<u>180,526</u>	<u>11,926,455</u>	<u>1,377,628</u>	<u>13,488,863</u>
FUND BALANCES AT END OF YEAR	<u>\$ 2,802,755</u>	<u>\$ 180,617</u>	<u>\$ 5,529,968</u>	<u>\$ 748,904</u>	<u>\$ 9,262,244</u>



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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

We have audited the basic financial statements of the North Penn School District as of and for the year ended June 30, 2012, and have issued our report thereon dated January 29, 2013. 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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

COMPLIANCE AND OTHER MATTERS

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

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

Maillie Falconier + Company, LLP

Oaks, Pennsylvania
January 29, 2013



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

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

COMPLIANCE

We have audited the compliance of the North Penn School District with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. North Penn 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 the entity's management. Our responsibility is to express an opinion on the North Penn School District's compliance based on our audit.

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

In our opinion, the North Penn School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Maille Falconio + Company, LLP

Oaks, Pennsylvania
January 29, 2013

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

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Dates</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2011</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2012</u>
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education										
Title I Improving Basic Programs	I	84.010	13-120289	July 1, 2011 to September 30, 2012	\$ 967,896	\$ 691,210	\$ -	\$ 885,039	\$ 885,039	\$ 193,829
Title I Improving Basic Programs	I	84.010	13-110289	July 1, 2010 to September 30, 2011	1,153,135	322,487	(13,590)	281,902	281,902	(54,175)
Title I Improving Basic Programs	I	84.010	13-100289	July 1, 2009 to September 30, 2010	600,037	-	(3,997)	3,997	3,997	-
Keystones to Opportunity	I	84.371	143-120289	May 1, 2012 to June 30, 2013	1,174,404	-	-	650	650	650
Title II Improving Teacher Quality	I	84.367	20-120289	July 1, 2011 to September 30, 2012	321,048	230,223	-	273,303	273,303	43,080
Title II Improving Teacher Quality	I	84.367	20-110289	July 1, 2010 to September 30, 2011	393,783	280,813	115,445	165,368	165,368	-
Title III Language Inst LEP/Immigrant Students	I	84.365	10-120289	July 1, 2011 to June 30, 2012	154,264	47,255	-	11,039	11,039	(36,216)
Title III Language Inst LEP/Immigrant Students	I	84.365	10-110289	July 1, 2010 to June 30, 2011	119,953	71,972	16,536	48,688	48,688	(6,748)
Title III Language Inst LEP/Immigrant Students	I	84.365	10-100289	July 1, 2009 to June 30, 2010	107,908	44,962	31,758	13,204	13,204	-
ARRA - Fiscal Stabilization - Basic Ed	I	84.394	126-110289	July 1, 2010 to June 30, 2011	1,034,034	517,017	517,017	-	-	-
Dual Enrollment Program	S	N/A	090-110289	July 1, 2010 to September 30, 2011	7,633	4,963	4,774	189	189	-
ARRA - Education Jobs Fund	I	84.410	140-129456	July 1, 2011 to September 30, 2012	9,492	-	-	9,492	9,492	9,492
SUBTOTAL FORWARD						\$ 2,210,902	\$ 667,943	\$ 1,692,871	\$ 1,692,871	\$ 149,912

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Dates</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2011</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2012</u>
U.S. DEPARTMENT OF EDUCATION										
SUBTOTAL FORWARDED						\$ 2,210,902	\$ 667,943	\$ 1,692,871	\$ 1,692,871	\$ 149,912
Passed through the Montgomery County Intermediate Unit										
IDEA	I	84.027*	N/A	July 1, 2010 to June 30, 2011	\$ 2,412,799	286,904	286,904	-	-	-
IDEA - SECTION 619	I	84.027*	N/A	July 1, 2011 to June 30, 2012	24,332	-	-	24,332	24,332	24,332
ARRA - IDEA	I	84.391*	N/A	July 1, 2010 to June 30, 2011	2,970,657	559,846	539,191	20,655	20,655	-
IDEA	I	84.027*	N/A	July 1, 2011 to June 30, 2012	2,433,565	<u>1,699,475</u>	<u>-</u>	<u>2,433,565</u>	<u>2,433,565</u>	<u>734,090</u>
TOTAL FORWARD						<u>4,757,127</u>	<u>1,494,038</u>	<u>4,171,423</u>	<u>4,171,423</u>	<u>908,334</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES										
Passed through the Pennsylvania Department of Public Welfare										
Medical Assistance Reimbursement	I	93.778	N/A	July 1, 2011 to June 30, 2012	12,844	<u>12,844</u>	<u>-</u>	<u>12,844</u>	<u>12,844</u>	<u>-</u>
TOTAL FORWARD						<u>12,844</u>	<u>-</u>	<u>12,844</u>	<u>12,844</u>	<u>-</u>
U.S. DEPARTMENT OF AGRICULTURE										
Passed through the Pennsylvania Department of Education										
Child Nutrition Cluster										
National School Lunch Program	I	10.555	N/A	July 1, 2011 to June 30, 2012	N/A	1,138,365	60,421	1,122,716	1,122,716	44,772
National School Lunch Program	S	N/A	N/A	July 1, 2011 to June 30, 2012	N/A	146,587	8,456	143,999	143,999	5,868
National School Breakfast Program	I	10.553	N/A	July 1, 2011 to June 30, 2012	N/A	180,696	10,721	179,732	179,732	9,757
National School Breakfast Program	S	N/A	N/A	July 1, 2011 to June 30, 2012	N/A	22,023	1,438	21,742	21,742	1,157
Passed through the Pennsylvania Department of Agriculture										
National School Lunch Program	I	10.555	N/A	July 1, 2011 to June 30, 2012		<u>251,369 (A)</u>	<u>7,173 (B)</u>	<u>244,196 (C)</u>	<u>244,196 (C)</u>	<u>- (D)</u>
TOTAL FORWARD						<u>\$ 1,739,040</u>	<u>\$ 88,209</u>	<u>\$ 1,712,385</u>	<u>\$ 1,712,385</u>	<u>\$ 61,554</u>

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Dates</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2011</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2012</u>
U.S. DEPARTMENT OF EDUCATION										
TOTAL FORWARDED						\$ 4,757,127	\$ 1,494,038	\$ 4,171,423	\$ 4,171,423	\$ 908,334
U.S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES										
TOTAL FORWARDED						12,844	-	12,844	12,844	-
U.S. DEPARTMENT OF AGRICULTURE										
TOTAL FORWARDED						<u>1,739,040</u>	<u>88,209</u>	<u>1,712,385</u>	<u>1,712,385</u>	<u>61,554</u>
TOTAL FEDERAL AND STATE AWARDS						<u>\$ 6,509,011</u>	<u>\$ 1,582,247</u>	<u>\$ 5,896,652</u>	<u>\$ 5,896,652</u>	<u>\$ 969,888</u>

Footnotes:

- (A) Total amount of commodities received from Department of Agriculture.
- (B) Beginning inventory at July 1, 2011.
- (C) Total amount of commodities used.
- (D) Ending inventory at June 30, 2012.

Source Codes:

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

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

NORTH PENN SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

NOTE A BASIS OF ACCOUNTING

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

NOTE B FEDERAL EXPENDITURES

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

NORTH PENN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

A. SUMMARY OF AUDITORS' RESULTS

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

Program	CFDA
Special Education Cluster (IDEA)	
Special Education - Grants to States (IDEA, Part B)	84.027
Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391

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

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

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

None.