

**REPORT ON
EAST PENN SCHOOL DISTRICT
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2011**

EAST PENN SCHOOL DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2011

TABLE OF CONTENTS (continued)

	<u>PAGE (S)</u>
Introductory Section	
Transmittal Letter	1
Letter to Governance/Management.....	2 - 5
Report Distribution List	6
Financial Section	
Independent Auditor's Report.....	7 - 8
Management's Discussion and Analysis	9 - 20
Basic Financial Statements	
District-wide Financial Statements:	
Statement of Net Assets	21
Statement of Activities.....	22
Fund Financial Statements:	
Balance Sheet - Governmental Funds	23
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	24
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	25
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	26 - 27
Statement of Net Assets - Proprietary Funds.....	28
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	29
Statement of Cash Flows - Proprietary Funds	30 - 31
Statement of Net Assets - Fiduciary Funds.....	32
Statement of Changes in Net Assets - Fiduciary Funds	33

EAST PENN SCHOOL DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2011

TABLE OF CONTENTS (continued)

	<u>PAGE (S)</u>
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	34
Notes to Basic Financial Statements.....	35 – 80
Required Supplemental Information:	
Schedule of Funding Progress	81
Supplemental Information:	
Combining Balance Sheet - Non-Major Governmental Funds	82
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds	83
Combining Statement of Fiduciary Net Assets - Private Purpose Trust Funds	84
Combining Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Funds.....	84
Combining Balance Sheet - All Capital Project Funds	85
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - All Capital Project Funds	86
Combining Balance Sheet - All Agency Funds	87
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	88
General Fund - Schedule on Tax Collectors' Receipts	89
General Fund - Statement of Revenue, Expenditures, and Changes in Fund Balance	90 - 93
Capital Reserve Fund - Statement of Revenues and Expenditures.....	94
Food Service Fund - Statement of Revenues, Expenses, and Changes in Net Assets.....	95
Agency Fund - Payroll Fund - Balance Sheet	96
Memorial Fund - Statement of Additions and Deductions	96

EAST PENN SCHOOL DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2011

TABLE OF CONTENTS (continued)

	<u>PAGE (S)</u>
Commencement Awards Fund - Statement of Additions and Deductions.....	97
2009A Bond Fund – Statement of Revenues and Expenditures.....	97
2010 Bond Fund - Statement of Revenues and Expenditures	98
2011 Bond Fund – Statement of Revenues and Expenditures	98
2009 Construction Fund – Statement of Revenue and Expenditures	99
2010 Construction Fund – Statement of Revenue and Expenditures	100
General Long-Term Debt:	
Schedule on General Obligation Notes - Series of 1998	101
Schedule on General Obligation Notes - Series A of 2003.....	101
Schedule on General Obligation Notes - Series C of 2003	102
Schedule on General Obligation Notes – Series A of 2004.....	102
Schedule on General Obligation Bonds – Series AA of 2004	102
Schedule on General Obligation Bonds – Series A of 2005	103
Schedule on General Obligation Bonds – Series A of 2006	103
Schedule on General Obligation Notes – Series A of 2007	104
Schedule on General Obligation Bonds – Series of 2007	104
Schedule on General Obligation Bonds – Series of 2008	105
Schedule on General Obligation Bonds – Series A of 2008	105
Schedule on General Obligation Bonds – Series of 2009	106
Schedule on General Obligation Bonds – Series A of 2009	106
Schedule on General Obligation Bonds – Series of 2010	107
Schedule on General Obligation Bonds – Series A of 2010	107
Schedule of General Obligation Bonds – Series of 2011.....	108

EAST PENN SCHOOL DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2011

TABLE OF CONTENTS (continued)

	<u>PAGE (S)</u>
Single Audit Section	
Schedule of Expenditures of Federal Awards	109
Notes to the Schedule of Expenditures of Federal	110
Independent Auditor's 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.....	111 - 112
Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in accordance with OMB Circular A-133	113 - 114
Schedule of Findings and Questioned Costs	115 - 116
Schedule of Prior Year Findings.....	117

INTRODUCTORY SECTION



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of
American Institute of Certified Public Accountants
Pennsylvania Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants

Members of the Board
East Penn School District
800 Pine Street
Emmaus, PA 18049

We have performed the Single Audit of the East Penn School District for the fiscal year ended June 30, 2011, and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of OMB Circular A-133, which entailed:

An audit of the basic financial statements, and our opinion thereon;

A review of compliance and on internal control over financial reporting based on an audit of the financial statements performed in accordance with Governmental Auditing Standards, and our report thereon;

An examination of the Schedule of Expenditures of Federal Awards, and our report thereon; and,

An opinion on compliance with requirements applicable to each major program and a review of internal control over compliance in accordance with OMB Circular A-133, and our report thereon.

As part of our report, we have enclosed our management letter.

Respectfully submitted,

Gorman & Associates, P.C.

December 12, 2011



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of
American Institute of Certified Public Accountants
Pennsylvania Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants

Board of School Directors
Dr. Thomas Seidenberger, Superintendent
East Penn School District
800 Pine Street
Emmaus, PA 18049

We have audited the financial statements of the governmental activities, business-type activities each major fund, and the aggregate remaining fund information of the East Penn School District for the year ended June 30, 2011, and have issued our report thereon dated December 12, 2011.

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether your financial statements are fairly presented, in all material respects, in conformity with the U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities, including having compensating controls in place to ensure our preparation of your financial statements and note disclosures are not materially misstated.

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matter on August 9, 2011.

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the East Penn School District are described in the notes to the financial statements. No new accounting policies were adopted during this past year and the existing policies were properly applied. We did not discover any transactions entered into by the District that lacked authoritative guidance or consensus. In addition, there are no significant transactions affecting the financial statements that have been recognized incorrectly in the wrong year.

Accounting estimates, which are part of the significant accounting policies, are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events may differ significantly from those expected. The most sensitive estimates affecting the financial statements was depreciation taken on capital assets based upon the estimated useful life of each asset and calculated on the straight-line basis of depreciation and the actuary's report on Other Post Employment Benefits. We have evaluated the factors and assumptions used to develop these estimates and have determined the estimates to be reasonable in relation to the financial statements taken as a whole.

We wish to inform you that the disclosures in your financial statements are neutral, consistent, and clear. From time to time, certain disclosures are more sensitive than others due to their significance to financial statement users. The most sensitive disclosures involve capital assets and long-term debt.

We have requested certain representations from management that are included in the management representation letter provided to us on December 12, 2011. We advise the governing body to request this letter from management for their review. In conjunctions with their representation, we wish to inform you we did not encounter any significant difficulties in dealing with management and had no disagreements with your management. To our knowledge, management did not find a need to converse with any other independent accountant on any related accounting or auditing issue.

In addition, the representation letter provided to us, by management, confirmed there were no uncorrected misstatements. Management has recorded all of our adjusting journal entries, and has agreed to the conversion entries necessary to convert governmental funds and proprietary funds to governmental activities and business-type activities, respectively.

In accordance with auditing standards, generally accepted in the United States of America, we have acquired a sufficient understanding of the District and its environment, including its internal control, to assess the risk of material misstatements of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures that were necessary to express an opinion on the 2010-11 basic financial statements.

Our consideration of the District's internal control components was not designed for the purpose of making detailed recommendations and would not necessarily disclose all significant deficiencies within the components. Our audit procedures have been appropriately adjusted to compensate for any observed significant deficiencies. The following three paragraphs define the three different types of deficiencies that can occur:

A control 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 significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or a 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.

As the primary purpose of our audit is to form an opinion on the basic financial statements, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against errors and fraud which audit procedures may not disclose. The objective of internal control over financial reporting is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use and that financial records are reliable for preparing financial statements in accordance with generally accepted accounting principles and for maintaining the accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the related benefits; to operationalize this concept, management is required to formulate estimates and judgments of the cost/benefit ratios of alternative controls.

There are inherent limitations that should be recognized in considering the potential effectiveness of internal control over financial reporting. Errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, fatigue, and other personnel factors. Control procedures whose effectiveness depends upon the segregation of duties can be circumvented by collusion or by management. What's more, any projection of internal control evaluations to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or due to the deterioration of the degree of compliance with control procedures.

As an adjunct to our audit, we remained alert throughout for opportunities to enhance internal controls and operating efficiency. These matters were discussed with management as the audit progressed and have subsequently been reviewed in detail to formulate practical recommendations. We wish to thank your staff for their courtesies and cooperation, which facilitated the efficient performance of audit procedures. The remainder of this letter will explain any internal control deficiencies discovered during the audit, other auditor recommendations, and other information pertinent to the District.

A control deficiency is determined to be considered a material weakness or significant deficiency based upon the magnitude of the problem as it pertains to a particular opinion unit. In other words, what is considered a significant deficiency in one fund may only be a control deficiency in another fund of greater size.

The following section in this governance/management letter is separated by categories based on importance, with any material weaknesses or significant deficiencies listed in the beginning:

CONTROL DEFICIENCIES

Activity Fund – Student Clubs

During our review and testing of student clubs and organizations, we discovered a number of questionable clubs, such as: Orchestra, Fall Play, Field Trips, Jazz Band, Student Ambassadors, Young Democrats, Library Fines, Music Concert Choir, Pre-School Fund, Senior Class Play, Social Studies Dept., Spring Musical, Student Activity Fund, and Testing – Guidance. We could not find supporting evidence to explain the validity of these titles being student clubs; i.e. student officers, meeting minutes, or by-laws. We wish to advise management to investigate the legitimacy of these categories and eliminate any that are not student clubs. Subsequent to our audit, management has already taken steps to address these issues.

RECOMMENDATIONS

Activity Fund – Student Clubs

During our review of student clubs, we discovered a club titled “In and Out” that concerned us until we investigated further and found out this club includes smaller student clubs combined into one account. Although we realize these individual clubs have small balances, we would like to suggest each club be separated to improve the audit trail in tracing what receipts and disbursements belong to which club. Subsequent to our audit, management has already taken steps to address this issue.

OTHER INFORMATION

New Accounting Principles

As you may remember, this year’s financial statements are prepared using revised fund balance categories and governmental fund definitions required by GASB Statement No. 54. These new categories and definitions are explained in the notes to the basic financial statements.

Since Statement No. 54 was issued, the Governmental Accounting Standards Board has issued nine new statements on governmental accounting principles that can potentially have a future effect on the District. GASB Statements 55 and 56 were effective immediately upon issuance and pertain to removing accounting literature from auditing standards and incorporating them under accounting literature. These new standards deal with the hierarchy of generally accepted accounting principles, related party transactions, subsequent events, and going concern issues.

GASB Statements 57, 59, and 61 pertain to corrections from previous issued standards dealing with Other Post Employment Benefits with agent employers, who belong to a agent multiple employer OPEB Plan, corrections associated with financial instruments, and clarifications dealing with component units and joint ventures. There are presently no transactions of the District that are affected by these corrections

GASB Statement No. 58 was issued to help governments to properly report and account for filing Chapter 9 bankruptcy under the U.S. Bankruptcy Code. This Chapter of the Bankruptcy Code allows governments to file for bankruptcy protection from creditors by filing a petition.

GASB Statement 60 was issued to address the accounting and reporting issues involved in Service Concession Arrangements. Without getting into the specifics of the criteria needed for this Statement to affect governments, these arrangements occur when one government allows a third party operator to use a government's facilities to generate income. We cannot foresee this statement affecting the District in the future.

GASB Statement 62 was issued to incorporate previous accounting guidance found in the Financial Accounting Standards Board's statements in existence prior to September 1989, which governments are allowed to use as an election. You will notice in this year's financial statements this guidance being used as a result of a change in accounting principles that is described in the notes to the basic financial statements.

Last, but certainly not least, the newest GASB Statement No. 63, was issued in June 2011. This statement has far reaching changes in reporting the government-wide financial statements for all governments in the future. The effective date of this standard will be the 2012-13 fiscal year. This Statement will change the Statement of Net Assets on the government-wide financial statements to the Statement of Net Position. More importantly, it adds two new elements to what most people know as the Balance Sheet, deferred inflows of resources and deferred outflows of resources.

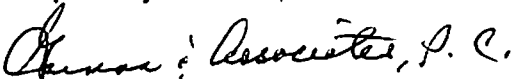
Deferred Outflows of Resources is a consumption of net assets by the government that is applicable to a future reporting period. Deferred Inflows of Resources is an acquisition of net assets by the government that is applicable to a future reporting period.

As a result of these new elements to the statement of financial position, the net position of the entire government at year end will equal total assets, plus total deferred outflows of resources, minus total liabilities and total deferred inflows of resources.

The Governmental Accounting Standards Board is presently having controversial discussions on changing the measurement focus for governmental funds, which determines when a government recognizes revenues and expenditures, along with discussions on changing the reporting of pension liabilities on governmental financial statements. As an ongoing service to our clients, we constantly stay abreast on these and other potential changes that can be positive or detrimental to you.

This letter is required by our standards and has been combined with, what we previously referred to as, the management letter. The intent of this letter is to communicate with those charged with governance on matters pertaining to the audit and includes information that we believe can help you correct or improve operating efficiency, under the limitations of staff availability, within the District.

Respectively submitted,



December 12, 2011

REPORT DISTRIBUTION LIST

The East Penn School District has distributed copies of the Single Audit Act Package to the following:

ONE COPY:
(Submitted Electronically)

BUREAU OF THE CENSUS
DATA PREPARATION DIVISION

ONE COPY:
(Submitted Electronically)

COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE BUDGET/BUREAU OF AUDITS

ONE COPY TO :

CARBON-LEHIGH INTERMEDIATE UNIT
4210 INDEPENDENCE DRIVE
SCHNECKSVILLE, PA 18078

ONE COPY TO:

MONTGOMERY COUNTY INTERMEDIATE UNIT
1605 W. MAIN STREET
NORRISTOWN, PA 19403-3268

FINANCIAL SECTION



Board of School Directors
East Penn School District
800 Pine Street
Emmaus, PA 18049

INDEPENDENT AUDITOR'S REPORT

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 East Penn School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the 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 East Penn School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles, generally accepted in the United States of America.

As discussed in Note 2-F to the financial statements, East Penn School District implemented GASB Statement No. 54 this year. The new accounting principle is associated with revised classifications of fund balance for governmental funds and revised definitions of governmental funds.

In accordance with Government Auditing Standards we have also issued our report dated December 12, 2011, on our consideration of the East 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.

Management's Discussion and Analysis, on pages 9 to 20, and the Schedule of Funding Progress on page 81 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

East Penn School District

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Penn School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the combining and individual fund financial statements and schedules, listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the financial statements of the East Penn School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

Johnson & Associates, P.C.

December 12, 2011

**EAST PENN SCHOOL DISTRICT
Emmaus, PA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
(UNAUDITED)
For the Year Ended June 30, 2011**

The discussion and analysis of East Penn School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to enhance their understanding of the District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

The 2010-2011 budget year had many special features. Willow Lane Elementary, the new school at Sauerkraut and Willow Lane underwent construction. Willow Lane Elementary is a 3-story, 84,872 square foot elementary school with an estimated maximum student capacity of 825 students.

Four additional unbudgeted teachers were hired due to elementary and special education enrollment, two in regular education and two in special education. The number of special education students increased from 688 in March of 2010 to 721 in March of 2011. Third day student enrollment for the 2010-2011 school year increased by 53 from the previous year. Seven Generations Charter School, which opened in September of the previous fiscal year within the district's boundaries, added a grade level and we had approximately 22 more students attend there than in the previous school year.

The real estate tax rate increased 3.85% over the previous year, which exceeded the 2.9% legal limit that we were allowed to go up without requesting any exceptions or referendums based on the Act 1, but is significantly less than the 5.02% that the Department of Education approved us for based on referendum exceptions submitted for special education and retirement contribution increases. The 5-year average real estate tax rate increase was 3.5% without subtracting the homestead/farmstead reduction. We continued the senior citizen property tax rebate program. We had eliminated the per capita tax for the 2002-2003 school year and have not reinstated it since then. Actual real estate tax collected was 101.1% of budgeted real estate tax. Interim real estate tax collected was only 82.1% of budget and only slightly more than half of what was collected in the previous fiscal year. Real estate transfer tax collected was 97.1% of budget. Actual earned income tax collected was 102.3% of budget. Delinquent real estate tax collected was 85.0% of budget. Budgeted tax revenues reflected the local and national downturn in the housing market and the economy. Lower Macungie Township switched to a contracted service to collect earned income tax in September of 2009, which caused the creation of a delinquent earned income tax line item because previous collectors had not been separating current earned income tax from delinquent earned income tax. Berkheimer, who collects taxes for the Borough of Emmaus residents of East Penn School District, also started separating delinquent earned income tax from current earned income tax, so the Delinquent Earned Income Tax was 450.8% of the amount budgeted. Earnings on investments were only 19.8% of the budget amount because we did not lower our budgeted interest income enough to reflect interest rates on allowable investments that maintained unexpected lows. For the second of four years, we received a donation from Rodale toward the artificial track. Total revenue received was 99.9% of original budgeted revenue.

**East Penn School District
Management's Discussion and Analysis**

We refinanced some bond issues at lower interest rates, but did not transfer the savings to our capital reserve fund as we have often done in the past to be used for future capital improvements. The only amount transferred there was the \$100,000 received from Rodale towards the track construction.

The Series of 2011 refunded the Series of 2004A and 2006 saving \$164,564.53 in 2010-11 and \$322,191.34 in 2011-12 with minor changes in future years and an overall savings of \$484,128.64, which is net of the state reimbursement on debt service expenditures. The savings were reflected in lower debt service costs paid in 2010-11 and a decrease in the 2011-12 debt service area of the general fund budget.

General fund salaries and benefits spent were 97.6% of their original budget. There were some positions not filled until near the end of the fiscal year and some administrative positions filled at lower salaries. Intermediate Unit instructional costs were only 95.7% of their budget, but a \$231,596 or 7% increase over the amount paid in the previous fiscal year. Charter School expenditures were 91.4% of their original budget, but the increase from the previous fiscal year was \$377,715 or 15.7% due mainly to the addition of another grade at Seven Generation Charter School in Emmaus. The other purchased Prof. /Tech. Services area increased by \$249,596 or 30.9% mainly due to the implementation of our own cyber alternative program to try to keep cyber charter school costs down. Approved Private Schools/Private Residential Rehabilitative Institutions were only 59.0% of their original budget, and less than half as much as our previous year expenditure. Other Schools were 153.0% of their original budget and 28.9% more than what we spent in the previous fiscal year. The categories of special instructional expenses that we are required to pay to other entities keep growing rapidly. Fuel and utilities were only 83.2% of their budget due to implementation of some significant energy cost saving measures. This is a difficult area to estimate based on usage related to unpredictable weather. Debt service expenditures were 90.8% of their original budget due to savings from refinancing and low interest on our variable rate notes. Other, more controllable areas of the budget were kept to a minimum due to a freeze put on purchases early in the year. Actual total expenditures excluding transfers and budgetary reserve were 96.4% of original budgeted expenditures.

Total revenue for the fiscal year exceeded total expenditures by \$1,690,328 in the General Fund.

USING THE ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand East Penn School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

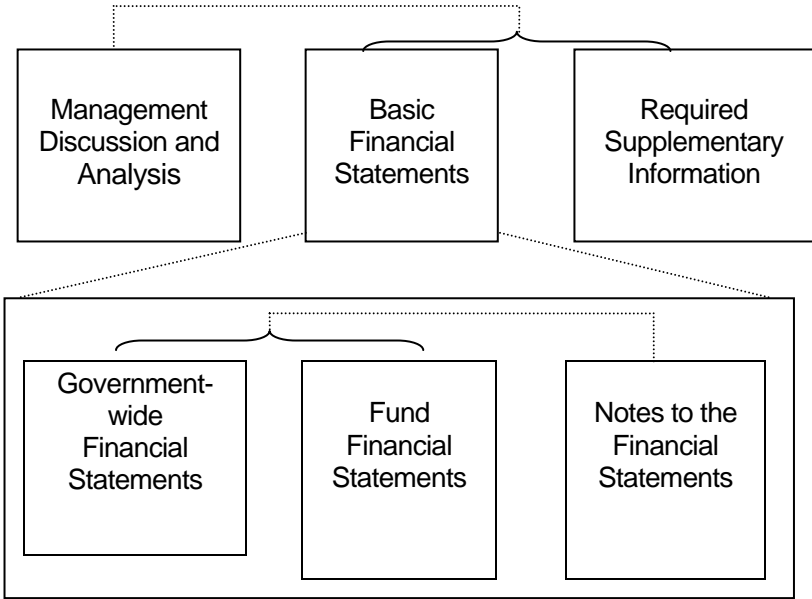
The first two statements are government-wide financial statements - the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how general District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that the District operates like a business. For this District this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

Figure A-1
Required components of
East Penn School District's
Financial Report



**East Penn School District
Management's Discussion and Analysis**

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

**Figure A-2
Major Features of East Penn School District's
Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration and community services	Activities the District operates similar to private business - Food Services	Instances in which the District is the trustee or agent to someone else's resources - Scholarship Funds
Required financial statements	Statement of net assets Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	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 resources 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, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow-outflow information	All revenues and expenses during 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 payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

OVERVIEW OF FINANCIAL STATEMENTS

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 government'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, are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional factors, such as the increasing property tax base, outlook for future growth, strength of financial policies and planning, and student performance and achievement.

The government-wide financial statements of the District are divided into two categories:

- **Governmental activities** - All of the District's basic services are included here, such as instruction, administration and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business type activities** - The District operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds - These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

**East Penn School District
Management's Discussion and Analysis**

Fiduciary funds - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statement because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net assets were \$47,641,153 at June 30, 2011. This is an increase in net assets of \$7,494,209 from the net assets for the previous fiscal year.

**Table A-1
Fiscal Year ended June 30, 2011
Net Assets (In Millions)**

	<u>2011</u>			<u>2010</u>		
	<u>Govern- mental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>	<u>Govern- mental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>
Current assets	\$ 24.0	\$ 0.4	\$ 24.4	\$ 23.3	\$ 0.2	\$ 23.5
Non-Current assets	172.0	0.3	172.3	174.3	0.3	174.6
Total Assets	\$ 196.0	\$ 0.7	\$ 196.7	\$ 197.6	\$ 0.5	\$ 198.1
Current and other liabilities	19.1	0.4	19.5	17.8	0.2	18.0
Long-term liabilities	129.6	-	129.6	139.9	-	139.9
Total Liabilities	148.7	0.4	149.1	157.7	0.2	157.9
Net Assets						
Invested in capital assets, net of related debt	38.2	0.3	38.5	32.5	0.3	32.8
Retirement of Long-Term Debt	-	-	-	-	-	-
Other Restrictions	-	-	-	1.2	-	1.2
Unrestricted	9.1	-	9.1	6.2	-	6.2
Total Net Assets	\$ 47.3	\$ 0.3	\$ 47.6	\$ 39.9	\$ 0.3	\$ 40.2
Total Liabilities and Net Assets	\$ 196.0	\$ 0.7	\$ 196.7	\$ 197.6	\$ 0.5	\$ 198.1

Most of the District's net assets are invested in capital assets (buildings, land, and equipment). The remaining unrestricted net assets are combined of designated and undesignated amounts. The designated balances are amounts set-aside to fund future purchases or capital projects as planned by the district.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

**East Penn School District
Management's Discussion and Analysis**

Table A-2 takes the information from that Statement and rearranges it slightly, so that you can see our total revenues for the year.

**Table A-2
Fiscal Year ended June 30, 2011
Changes in Net Assets (In Thousands)**

	<u>2011</u>			<u>2010</u>		
	Govern- mental Activities	Business- Type Activities	Total Primary Government	Govern- mental Activities	Business- Type Activities	Total Primary Government
REVENUES						
<i>Program revenues</i>						
Charges for services	\$ 284	\$ 2,101	\$ 2,385	\$ 239	\$ 2,039	\$ 2,278
Operating grants and contributions	14,053	1,002	15,055	13,118	976	14,094
Capital grants and contributions	1,442	-	1,442	1,757	-	1,757
<i>General revenues</i>						
Property taxes	75,945	-	75,945	72,437	-	72,437
Other taxes	8,992	-	8,992	8,673	-	8,673
Grants, subsidies and contributions, unrestricted	11,078	-	11,078	11,206	-	11,206
Other	454	-	454	735	6	741
TOTAL REVENUES	\$ 112,248	\$ 3,103	\$ 115,351	\$ 108,165	\$ 3,021	\$ 111,186
EXPENSES						
Instruction	\$ 63,170	\$ -	\$ 63,170	\$ 60,968	\$ -	\$ 60,968
Instructional student support	8,345	-	8,345	8,378	-	8,378
Administrative and financial support	7,821	-	7,821	7,945	-	7,945
Operation and maintenance of plant	10,349	-	10,349	11,282	-	11,282
Pupil transportation	5,919	-	5,919	5,680	-	5,680
Student activities	1,492	-	1,492	1,556	-	1,556
Community services	10	-	10	4	-	4
Interest on long-term debt	4,119	-	4,119	4,580	-	4,580
Unallocated depreciation expense	3,588	-	3,588	3,267	-	3,267
Food Services	-	3,044	3,044	-	3,044	3,044
TOTAL EXPENSES	104,813	3,044	107,857	103,660	3,044	106,704
Increase (decrease) in net assets	\$ 7,435	\$ 59	\$ 7,494	\$ 4,505	\$ (23)	\$ 4,482

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the District.

Table A-3 shows the District's eight largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, food service as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

**East Penn School District
Management's Discussion and Analysis**

**Table A-3
Fiscal Year ended June 30, 2011
Governmental Activities (In Thousands)**

Functions/Programs	2011		2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 63,170	\$ 51,928	\$ 60,968	\$ 50,717
Instructional student support	8,345	7,618	8,378	7,493
Administrative	7,821	7,493	7,945	7,388
Operation and maintenance	10,349	10,069	11,282	11,280
Pupil transportation	5,919	4,323	5,680	4,183
Student activities	1,492	1,329	1,556	1,392
Community services	10	9	4	3
Interest on long-term debt	4,119	2,677	4,580	2,823
Unallocated depreciation expense	3,588	3,589	3,267	3,267
Total governmental activities	\$ 104,813	\$ 89,035	\$ 103,660	\$ 88,546
Less:				
Unrestricted grants, subsidies		11,078		11,206
Total needs from local taxes and other revenues		\$ (77,957)		\$ (77,340)

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District.

**Table A 4
Fiscal Year ended June 30, 2011
Business – type
Activities**

Functions/Programs	2011		2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Food Services	\$ 3,044,856	\$ (58,889)	\$ 3,044,190	\$ (28,207)
Less:				
Investment earnings & other misc.		366		5,511
Total business-type activities		\$ (59,255)		\$ (22,696)

The Statement of Revenues, Expenses and Changes in Fund Net Assets for this proprietary fund will provide further detail on the actual results of operations.

THE DISTRICT FUNDS

At June 30, 2011, the District governmental funds reported a combined fund balance of \$15,493,985, an increase of \$16,389, from the previous year.

General fund revenues exceeded expenditures (not including transfers) by \$1,790,328 but a \$100,000 transfer to the capital reserve fund caused the General Fund to show a final \$1,690,328 increase in fund balance.

East Penn School District
Management's Discussion and Analysis

With the implementation of GASB Statement #54, Capital Reserve Fund balances are now reported as part of the Capital Projects balances. The overall Capital Projects Fund balances have decreased by \$1,670,302.

The District utilizes the Capital Reserve Fund to actively prepare for unexpected and proposed capital projects each year. In order to fund these projects without the need for additional borrowing issues, the district has established this fund and makes transfers from available fund balance of the General Fund to this fund. Capital outlay projects and support costs of \$52,232 were covered by the Capital Reserve Fund this year, while \$100,000 was received from the General Fund, so the Capital Reserve Fund's fund balance increased by \$190,692.

The Capital Projects Fund had a negative change in its fund balance since ongoing construction project expenditures amounted to \$1,920,968. The Capital Project portion of fund balance decreased by \$1,860,994.

General Fund Budget

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law. A statement showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the Annual Financial Report.

Local revenues were higher than budgetary figures due to conservative budgeting based on the recession and assessment appeals starting to come in. Real estate tax, interim real estate tax, and real estate transfer tax exceeded budgetary figures. Total local revenue was \$114,137 less than budgeted. State revenue was lower than budgetary figures by \$2,709,529, but federal revenue was \$2,279,978 higher than budgeted. This was due in part to the state using federal stimulus funds to provide a portion of basic education funding. The amount of basic subsidy coming from state funds declined by \$129,542 from the previous fiscal year. We also received less charter school, social security and retirement reimbursement from the state than was budgeted. Rental and sinking fund reimbursements was lower than budgeted however we spent less than budgeted on debt service due to refinancing and lower variable rates than budgeted.

Salaries and benefits, utility costs and debt service, were lower than originally budgeted, driving the total expenditures (excluding fund transfers and budgetary reserve) to be \$4,869,893 lower than budgeted. See the "Highlights": section near the beginning of this MD&A for further details.

Further, there were no significant, unexpected expenditures during the year, so the budgeted reserve amount was not needed. While the District does prepare a budget with a reserve each year for unexpected emergencies, this expenditure is dependent upon actual experience during the fiscal year. Board policy is to include a budgetary reserve account appropriation equal to 5% of the annual budget appropriations. The Board is using this method of budgeting to control tax increases while also protecting the integrity of the fund balance.

Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur due to use of grant funds, whose amounts are not known at the time that the budget must be approved.

**East Penn School District
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2011, the District had \$170,881,005 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$1,969,943, or 1.14% from last year.

**Table A-5
Governmental Activities
Fiscal Year Ended June 30, 2011
Capital assets - net of depreciation**

	2011	2010
Land	\$ 11,235,048	\$ 11,235,048
Site Improvements	3,266,086	3,461,920
Buildings	131,763,447	104,399,289
Furniture & Equipment	2,462,181	2,564,804
Construction in Progress	22,194,243	51,189,887

DEBT ADMINISTRATION

As of July 1, 2010, the District had total outstanding debt of \$147,165,000. During the year, the District issued \$15,395,000 in additional debt, but retired and repaid \$25,570,000 resulting in ending outstanding debt as of June 30, 2011, of \$136,990,000:

**Table A-6
Outstanding Debt**

	2011	2010
General Obligation Notes/Bonds:		
- Bonds, Series of 2011	\$ 15,395,000	\$ -
- Bonds, Series A of 2010	3,995,000	4,000,000
- Bonds, Series of 2010	12,885,000	14,280,000
- Bonds, Series A of 2009	5,570,000	6,105,000
- Bonds, Series of 2009	9,285,000	9,615,000
- Bonds, Series A of 2008	6,070,000	7,395,000
- Bonds, Series of 2008	7,095,000	8,220,000
- Bonds, Series of 2007	9,310,000	9,620,000
- Bonds, Series A of 2007	12,200,000	12,300,000
- Bonds, Series A of 2006	9,445,000	9,485,000
- Bonds, Series of 2006	-	7,380,000
- Bonds, Series A of 2005	13,005,000	13,660,000
- Bonds, Series AA of 2004	3,945,000	4,360,000
- Notes, Series A of 2004	11,800,000	12,500,000
- Bonds, Series A of 2004	-	9,580,000
- Notes, Series C of 2003	1,200,000	1,900,000
- Notes, Series A of 2003	10,500,000	10,500,000
- Bonds, Series of 2003	-	430,000
- Notes, Series of 1998	5,290,000	5,835,000
TOTAL	\$ 136,990,000	\$ 147,165,000

**East Penn School District
Management's Discussion and Analysis**

Other obligations include accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's most recent general obligation bond rating of Aa2 (with an underlying rating of Aa2), was issued on Moody's Investor Service on January 21, 2011. The Aa2 rating reflects their "opinion of the District's:

- Historically strong financial operations, resulting in satisfactory reserve levels.
- A large suburban Allentown area community with wealth levels that exceed state and national medians.
- An average debt profile that is expected to remain affordable as future capital and borrowing plans are minimal.

They stated that in their opinion, "the district' continues to demonstrate its trend of solid operating flexibility through prudent budgetary practices and a "history of structurally balanced, but notes that "management's ability to maintain satisfactory financial flexibility by addressing rising expenditures and limited growth will be a key rating driver.

The revenue budget for the 2011-2012 year is \$1,194,777 lower than the original budget of 2010--2011. This represents a 1.1% decrease in budgeted revenues and includes a 0.83-mil or 1.8% real estate tax rate increase. With the passing of Act 1, the District was required to pass a preliminary budget in January and get approval for increasing taxes above an allowed index or pass a resolution stating that we would not exceed the index. For the 2011-2012 budget, this index was 1.4%, and the District approved a preliminary budget and applied for exceptions from PDE to exceed the index for the 2011-2012 school year. We were granted exceptions for special education (\$1,823,410) and retirement contributions (\$835,197) totaling \$2,658,607, but only used \$325,374 when we adopted the final budget. These exceptions based on tax data in the preliminary budget, would have allowed us to implement a real estate tax rate of 47.49 mils, which would have been a 4.79% real estate tax rate increase, but the actual final budget had a real estate tax rate of 46.15 mils, or a 1.8% rate increase. The expenditure budget for the 2011-2012 year is \$484,928 lower than the original budget for 2010-2011, or a 0.4% decrease. The budgetary reserve accounts for \$5,729,499 of the total expenditure budget.

The comparison of original budgeted revenue and expenditure categories is as follow:

**Table A-7
BUDGETED REVENUES**

	2011-2012	2010-2011
Local	78.5%	77.5%
State	20.7%	21.8%
Federal/Other	0.8%	0.7%

BUDGETED EXPENDITURES

	2011-2012	2010-2011
Instruction	53.2%	53.3%
Support Services	27.6%	27.9%
Non-Instruction/Community	1.4%	1.4%
Fund Transfers/Debt	17.8%	17.4%

**East Penn School District
Management's Discussion and Analysis**

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Debra A. Surdoval, Business Manager at East Penn School District, 800 Pine Street, Emmaus, PA 18049, (610) 966-8307

BASIC FINANCIAL STATEMENTS

East Penn School District
Statement of Net Assets
As of June 30, 2011

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 18,998,382	\$ 286,205	\$ 19,284,587
Investments	247,000	-	247,000
Receivables, net	2,324,087	-	2,324,087
Internal Balances	215,611	5,701	- (1)
Due From Other Governments	1,999,076	52,436	2,051,512
Other Receivables	177,755	3,923	181,678
Inventories	101,726	56,990	158,716
Prepaid Expenses	-	-	-
Other Current Assets	-	-	-
TOTAL CURRENT ASSETS	24,063,637	405,255	24,247,580
NON-CURRENT ASSETS:			
Other Long-Term Receivables	200,000	-	200,000
Land	11,235,048	-	11,235,048
Site Improvements (net of depreciation)	3,226,086	-	3,226,086
Building and Bldg. Improvements (net of depreciation)	131,763,447	-	131,763,447
Furniture and Equipment (net of depreciation)	2,177,670	284,511	2,462,181
Construction in Progress	22,194,243	-	22,194,243
Bond Issue Costs (net of amortization)	1,214,834	-	1,214,834
TOTAL NON-CURRENT ASSETS	172,011,328	284,511	172,295,839
TOTAL ASSETS	\$ 196,074,965	\$ 689,766	\$ 196,543,419
LIABILITIES			
CURRENT LIABILITIES:			
Internal Balances	\$ 5,701	\$ 215,611	\$ - (1)
Due to other governments	378,761	-	378,761
Accounts Payable	1,460,880	57,787	1,518,667
Current Portion of Long-Term Obligations	11,816,530	-	11,816,530
Accrued Salaries and Benefits	4,836,876	-	4,836,876
Payroll Deductions and Withholdings	-	-	-
Deferred Revenue	6,487	73,911	80,398
Other Current Liabilities	583,271	-	583,271
TOTAL CURRENT LIABILITIES	19,088,506	347,309	19,214,503
NON-CURRENT LIABILITIES:			
Bonds and Notes Payable	124,616,252	-	124,616,252
Extended Term Financing Agreements Payable	-	-	-
Lease Purchase Obligations	-	-	-
Long-Term Portion of Compensated Absences	1,480,169	40,982	1,521,151
Net OPEB Obligation	1,063,544	-	1,063,544
Other Retirement Benefits	2,486,816	-	2,486,816
TOTAL LIABILITIES	148,735,287	388,291	148,902,266
NET ASSETS			
Invested in capital assets, net of related debt	38,180,088	284,511	38,464,599
RESTRICTED FOR:			
Retirement of Long-Term Debt	-	-	-
Capital Projects	-	-	-
Other Restrictions	-	-	-
Unrestricted (deficit)	9,159,590	16,964	9,176,554
TOTAL NET ASSETS	47,339,678	301,475	47,641,153
TOTAL LIABILITIES AND NET ASSETS	\$ 196,074,965	\$ 689,766	\$ 196,543,419

The Accompanying Notes are an integral part of these financial statements.

(1) Internal balances represent the amount owed to or from the two types of activities within the Primary Government. Since internal balances do not represent assets or liabilities of the total Primary Government, their balances are eliminated in the "total" column (GASB Statement No. 34, para. 58).

**East Penn School District
Statement of Activities
For the Year Ended June 30, 2011**

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	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instruction	\$ 63,169,955	\$ 164,594	\$ 11,077,119	\$ -	\$ (51,928,242)	\$ -	\$ (51,928,242)
Instructional Student Support	8,345,306	-	727,497	-	(7,617,809)	-	(7,617,809)
Admin. & Fin'l Support Services	7,820,865	-	328,284	-	(7,492,581)	-	(7,492,581)
Oper. & Maint. of Plant Svcs.	10,348,797	-	279,776	-	(10,069,021)	-	(10,069,021)
Pupil Transportation	5,918,946	-	1,596,320	-	(4,322,626)	-	(4,322,626)
Student activities	1,492,459	119,562	43,342	-	(1,329,555)	-	(1,329,555)
Community Services	10,248	-	603	-	(9,645)	-	(9,645)
Interest on Long-Term Debt	4,119,248	-	-	1,442,644	(2,676,604)	-	(2,676,604)
Unallocated Depreciation Expense	3,588,613	-	-	-	(3,588,613)	-	(3,588,613)
TOTAL GOVERNMENTAL ACTIVITIES	104,814,437	284,156	14,052,941	1,442,644	(89,034,696)	-	(89,034,696)
BUSINESS-TYPE ACTIVITIES:							
Food Services	3,044,856	2,100,897	1,002,848	-	-	58,889	58,889
Other Enterprise Funds	-	-	-	-	-	-	-
TOTAL PRIMARY GOVERNMENT	\$ 107,859,293	\$ 2,385,053	\$ 15,055,789	\$ 1,442,644	\$ (89,034,696)	\$ 58,889	\$ (88,975,807)
GENERAL REVENUES:							
Property taxes. Levied for general purposes, net					\$ 75,944,973	\$ -	\$ 75,944,973
Taxes levied for specific purposes					8,992,767	-	8,992,767
Grants, subsidies, & contributions not restricted					11,077,926	-	11,077,926
Investment Earnings					157,659	366	158,025
Miscellaneous Income					296,325	-	296,325
Special item - Gain (Loss) on sale of capital assets					-	-	-
Extraordinary Items					-	-	-
Transfers					-	-	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					96,469,650	366	96,470,016
CHANGE IN NET ASSETS					7,434,954	59,255	7,494,209
NET ASSETS - BEGINNING					39,904,724	242,220	40,146,944
NET ASSETS - ENDING					\$ 47,339,678	\$ 301,475	\$ 47,641,153

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District
Balance Sheet
Governmental Funds
As of June 30, 2011**

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 15,365,748	\$ 3,632,633	\$ -	\$ 18,998,381
Investments	247,000	-	-	247,000
Taxes Receivable, net	2,353,940	-	-	2,353,940
Due from other funds	217,087	-	-	217,087
Due from Other Governments	1,991,880	-	-	1,991,880
Other Receivables	38,778	137,500	-	176,278
Inventories	-	-	-	-
Prepaid Expenditures	-	-	-	-
Other Current Assets	-	-	-	-
TOTAL ASSETS	\$ 20,214,433	\$ 3,770,133	\$ -	\$ 23,984,566
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Due to Other Funds	\$ 5,701	\$ -	\$ -	\$ 5,701
Due to Other Governments	378,761	-	-	378,761
Accounts Payable	1,374,786	86,094	-	1,460,880
Current Portion of Long-Term Debt	266,480	-	-	266,480
Accrued Salaries and Benefits	4,836,876	-	-	4,836,876
Payroll Deductions and Withholdings	-	-	-	-
Deferred Revenues	1,502,813	-	-	1,502,813
Other Current Liabilities	39,070	-	-	39,070
TOTAL LIABILITIES	8,404,487	86,094	-	8,490,581
FUND BALANCES:				
Nonspendable Fund Balance	-	-	-	-
Restricted Fund Balance	398	3,684,039	-	3,684,437
Committed Fund Balance	-	-	-	-
Assigned Fund Balance	8,813,072	-	-	8,813,072
Unassigned Fund Balance	2,996,476	-	-	2,996,476
TOTAL FUND BALANCES	11,809,946	3,684,039	-	15,493,985
TOTAL LIABILITIES AND FUND BALANCES	\$ 20,214,433	\$ 3,770,133	\$ -	\$ 23,984,566

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
As of June 30, 2011**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 15,493,985

**Amounts reported for governmental activities in the statement
of net assets are different because:**

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$216,338,257 and the accumulated depreciation is \$45,741,763. 170,596,494

Additional receivables established that do not meet the availability criteria reflected in the fund financial statements. This amount represents the difference between the prior year receivables and the current year receivables established under the accrual basis of accounting. 207,197

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 1,466,474

The governmental funds follow the purchase method of inventory; therefore no inventory is reflected on the balance sheet. However, the statement of net assets uses the consumption method of inventory. 101,726

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable	\$ (134,206,418)	
Accrued interest on the bonds	(544,201)	
Compensated absences	(1,480,169)	
Other Retirement Benefits	(3,033,355)	
Net Pension Obligation	(198,511)	
Net OPEB Obligation	(1,063,544)	(140,526,198)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 47,339,678**

The Accompanying Notes are an integral part of these financial statements.

East Penn School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES				
Local Sources	\$ 87,192,660	\$ 203,898	\$ -	\$ 87,396,558
State Sources	21,878,697	-	-	21,878,697
Federal Sources	3,096,291	-	-	3,096,291
TOTAL REVENUES	<u>112,167,648</u>	<u>203,898</u>	<u>-</u>	<u>112,371,546</u>
EXPENDITURES				
Instruction	62,809,896	6,574	-	62,816,470
Support Services	32,040,798	33,693	201,270	32,275,761
Operation of Non-Instructional Services	1,487,952	-	-	1,487,952
Capital Outlay	-	1,933,933	-	1,933,933
Debt Service	14,069,238	-	8,835	14,078,073
TOTAL EXPENDITURES	<u>110,407,884</u>	<u>1,974,200</u>	<u>210,105</u>	<u>112,592,189</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,759,764</u>	<u>(1,770,302)</u>	<u>(210,105)</u>	<u>(220,643)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Bond Issues	-	-	-	-
Refunding Bond Proceeds	-	-	15,395,000	15,395,000
Bond Premiums	-	-	413,577	413,577
Insurance Recoveries	30,602	-	-	30,602
Interfund Transfers In	-	100,456	-	100,456
Sale/Compensation for Fixed Assets	465	-	-	465
Payment to bond refunding escrow agent	-	-	(15,590,423)	(15,590,423)
Bond Discounts	-	-	(11,686)	(11,686)
Refunds of Prior Year Receipts	(503)	-	-	(503)
Operating Transfers Out	(100,000)	(456)	-	(100,456)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(69,436)</u>	<u>100,000</u>	<u>206,468</u>	<u>237,032</u>
SPECIAL/EXTRAORDINARY ITEMS				
Special Items	-	-	-	-
Extraordinary Items	-	-	-	-
NET CHANGE IN FUND BALANCES	1,690,328	(1,670,302)	(3,637)	16,389
FUND BALANCES - BEGINNING	<u>10,119,618</u>	<u>5,354,341</u>	<u>3,637</u>	<u>15,477,596</u>
FUND BALANCES - ENDING	<u>\$ 11,809,946</u>	<u>\$ 3,684,039</u>	<u>\$ -</u>	<u>\$ 15,493,985</u>

The Accompanying Notes are an integral part of these financial statements.

East Penn School District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes In Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2011

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 16,389

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays 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 capital outlays exceeded depreciation in the current period.

	Depreciation expense	\$ 3,907,320	
	less - capital outlays	<u>1,977,561</u>	(1,929,759)

In the statement of activities, only the gain on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of fixed assets sold. -

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred revenues increased by this amount this year. (53,222)

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 10,250,000

In the statement of activities, certain operating expenses--compensated absences (vacations) 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. This amount represents the difference between the amount earned versus the amount used. (110,567)

In the statement of activities, certain operating revenues are recognized when earned versus the revenues using the modified accrual basis of accounting in the fund statements that are recognized when the funds are available. As such, the amount shown here represents the difference between earned revenues and revenues that are earned, but not available. (100,000)

SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING **8,072,841**

**Statement of Revenues, Expenditures, and Changes In Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2011**

SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING (cont'd)	\$ 8,072,841
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This would include accumulated interest accreted on capital appreciation bonds. The additional interest accrued in the statement of activities over the amount due is shown here.</p>	(568,076)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Refunding bond issues becomes a use of current financial resources in governmental funds, but refundings represent payments of long-term debt in the statement of net assets. This figure represents the difference between bond proceeds and refunding payments made to paying agents.</p>	(5,197)
<p>The governmental funds use the purchase method of inventory, where all items purchased are charged to expenditures. However, the statement of activities is reflected on the consumption method of recording inventory type items; therefore, this adjustment reflects the inventory difference.</p>	<u>(64,614)</u>
Change in net assets of governmental activities	<u>\$ 7,434,954</u>

The Accompanying Notes are an integral part of these financial statements.

East Penn School District
Statement of Net Assets - Proprietary Funds
As of June 30, 2011

	<u>FOOD SERVICE</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 286,205	\$ -	\$ 286,205
Investments	-	-	-
Due from other funds	5,701	-	5,701
Due From Other Governments	52,436	-	52,436
Other Receivables	3,923	-	3,923
Inventories	56,990	-	56,990
Prepaid expenses	-	-	-
Other Current Assets	-	-	-
TOTAL CURRENT ASSETS	<u>405,255</u>	<u>-</u>	<u>405,255</u>
NON-CURRENT ASSETS:			
Building & Bldg. Improvements (net)	-	-	-
Machinery & Equipment (net)	284,511	-	284,511
Other Long-Term Receivables	-	-	-
TOTAL NON-CURRENT ASSETS	<u>284,511</u>	<u>-</u>	<u>284,511</u>
TOTAL ASSETS	<u>\$ 689,766</u>	<u>\$ -</u>	<u>\$ 689,766</u>
LIABILITIES			
CURRENT LIABILITIES:			
Due to Other Funds	\$ 215,611	\$ -	\$ 215,611
Due to Other Governments	-	-	-
Accounts Payable	57,787	-	57,787
Compensated Absences	-	-	-
Accrued Salaries and Benefits	-	-	-
Payroll Deductions and Withholdings	-	-	-
Deferred Revenue	73,911	-	73,911
TOTAL CURRENT LIABILITIES	<u>347,309</u>	<u>-</u>	<u>347,309</u>
NON-CURRENT LIABILITIES:			
Long-Term Portion of Compensated Absences	40,982	-	40,982
Net OPEB Obligation	-	-	-
TOTAL NON-CURRENT LIABILITIES	<u>40,982</u>	<u>-</u>	<u>40,982</u>
TOTAL LIABILITIES	<u>388,291</u>	<u>-</u>	<u>388,291</u>
NET ASSETS			
Invested in capital assets, with no related debt	284,511	-	284,511
Restricted for Legal Purposes	-	-	-
Unrestricted	16,964	-	16,964
TOTAL NET ASSETS	<u>301,475</u>	<u>-</u>	<u>301,475</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 689,766</u>	<u>\$ -</u>	<u>\$ 689,766</u>

The Accompanying Notes are an integral part of these financial statements.

East Penn School District
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds
For the Year Ended June 30, 2011

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL
OPERATING REVENUES:			
Food Service Revenue	\$ 2,100,897	\$ -	\$ 2,100,897
Charges for Services	-	-	-
Other Operating Revenues	-	-	-
TOTAL OPERATING REVENUES	2,100,897	-	2,100,897
OPERATING EXPENSES:			
Salaries	1,026,966	-	1,026,966
Employee Benefits	245,440	-	245,440
Purchased Professional and Technical Services	200	-	200
Purchased Property Service	500	-	500
Other Purchased Services	1,476,131	-	1,476,131
Supplies	195,437	-	195,437
Depreciation	40,182	-	40,182
Dues and Fees	-	-	-
Claims and Judgments	-	-	-
Other Operating Expenses	60,000	-	60,000
TOTAL OPERATING EXPENSES	3,044,856	-	3,044,856
OPERATING INCOME (LOSS)	(943,959)	-	(943,959)
NON-OPERATING REVENUES (EXPENSES)			
Earnings on investments	366	-	366
Contributions and Donations	-	-	-
Gain/Loss on Sale of Fixed Assets	-	-	-
State Sources	187,873	-	187,873
Federal Sources	814,975	-	814,975
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,003,214	-	1,003,214
INCOME (LOSS) BEFORE CONTRIBUTIONS	59,255	-	59,255
Capital Contributions	-	-	-
Transfers in (out)	-	-	-
CHANGES IN NET ASSETS	59,255	-	59,255
NET ASSETS - BEGINNING	242,220	-	242,220
NET ASSETS - ENDING	\$ 301,475	\$ -	\$ 301,475

The Accompanying Notes are an integral part of these financial statements.

East Penn School District
Statement of Cash Flows - Proprietary Funds
As of June 30, 2011

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Users	\$ 2,098,172	\$ -	\$ 2,098,172
Cash Received from Assessments made to Other Funds	-	-	-
Cash Received from Earnings on Investments	-	-	-
Cash Received from Other Operating Revenue	-	-	-
Cash Payments to Employees for Services	(1,268,145)	-	(1,268,145)
Cash Payments for Insurance Claims	-	-	-
Cash Payments to Suppliers for Goods and Services	(1,506,561)	-	(1,506,561)
Cash Payments to Other Operating Expenses	-	-	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(676,534)	-	(676,534)
	-----	-----	-----
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Local Sources	-	-	-
State Sources	188,306	-	188,306
Federal Sources	660,614	-	660,614
Notes and Loans Received	-	-	-
Interest Paid on Notes/Loans	-	-	-
Operating Transfers In (Out)	-	-	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	848,920	-	848,920
	-----	-----	-----
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Equipment	-	-	-
Gain/Loss on Sale of Fixed Assets (Proceeds)	-	-	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	-	-	-
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on Investments	366	-	366
Purchase of Investment Securities/Deposits to Investment Pools	-	-	-
Withdrawals from Investment Pools	-	-	-
Proceeds from Sale and Maturity of Investment Securities	-	-	-
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	366	-	366
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	172,752	-	172,752
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	113,453	-	113,453
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 286,205	\$ -	\$ 286,205

East Penn School District
Statement of Cash Flows - Proprietary Funds
As of June 30, 2011

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

	<u>FOOD SERVICE</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL</u>
OPERATING INCOME (LOSS)	\$ (943,959)	\$ -	(943,959)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
Depreciation and Net Amortization	40,182	-	40,182
Provision for Uncollectible Accounts	-	-	-
Donated Commodities Used	168,479	-	168,479
CHANGE IN ASSETS AND LIABILITIES:			
(Increase) Decrease in Accounts Receivable	(441)	-	(441)
(Increase) Decrease in Advances from Other Funds	(2,284)	-	(2,284)
(Increase) Decrease in Inventories	-	-	-
(Increase) Decrease in Prepaid Expenses	(23,764)	-	(23,764)
(Increase) Decrease in Other Current Assets	-	-	-
Increase (Decrease) in Accounts Payable	57,787	-	57,787
Increase (Decrease) in Accrued Salaries and Benefits	5,285	-	5,285
Increase (Decrease) in Advances to Other Funds	9,734	-	9,734
Increase (Decrease) in Net OPEB Obligations	(1,024)	-	(1,024)
Increase (Decrease) in Other Current Liabilities	13,471	-	13,471
TOTAL ADJUSTMENTS	<u>267,425</u>	<u>-</u>	<u>267,425</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (676,534)</u>	<u>\$ -</u>	<u>\$ (676,534)</u>

The Accompanying Notes are an integral part of these financial statements.

East Penn School District
Statement of Net Assets - Fiduciary Funds
As of June 30, 2011

	PRIVATE PURPOSE TRUST	PENSION AND OTHER EMPLOYEE BENEFIT TRUST	AGENCY FUNDS
ASSETS			
Cash and cash equivalents	\$ 116,273	\$ -	\$ 628,038
Investments	-	-	-
Due from Other Funds	-	-	-
Other Receivables	-	-	109
Prepaid Expenses	-	-	-
Other Current Assets	-	-	-
TOTAL ASSETS	\$ 116,273	\$ -	\$ 628,147
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	-	1,476
Due to Student Clubs	-	-	294,367
Other Current Liabilities	-	-	332,304
TOTAL LIABILITIES	-	-	628,147
NET ASSETS			
Restricted	-	-	-
Unrestricted	116,273	-	-
TOTAL NET ASSETS	\$ 116,273	\$ -	\$ -

The Accompanying Notes are an integral part of these financial statements.

East Penn School District
Statement of Changes in Net Assets - Fiduciary Funds
For the Year Ended June 30, 2011

	PRIVATE-PURPOSE TRUST FUND	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
ADDITIONS		
Contributions	\$ 38,696	\$ -
Transfers from other funds	-	-
INVESTMENT EARNINGS:		
Interest and Dividends	1,613	-
Net increase (decrease) in fair value of investments	-	-
Less investment expense	-	-
TOTAL ADDITIONS	40,309	-
	-----	-----
 DEDUCTIONS		
Transfers to other funds	-	-
Administrative charges	-	-
Scholarships	32,494	-
TOTAL DEDUCTIONS	32,494	-
 CHANGE IN NET ASSETS	7,815	-
 NET ASSETS - BEGINNING OF YEAR	108,458	-
 NET ASSETS - END OF YEAR	\$ 116,273	\$ -

East Penn School District
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -
General Fund
For the Year Ended June 30, 2011

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u> <u>(BUDGETARY BASIS)</u>	<u>VARIANCE WITH</u> <u>FINAL BUDGET</u> <u>POSITIVE</u>	<u>BUDGET TO</u> <u>GAAP</u>	<u>ACTUAL</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>	<u>DIFFERENCE</u>	<u>AMOUNTS</u> <u>GAAP BASIS</u>
REVENUES						
Local Sources	\$ 87,306,797	\$ 87,306,797	\$ 87,192,660	\$ (114,137)	\$ -	\$ 87,192,660
State Sources	24,588,226	24,588,226	21,878,697	(2,709,529)	-	21,878,697
Federal Sources	805,052	805,052	3,096,291	2,291,239	-	3,096,291
TOTAL REVENUES	<u>112,700,075</u>	<u>112,700,075</u>	<u>112,167,648</u>	<u>(532,427)</u>	<u>-</u>	<u>112,167,648</u>
EXPENDITURES						
Regular Instruction	45,447,634	44,568,903	44,542,938	25,965	-	44,542,938
Special Programs	14,133,246	14,377,246	13,662,050	715,196	-	13,662,050
Vocational Programs	3,181,280	3,181,280	3,105,628	75,652	-	3,105,628
Other Instructional Programs	572,791	622,791	520,997	101,794	-	520,997
Nonpublic School Programs	-	17,462	17,462	-	-	17,462
Adult Education Programs	90,654	81,923	58,424	23,499	-	58,424
Community/Junior College Ed. Programs	917,877	917,877	902,397	15,480	-	902,397
Pupil Personnel Services	4,383,517	4,383,517	3,801,484	582,033	-	3,801,484
Instructional Staff Services	3,290,451	3,592,423	3,410,226	182,197	-	3,410,226
Administrative Services	5,425,959	5,431,959	5,137,335	294,624	-	5,137,335
Pupil Health	1,129,173	1,198,173	1,057,309	140,864	-	1,057,309
Business Services	946,409	946,409	844,853	101,556	-	844,853
Operation & Maintenance of Plant Services	11,023,111	10,989,111	10,195,764	793,347	-	10,195,764
Student Transportation Services	5,852,771	5,932,771	5,914,362	18,409	-	5,914,362
Central Support Services	1,556,522	1,706,550	1,537,457	169,093	-	1,537,457
Other Support Services	141,700	143,700	142,008	1,692	-	142,008
Student Activities	1,653,120	1,653,120	1,486,149	166,971	-	1,486,149
Community Services	770	2,704	1,803	901	-	1,803
Facilities, Acquisition and Construction	-	-	-	-	-	-
Debt Service	15,531,295	15,490,361	14,069,238	1,421,123	-	14,069,238
TOTAL EXPENDITURES	<u>115,278,280</u>	<u>115,238,280</u>	<u>110,407,884</u>	<u>4,830,396</u>	<u>-</u>	<u>110,407,884</u>
Excess (deficiency) of revenues over expenditures	<u>(2,578,205)</u>	<u>(2,538,205)</u>	<u>1,759,764</u>	<u>4,297,969</u>	<u>-</u>	<u>1,759,764</u>
OTHER FINANCING SOURCES (USES)						
Interfund Transfers In	-	-	-	-	-	-
Sale/Compensation for Fixed Assets	1,100	1,100	465	(635)	-	465
Insurance Recoveries	-	-	30,602	30,602	-	30,602
Refund of Prior Year Receipts	-	(40,000)	(503)	39,497	-	(503)
Fund Transfers Out	(100,000)	(100,000)	(100,000)	-	-	(100,000)
Budgetary Reserve	(5,426,118)	(5,426,118)	-	5,426,118	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5,525,018)</u>	<u>(5,565,018)</u>	<u>(69,436)</u>	<u>5,495,582</u>	<u>-</u>	<u>(69,436)</u>
Special Items	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	<u>(8,103,223)</u>	<u>(8,103,223)</u>	<u>1,690,328</u>	<u>9,793,551</u>	<u>-</u>	<u>1,690,328</u>
FUND BALANCE - JULY 1, 2010	<u>8,106,635</u>	<u>\$ 8,106,635</u>	<u>\$ 10,119,618</u>	<u>\$ 2,012,983</u>	<u>\$ -</u>	<u>\$ 10,119,618</u>
FUND BALANCE - JUNE 30, 2011	<u>\$ 3,412</u>	<u>\$ 3,412</u>	<u>\$ 11,809,946</u>	<u>\$ 11,806,534</u>	<u>\$ -</u>	<u>\$ 11,809,946</u>

The Accompanying Notes are an integral part of these financial statements.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

Note 1 - Description of the School District and Reporting Entity

School District

The East Penn School District is located in eastern Pennsylvania in the southern portion of Lehigh County, approximately seven miles to the south and west of Allentown, the county seat of Lehigh County. Encompassing 45.4 square miles in Lehigh County, the School District is comprised of Alburdis, Emmaus, and Macungie Boroughs, and Lower Macungie and Upper Milford Townships.

Prior to 1966 and pursuant to law, the former School Districts of the Boroughs of Emmaus, Alburdis, and Macungie, and the Townships of Lower Macungie and Upper Milford, Lehigh County, formed the East Penn Union School District. Pursuant to Act 299 of the 1963 Pennsylvania Legislature requiring a consolidation of school districts, effective July 1, 1966, the East Penn Union School District formed the East Penn School District. The reorganized School District has assumed all rights and obligations of the predecessor school district.

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

As specified under the School Law Code of the Commonwealth of Pennsylvania, this and all other school districts of the state "shall be and hereby are vested as, bodies corporate, with all necessary powers to carry out the provisions of this act." (Article II, Section 211).

Board of School Directors

The public school system of the Commonwealth shall be administered by a board of school directors, to be elected or appointed, as hereinafter provided. At each election of school directors, each qualified voter shall be entitled to cast one vote for each school director to be elected.

The East Penn School District is governed by a board of nine School Directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

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

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

Administration

The Superintendent of Schools shall be the executive officer of the Board of School Directors and, in that capacity shall administer the School District in conformity with Board policies and the School Laws of Pennsylvania. The Superintendent shall be directly responsible to, and therefore appointed by, the

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

Board of School Directors. The Superintendent shall be responsible for the overall administration, supervision, and operation of the School District.

The Director of Operations, recommended by the Superintendent and appointed by the Board of School Directors, shall supervise and coordinate all business and operational aspects of the School District. In this capacity, he or she shall be responsible to insure that all work accomplished by him/her, or by persons under his/her supervision, is in the best interests of the East Penn School District. The Director of Operations is directly responsible to the Superintendent.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For East Penn School District, this includes general operations, food service, and student related activities of the School District.

East Penn School District is a municipal Corporation governed by an elected nine-member board. As required by generally accepted accounting principles, these financial statements are to present East Penn School District (the primary government) and organizations for which the primary government is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the School District in that the School District approved the budget, the issuance of debt, or the levying of taxes. The East Penn School District does not have any component units.

Joint Ventures

Lehigh Career and Technical Institute

The School District is a participating member of the Lehigh Career and Technical Institute (LCTI). The LCTI is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the LCTI's annual operating budget. Each participating district pays a pro-rata share of the LCTI's operating costs based on the number of students attending the LCTI for each District. The District's share of the LCTI operating costs for 2010-11 was \$2,339,595.

On dissolution of the Lehigh Career and Technical Institute, the net assets of LCTI will be shared on a pro-rata basis of each participating district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the District does not have an equity interest in LCTI as defined by GASB Statement No. 14, except a residual interest in the net assets upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the LCTI can be obtained from the LCTI's administrative office at 2300 Main Street, Schnecksville, PA.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

Lehigh-Carbon Community College

The District is a participating member of the Lehigh-Carbon Community College (LCCC). The LCCC is run by a Board of Trustees elected by the participating member districts' boards of directors. No participating district appoints a majority of the Board of Trustees. A vote of two-thirds of all member districts shall be required for approval of the LCCC's annual operating budget. The amount of the annual operating costs of the LCCC shall be apportioned among the member districts on the basis of the number of full-time equivalent students enrolled in LCCC and residing in the respective geographical areas of each of the member districts. The District's share of LCCC's operating costs for 2010-11 was \$902,397.

On dissolution of the Lehigh-Carbon Community College, the net assets of LCCC will be shared on a pro-rata basis of each member district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the District does not have an equity interest in LCCC as defined by GASB Statement No. 14, except a residual interest in the net assets upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the LCCC can be obtained from the LCCC's administrative office at 2300 Main Street, Schnecksville, PA.

Jointly Governed Organizations

Carbon-Lehigh Intermediate Unit

The School District is a participating member of the Carbon-Lehigh Intermediate Unit (CLIU). The CLIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the CLIU's annual operating budget. The CLIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no on-going financial interest or financial responsibility in the CLIU. The CLIU contracts with participating districts to supply special education services, computer services, and acts as a conduit for certain federal programs.

Note 2 - Summary of significant accounting policies

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its business-type activities and to its proprietary funds, provided they do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

A. *Basis of Presentation*

The School District's basic financial statements consist of government-wide statements, including a statement of net assets, a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for one business-type activity of the School District. 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, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support 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 activity or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's **major** governmental funds:

General Fund

The General Fund should be used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term proceeds of specific revenue sources establish that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Under this new definition, effective for this year, the District does not have any special revenue funds.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

Capital Project Funds

Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

The District has the following Capital Project Funds:

a) *2009 Construction Fund*

This fund received the proceeds of \$9,615,000 from the General Obligation Bonds – Series of 2009. The proceeds will be used for designing, acquiring, constructing, furnishing, and equipping the Willow Lane Elementary School and other facilities of the District. The issuance costs were expended in the year paid.

b) *2010 Construction Fund*

This fund received the proceeds of \$4,000,000 from the General Obligation Bonds – Series A of 2010. The proceeds will be used for capital improvements to facilities owned and operated by the school district, and to pay costs of issuance.

c) *Capital Reserve Fund*

This fund was created in accordance with Section 1432 of the Municipal Code. Because of a change in accounting principles, it is being restated as a Capital Projects Fund. The Municipal Code restricts how the resources are spent within this fund.

Proprietary Funds Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise funds.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's major enterprise fund is:

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the School District.

Fiduciary Funds Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the

School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has two private purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all enterprise funds are accounted for on a flow of economic resources 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 fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its enterprise activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

E. Budgetary Process

An operating budget is adopted prior to the beginning of each year for the General Fund on the modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

In accordance with Act 1 of 2006, the Board shall annually, but not later than the first business meeting of January, decide the budget option to be used for the following fiscal year. The Board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

Accelerated Budget Process Option

Under this option, a preliminary budget must be prepared 150 days prior to the primary election. Under this Option, the preliminary budget must be available for public inspection at least 110 days prior to the primary election. The Board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption. The adoption must occur at least 90 days prior to the primary election.

If the preliminary budget exceeds the increase authorized by the Index, an application for an exception may be filed with either a Court of Common Pleas with jurisdiction or PDE and made available for public inspection. The Board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

The final budget shall include any necessary changes from the adopted preliminary budget. Any reduction required as the result of the failure of referendum shall be clearly stated. The final budget shall be made available for public inspection at least 20 days prior to final adoption. The Board shall annually adopt the final budget by a majority vote of all members of the Board prior to June 30.

Board Resolution Option

Under the Board Resolution Option, the Board shall adopt a resolution that it will not raise the rate of any tax for the following fiscal year by more than the Index. Such resolution shall be adopted no later than 110 days prior to the primary election. At least 30 days prior to adoption of the final budget the Board shall prepare a proposed budget. The proposed budget shall be available for public inspection at least 20 days prior to adoption of the budget. The Board shall give public notice of its intent to adopt at least 10 days prior to adoption of the proposed budget. The Board shall annually adopt the final budget by a majority vote of all members of the Board by June 30.

Legal budgetary control is maintained at the sub-function/major object level. The PA School Code allows the School Board to make budgetary transfers between major function and major object codes only within the last nine months of the fiscal year, unless there is a two-thirds majority of the Board approving the transfer. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2010-11 budget transfers.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

F. Change in Accounting Principles

During this past fiscal year, the District was required to implement the provisions of GASB Statement No. 54 on Fund Balance Classifications and Definitions. The revised definition for Special Revenue Funds and Capital Project Funds has caused two previous governmental funds to be reclassified or eliminated. The new definitions for governmental funds used by the District can be found in Note 1-B to the financial statements.

In past years, the District reflected the Athletic Fund, which controlled athletic receipts and costs, as a Special Revenue Fund. As a result of a change in accounting principle this fund is being eliminated and is being reclassified as part of the General Fund. Thus, the prior year ending fund balance in the general fund of \$10,009,397 has increased by \$110,221.

In addition, the Capital Reserve Fund, which was previously categorized as a Special Revenue Fund, is being reclassified as a Capital Project Fund because of this change in accounting principle. As a result, the prior year Combined Capital Project Fund's fund balance of \$3,651,006 is increased by \$1,703,335.

Since both of these funds are governmental funds, there is no change in the prior year's governmental activities net asset balances.

G. Use of Estimates

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

H. Assets, Liabilities, and Net Assets

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Proprietary Fund type considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

Investments

In accordance with GASB Statement 31, investments are stated at fair value, except:

- a) Non-participating interest earning investment contracts are recorded at amortized cost;
- b) Money market investments and participating interest earning investment contracts that mature within one year of acquisition are recorded at amortized cost; and,
- c) Investments held in 2a7-like pools (Pennsylvania Local Government Investment Trust and Pennsylvania Treasurer's Invest Program), are recorded at the pool's share price.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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".

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

Property Tax Levy

Property taxes, which were levied during the fiscal year ended June 30, 2011, are recognized as revenue in the fund financial statements when received by the District during the fiscal year and also estimated to be received by the District within sixty (60) days after the fiscal year ended.

Property taxes that were levied during the current fiscal year, which are not estimated to be received within sixty (60) days after the fiscal year-end, are recorded as receivable and deferred revenue in the fund financial statements.

In the government-wide financial statements, all property taxes levied during the fiscal year are recognized as revenue, net of estimated uncollectible amount.

Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used. As of June 30, 2011, the inventory shown in the governmental activities column of the government-wide statement of net assets is \$101,726 and \$56,990 is shown as inventory in the business-type activities column of the government-wide statement of net assets.

Inventory type items in governmental funds utilize the purchase method, that is, they are charged to expenditures when purchased. There was no physical inventory taken as of June 30, 2011; therefore, there is no offsetting nonspendable fund balance in the General Fund.

Inventory type items in Proprietary Funds use the consumption method, in which items are purchased for inventory and charged to expenses when used. The only Proprietary Fund of the District is the Food Service Fund. Inventory within this fund consists of supplies purchases, food and donated commodities, which are valued at U.S.D.A.'s approximate costs. Inventories on hand at June 30, 2011, consist of:

Donated Commodities	\$	33,226
Supplies		7,461
Food		<u>16,303</u>
TOTAL	<u>\$</u>	<u>56,990</u>

Prepaid Expenses

In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand-five hundred (\$2,500) dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets utilized by the enterprise funds is also capitalized.

All reported capital assets, except land, certain land improvements, and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	10 -50 years	10 - 50 years
Furniture and Equipment	5 - 20 years	5 -20 years
Vehicles	8 years	8 years

Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In enterprise funds, the entire amount of compensated absences is reported as a fund liability.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

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 or proprietary fund type statement of net assets. Bond premiums and discounts, bond issuance costs, and deferred amounts on refundings are deferred and amortized over the life of the bonds using modification of the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and any deferred amount on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Reclassification

Certain amounts have been reclassified to conform to the June 30, 2011, presentation of government-wide financial statements on the accrual basis of accounting versus the governmental fund financial statements reported on the modified accrual basis of accounting.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings 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 a higher governmental authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance Categories

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Below are the potential categories of fund balance the government may use with their definitions, the actual categories used is explained in Note 7 to the financial statements:

Nonspendable Fund Balance

This category includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

Restricted Fund Balance

Fund balance should be reported as restricted when constraints placed on the use of resources are externally imposed by creditors, grantors, contributors, or other government laws or regulations, or the constraint is imposed by enabling legislation or constitutional provisions.

Committed Fund Balance

This category pertains to amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action.

This government's governing body is the School Board and the formal action taken to commit resources is done by resolution.

Assigned Fund Balance

This category includes all remaining amounts that are reported in governmental funds, except the general fund, that are not classified in one of the above-mentioned categories. In the general fund, this category represents the District's intent to use resources for a specific purpose, which does not require formal action by the governing body. The District's policy dictates the business manager is responsible to make these assignments.

Unassigned Fund Balance

This category of fund balance represents the residual classification for the general fund after segregating resources used in the other categories listed above. Unassigned fund balance will only be shown in other governmental funds if those governmental funds have a negative net fund balance.

The District's policy on fund balance does not dictate which category of unrestricted fund balance is spent first, when resources are available to be spent in various categories. As such, committed amounts will be reduced first, followed by assigned amounts, and then unassigned amounts. The District's policy also does not dictate whether restricted (nonspendable or restricted) or unrestricted (committed, assigned, and unassigned) is spent first when resources are available in both categories. As such, in these circumstances, restricted will be assumed to have been spent first followed by the unrestricted categories.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The proprietary funds received no capital contributions during this fiscal year.

Note 3 - Reconciliation of government-wide and fund financial statements

- A. *Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.*

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

The governmental fund balance sheet includes reconciliation between "fund balance -total governmental funds" and "net assets - governmental activities" as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The details of this \$140,526,198 differences are:

Bonds payable	\$ 136,990,000
Less: Deferred charge on refunding (to be amortized as interest expense)	(2,484,615)
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(1,214,834)
Less: Issuance discount (to be amortized as interest expense)	(145,653)
Add: Issuance premium (to be amortized as a contra to interest expense)	1,061,520
Accrued interest payable	544,201
Other Retirement Benefits	3,033,355
Net Pension Obligation	198,511
Net OPEB Obligation	1,063,544
Compensated absences	1,480,169
Net adjustment to reduce "fund balance - total governmental funds" to arrive at "net assets - governmental activities"	\$ 140,526,198

B. Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and district-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. Differences between the governmental funds statement of revenues, expenditures, and changes in fund balance and the statement of activities fall into one of three broad categories. The amounts shown in the columns on the following page represent:

- a) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities. The long-term expenses reported below recognize the change in vested employee benefits.
- b) Capital related differences include (1) the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording of depreciation expense on those items as recorded in the statement of activities.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

- c) Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability; principal payments are recorded as a reduction of liabilities.

	TOTAL GOVERN- MENTAL FUNDS	LONG-TERM REVENUES/ EXPENSES	CAPITAL RELATED ITEMS	LONG-TERM DEBT TRANS- ACTIONS	TOTAL FOR STATEMENT OF ACTIVITIES
REVENUES AND OTHER SOURCES					
LOCAL SOURCES:					
Property Taxes	\$ 75,998,196	\$ (53,223)	\$ -	\$ -	\$ 75,944,973
Taxes levied for specific purposes	8,992,767	-	-	-	8,992,767
Interest and investment earnings	157,659	-	-	-	157,659
Miscellaneous	286,033	-	-	-	286,033
Contributions and Donations	110,292	(100,000)	-	-	10,292
Charges for Services	284,156	-	-	-	284,156
Grants, subsidies & contributions not restricted	11,077,926	-	-	-	11,077,926
Bond Premium	413,576	-	-	(413,576)	-
Proceeds from Bond Issues	-	-	-	-	-
Proceeds from Refunding of Bonds	15,395,000	-	-	(15,395,000)	-
INTERMEDIATE SOURCES:					
Charges for Services	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
STATE SOURCES:					
Operating & Capital grants and contributions	10,825,771	-	-	-	10,825,771
FEDERAL SOURCES:					
Operating & Capital grants and contributions	4,669,814	-	-	-	4,669,814
SPECIAL AND EXTRAORDINARY SOURCES:					
Gain or (Loss) on disposal of assets	-	-	-	-	-
TOTAL REVENUES	128,211,190	(153,223)	-	(15,808,576)	112,249,391
EXPENDITURES/EXPENSES					
Instruction	62,816,471	206,323	147,161	-	63,169,955
Instructional Student Support	8,272,379	28,797	44,130	-	8,345,306
Admin. & Fin'l Support Services	7,882,895	(105,556)	(32,608)	76,134	7,820,865
Oper. & Maint. Of Plant Svcs.	10,305,599	40,108	3,090	-	10,348,797
Pupil Transportation	5,914,362	-	4,584	-	5,918,946
Student activities	1,486,149	(1,745)	8,055	-	1,492,459
Community Services	1,803	7,256	1,189	-	10,248
Capital Outlay	1,834,456	-	(1,834,456)	-	-
Debt Service	29,680,685	-	-	(25,561,437)	4,119,248
Transfers Out	-	-	-	-	-
Depreciation - unallocated	-	-	3,588,613	-	3,588,613
Impairment Loss	-	-	-	-	-
TOTAL EXPENDITURES/EXPENSES	128,194,799	175,183	1,929,758	(25,485,303)	104,814,437
NET CHANGE FOR THE YEAR	\$ 16,391	\$ (328,406)	\$ (1,929,758)	\$ 9,676,727	\$ 7,434,954

Note 4 - Stewardship, Compliance, and Accountability

A. Compliance with finance related legal and contractual provisions

The District has no material violations of finance related legal and contractual provisions. During this past fiscal year the District violated the Clean Streams Law and Erosion Control. As such, fines paid by the District totaled \$81,988.

B. Deficit fund balance or net assets of individual funds

No individual fund contains a deficit fund balance or net assets at June 30, 2011.

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

C. Excess of expenditures over appropriations in individual funds

No individual fund, which had a legally adopted budget, had an excess of expenditures over appropriations.

D. Budgetary compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year-end; therefore, it does not have any outstanding encumbrances at June 30, 2011. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

Note 5 - Detailed notes on all funds and account groups

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2011, \$6,702,697 of the District's bank balance of \$7,456,328 exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	-
Collateralized with securities held by the pledging financial institution		-
Uninsured and collateral held by the pledging bank's trust department not in the District's name		<u>6,702,697</u>
TOTAL	\$	<u>6,702,697</u>

Reconciliation to Financial Statements

Uncollateralized Amount above	\$	6,702,697
Plus: Insured Amount		753,631
Less: Outstanding Checks		<u>(45,763)</u>
Carrying Amount - Cash Balances		7,410,565
Plus: Petty Cash		1,890
Deposit in Pooled Investments Considered Cash Equivalents		4,418,979
Deposit in Money Market Mutual Funds Considered Cash Equivalents		8,444,464
Less: Certificates of Deposit considered Investments by School Code		<u>(247,000)</u>
TOTAL CASH PER FINANCIAL STATEMENTS	\$	<u>20,028,898</u>

Investments

Permitted investments for Pennsylvania School Districts are defined in the Public School Code of 1949 as:

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C; and,
4. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

As of June 30, 2011, the District had the following investments:

<i>Investment</i>	Maturities	Fair Value
PLGIT		\$ 2,556,487
PLGIT-ARM		1,862,492
First Star Banking		6,674,323
US Bank		1,770,141
Certificates of Deposit		247,000
TOTAL		\$ 13,110,443

Interest Rate Risk

The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2011 the District's investment in PLGIT was rated AAA by Standard & Poor's. The District's investment in the PA Treasurer's Invest Program was rated AAA by Standard & Poor's and Moodys. The District's investment in First Start Banking and US Bank Money Market accounts was rated AAA by Standard & Poor's Investors Service.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Reconciliation to Financial Statements

Total Investments Above	\$ 13,110,443
Less: Deposits in Investment Pool Considered Cash Equivalents	(4,418,979)
Deposits in Money Market Funds Considered Cash Equivalents	(8,444,464)
Total Investments Per Financial Statements	\$ 247,000

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Property Taxes

Property taxes are levied on July 1, on the assessed value listed, as of that date, for all taxable real property located in the District. Assessed values are established by the County Board of Assessments. All taxable real property was assessed at \$1,731,332,100. The tax rate for the year was \$4.532 per \$100 of assessed valuation or 45.32 mills. In accordance with Act 1 of 2006, the District received \$1,793,925 in property tax reduction funds for the 2010-11 fiscal year.

The property tax calendar is:

- July 1 - Full year tax assessed for current year.
- July 1 - August 31 - Discount period during which a 2% discount is allowed.
- September 1 - October 31 - Face amount of tax is due
- November 1 - January 15 - A 10% penalty is added to all payments.
- January 15 - All unpaid taxes become delinquent and are turned over to the County Tax Claim Bureau for Collection.

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes was determined by the administration. A portion of the net amount estimated to be collectible, which was measurable and available within 60 days, was recognized as revenue and the balance deferred in the financial statements.

Receivables

Receivables, as of year end, for the government's individual major funds and non-major and fiduciary funds, in the aggregate, including the applicable allowances for uncollectible accounts, are:

	GENERAL FUND	CAPITAL PROJECT FUNDS	FOOD SERVICE FUND	NON- MAJOR FUNDS	FIDUCIARY FUNDS	TOTAL
RECEIVABLES:						
Interest	\$ 1,730	\$ -	\$ -	\$ -	\$ -	\$ 1,730
Taxes	2,353,940	-	-	-	-	2,353,940
Accounts	37,048	137,500	3,923	-	109	178,580
Intergovernmental	1,991,880	-	52,436	-	-	2,044,316
GROSS RECEIVABLES	4,384,598	137,500	56,359	-	109	4,578,566
Less: Allowance for Uncollectibles	-	-	-	-	-	-
NET RECEIVABLES	\$ 4,384,598	\$ 137,500	\$ 56,359	\$ -	\$ 109	\$ 4,578,566

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds are:

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

	UNAVAILABLE	UNEARNED
Delinquent Property Taxes - General Fund	\$ 1,496,326	\$ -
Overpayment from Tax Collector		3
Summer School Tuition	-	3,450
Summer Fitness		2,200
Grants drawdowns prior to meeting eligibility requirements	-	834
TOTAL	\$ 1,496,326	\$ 6,487

Capital Assets

Capital asset balances and activity for the year ending June 30, 2011, were:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Capital Assets not being depreciated:				
Land	\$ 11,235,048	\$ -	\$ -	\$ 11,235,048
Construction in Progress	51,189,887	1,794,838	(30,790,482)	22,194,243
Total Capital Assets not being depreciated	62,424,935	1,794,838	(30,790,482)	33,429,291
Capital Assets being depreciated:				
Site Improvements	6,304,829	-	-	6,304,829
Buildings and Improvements	140,961,571	30,756,735	-	171,718,306
Furniture and Equipment	4,669,362	216,469	-	4,885,831
TOTAL CAPITAL ASSETS BEING DEPRECIATED	151,935,762	30,973,204	-	182,908,966
Less accumulated depreciation for:				
Site Improvements	(2,842,909)	(235,834)	-	(3,078,743)
Buildings and Improvements	(36,562,282)	(3,392,577)	-	(39,954,859)
Furniture and Equipment	(2,429,251)	(278,910)	-	(2,708,161)
TOTAL ACCUMULATED DEPRECIATION	(41,834,442)	(3,907,321)	-	(45,741,763)
TOTAL CAPITAL ASSETS BEING DEPRECIATED NET OF ACCUMULATED DEPRECIATION	110,101,320	27,065,883	-	137,167,203
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	\$ 172,526,255	\$ 28,860,721	\$ (30,790,482)	\$ 170,596,494
BUSINESS-TYPE ACTIVITIES:				
Capital Assets being depreciated:				
Furniture and Equipment	\$ 1,169,174	\$ -	\$ -	\$ 1,169,174
Less accumulated depreciation	(844,481)	(40,182)	-	(884,663)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	\$ 324,693	\$ (40,182)	\$ -	\$ 284,511

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

*** DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:**

Regular Instruction	\$ 146,190
Special Instruction	971
Vocational Instruction	-
Other Instruction	-
Adult Instruction	-
Community College Instruction	-
Pupil Services	116
Instructional Staff Svcs.	53,515
Administrative Services	3,455
Health Services	334
Business Services	1,494
Operation & Maintenance of Plant Svcs.	49,196
Pupil Transportation	4,584
Central Services	49,609
Other Support Services	-
Student Activities	8,055
Community Services	1,189
Depreciation - unallocated	3,588,613
TOTAL DEPRECIATION FOR GOVERNMENTAL ACTIVITIES	<u>\$ 3,907,321</u>

The governmental activities did not dispose of any capital assets during the year. The business-type activities did not dispose of any capital assets during the year.

Commitments

Encumbrances

Any encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. The General Fund Budget is maintained on the modified accrual basis of accounting, except that budgetary basis expenditures include any encumbrances issued for goods or services not received at year-end and not terminated.

The actual results of operations are presented in accordance with GAAP and the District's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred. If budgetary encumbrances exist at year-end, they are included in the fund financial statements to reflect actual revenues and expenditures on a budgetary basis consistent with the District's legally adopted budget.

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Long-term construction commitments

The District has the following construction commitments in the Capital Project Funds:

	<u>CONTRACT AMOUNT</u>	<u>EXPENDED TO 6/30/11</u>	<u>OUTSTANDING COMMITMENTS</u>
PROJECT MANAGEMENT			
URS/O'Brien Kreitzberg, Inc. - Project Management Willow Lane ES	\$ 764,927	\$ 724,198	\$ 40,729
TOTAL	<u>764,927</u>	<u>724,198</u>	<u>40,729</u>
WILLOW LANE ELEMENTARY			
General Contractor- Perrotto Builders	13,944,952	13,325,204	619,748
HVAC Contractor- Worth & Company	2,665,063	2,598,436	66,627
Plumbing Contractor- JBM Mechanical	1,107,318	1,049,848	57,470
Electrical Contractor- Wind Gap Electric	2,885,173	2,885,173	-
TOTAL	<u>20,602,506</u>	<u>19,858,661</u>	<u>743,845</u>
GRAND TOTAL	<u>\$ 21,367,433</u>	<u>\$ 20,582,859</u>	<u>\$ 784,574</u>

Short-term debt

Interfund receivables and payables

The following interfund receivables and payables were in existence on June 30, 2011:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 217,087	\$ 5,701
Special Revenue (Capital Reserve) Fund	-	-
Capital Project (2004AA Construction) Fund	-	-
Enterprise (Food Service) Fund	5,701	215,611
Agency (Payroll) Fund	-	30
Agency (Activity) Fund	-	1,446
TOTAL	<u>\$ 222,788</u>	<u>\$ 222,788</u>

The District also made the following interfund transfers during the fiscal year ended June 30, 2011

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ -	\$ 100,000
Capital Project (Capital Reserve) Fund	100,000	-
Capital Project (2010 Construction) Fund	456	-
Capital Project (2009 GOB Construction) Fund	-	456
Agency (Activity) Fund	-	-
TOTAL	<u>\$ 100,456</u>	<u>\$ 100,456</u>

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Long-term liabilities

Long-term liability balances and activity for the year ended June 30, 2011, were:

Changes in Long-Term Liabilities

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
<u>GOVERNMENTAL ACTIVITIES</u>					
General Obligation Debt:					
<i>Bonds and notes payable:</i>					
Capital Projects	\$ 145,153,083	\$ 17,033,111	\$ 26,764,942	\$ 135,421,252	\$ 10,805,000
Other than capital projects	-	-	-	-	-
Total general obligation debt	145,153,083	17,033,111	26,764,942	135,421,252	10,805,000
<i>Other liabilities:</i>					
Vested employee benefits:					
Vacation pay	726,856	11,670	-	738,526	117,188
Sick pay	947,242	-	22,774	924,468	65,637
Net OPEB Obligation	770,416	293,128	-	1,063,544	-
Net Pension Obligation	148,063	50,448	-	198,511	-
Other retirement benefits	3,275,664	-	158,654	3,117,010	828,705
Total other liabilities	5,868,241	355,246	181,428	6,042,059	1,011,530
TOTAL GOVERNMENTAL ACTIVITY LONG-TERM LIABILITIES	\$ 151,021,324	\$ 17,388,357	\$ 26,946,370	\$ 141,463,311	\$ 11,816,530
<u>BUSINESS TYPE ACTIVITIES</u>					
<i>Other liabilities:</i>					
Vested employee benefits:					
Vacation pay	2,432	72	-	2,504	-
Sick pay	33,265	5,213	-	38,478	-
TOTAL BUSINESS-TYPE ACTIVITY LONG-TERM LIABILITIES	\$ 35,697	\$ 5,285	\$ -	\$ 40,982	\$ -

Payments on bonds and notes are made by the general fund. Vested employee benefits will be liquidated by governmental and proprietary funds. The School District currently does not have any bonds or notes payable in business-type activities.

Total Interest paid and accrued during the year:

GOVERNMENTAL ACTIVITIES:	EXPENSE	PAID
General obligation debt	\$ 4,118,745	\$ 3,828,073
Refund of Prior Year Receipts	503	503
Short-term borrowings	-	-
TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES	\$ 4,119,248	\$ 3,828,576

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

General Obligation Notes - Series of 1998

On December 30, 1998, the District issued \$10,215,000 of General Obligation Notes - Series of 1998. The purpose of this issue was to provide funds needed to refund the General Obligation Notes - Series A of 1997, capitalized interest, and paying the costs of issuance. A sinking fund has been established with the paying agent in accordance with the Local Governmental Unit Debt Act. The Notes mature from February 1, 2001, to February 1, 2020. The Notes shall bear interest at a variable rate based on the issuer's weekly rate, not to exceed 25% per annum. Interest shall be paid on the third day prior to the end of each month. The outstanding principal and interest requirements at June 30, 2011, are based on the interest rate of 0.13% at year end:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 570,000	\$ 6,591
2012-13	595,000	5,820
2013-14	620,000	5,033
2014-15	645,000	4,214
2015-16	670,000	3,370
2016-19	2,190,000	4,611
TOTAL OUTSTANDING	\$ 5,290,000	\$ 29,639

General Obligation Notes - Series A of 2003

On November 3, 2003, the District issued \$10,500,000 of General Obligation Notes - Series A of 2003. The purposes of this issue are: (1) to provide a portion of the funds needed for the planning, designing, acquiring, constructing, equipping and furnishing of renovations to (a) the existing Alburdis Elementary School, (b) the existing Shoemaker Elementary School; (c) the existing Emmaus Senior High School; and (d) various other existing school buildings and facilities and, (2) paying the remarketing costs. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The notes mature from August 1, 2012 to August 1, 2023. Interest rate is variable equal to the Issuer's weekly rate plus 0.55% not to exceed 15.55%. In the event of a default, the Credit Note-Series B of 2003 of \$10,760,112 becomes effective. The outstanding debt service requirements at June 30, 2011, using the year end interest rate of 0.11% are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ -	\$ 11,582
2012-13	200,000	11,349
2013-14	800,000	10,527
2014-15	800,000	9,647
2015-16	800,000	28,736
2016-21	4,700,000	8,791
2021-24	3,200,000	3,938
TOTAL OUTSTANDING	\$ 10,500,000	\$ 84,570

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

General Obligation Notes - Series C of 2003

On November 3, 2003, the District issued \$5,000,000 of General Obligation Notes - Series C of 2003. The purposes of this issue are: (1) to provide a portion of the funds needed for the planning, designing, acquiring, constructing, equipping and furnishing of renovations to (a) the existing Alburdis Elementary School; (b) the existing Shoemaker Elementary School; (c) the existing Emmaus Senior High School; and (d) various other existing school buildings and facilities and (2) paying the remarketing costs. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The notes mature from August 1, 2005 to August 1, 2012. Interest rate is variable equal to the Issuer's weekly rate plus 0.55% not to exceed 15.55%. In the event of a default, the Credit Note-Series B of 2003 of \$5,123,863 becomes effective. The outstanding debt service requirements at June 30, 2011, using the interest rate of 0.11% are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 700,000	\$ 619
2012-13	500,000	48
TOTAL OUTSTANDING	\$ 1,200,000	\$ 667

General Obligation Bonds - Series A of 2004

On May 4, 2004, the District issued \$13,800,000 of General Obligation Bonds - Series A of 2004. The purposes of this issue are to provide funds for: (1) the advance refunding of the Emmaus General Authority Guaranteed School Revenue Bonds Series of 1998, and (2) paying the costs of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from May 1, 2004 to May 1, 2020. Interest rates range from 2.00% to 4.00%. On March 1, 2011, the District refunded the Series A of 2004 (\$8,755,000), and the Series of 2006 (\$6,565,000), with interest rates ranging from 2.8% to 4.0%, with new debt in the amount of \$15,395,000 with interest rates ranging from 2.0% to 3.25%.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

		<u>PORTRION PERTAINING TO THE SERIES 2004 A BONDS REFUNDED</u> 57.15%
Gross Proceeds of Bonds	\$ 8,797,861	
Plus: Accrued Interest		
Premium	236,349	
Less: Original Issue Discount	(6,678)	
Underwriter's Discount	(57,010)	
TOTAL SOURCES	<u>\$ 8,970,522</u>	
<u>USES</u>		
2001A & 2002 AAA Escrow Deposit	\$ 8,909,540	
Issuance Cost	58,011	
Sinking Fund Deposit	2,971	
TOTAL USES	<u>\$ 8,970,522</u>	
<u>DIFFERENCE IN CASH FLOW REQUIREMENTS</u>		
Old Deb Service Cash Flows		\$ 10,464,415
Cash Flows From New Debt:		
New Debt Service Cash Flow	9,983,147	
Less: Excess Funds Deposited in Sinking Fund	(2,971)	
Net Cash Flows From New Debt	<u>9,980,177</u>	
Net Difference in Cash Flows		<u>\$ 484,238</u>
<u>ECONOMIC GAIN/LOSS</u>		\$ 9,462,301
Present Value of Old Dept Service Cash Flows		
Present Value of New Debt Service Cash Flows	\$ 9,085,171	
Less Excess Funds Deposited in Sinking fund	(2,971)	
TOTAL		<u>\$ 9,082,200</u>
ECONOMIC GAIN		<u>\$ 380,101</u>

General Obligation Notes - Series A of 2004

On October 1, 2004, the District issued \$15,000,000 of General Obligation Notes – Series A of 2004. The purpose of this issue is to provide funds for: (1) the cost of planning, designing, acquiring, constructing, equipping and furnishing additions and renovations to (a) the existing Shoemaker Elementary School and to (b) the existing Alburdis Elementary School; (2) planning, designing, acquiring, constructing, equipping and furnishing alterations, additions and renovations or improvements to existing school buildings and facilities, or acquiring related land, fixtures, furnishings or equipment for school purposes; (3) capitalizing the interest on the Note; and (4) paying the remarketing costs. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The notes mature from August 1, 2005, to August 1, 2023. Interest rates are variable equal to the issuer's weekly rate plus 0.55% not to exceed 15.55%. In the event of a default, the Credit Note – Series B of 2004 of \$15,388,480 becomes effective.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

The outstanding debt service requirements at June 30, 2011, using the year end interest rate of 0.11% are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 700,000	\$ 12,611
2012-13	700,000	11,508
2013-14	800,000	10,637
2014-15	800,000	9,757
2015-16	800,000	29,286
2016-21	4,700,000	8,901
2021-24	3,300,000	3,948
TOTAL OUTSTANDING	\$ 11,800,000	\$ 86,648

General Obligation Bonds – Series AA of 2004

On October 4, 2004, the District issued \$10,000,000 of General Obligation Bonds – Series AA of 2004. The purpose of this issue is to provide funds for: (a) the cost of planning, designing, acquiring, constructing, furnishing and equipping alterations, additions, and improvements to: (1) Eyer Middle School; (2) various school buildings and facilities of the School District; and (b) paying the costs and expenses of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a Sinking Fund has been established with the paying agent. Interest rates range from 3.00% to 4.75% with total interest indebtedness of \$5,261,614. The bonds mature from November 15, 2005, to November 15, 2024.

On December 30, 2006, the District advance refunded a portion of the Series AA of 2004 General Obligation Bonds (\$3,985,000) with interest rates ranging from 4.2% to 4.75%.

Remaining debt service requirements on this bond issue at June 30, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 430,000	\$ 146,417
2012-13	445,000	131,086
2013-14	465,000	114,024
2014-15	480,000	96,305
2015-16	500,000	77,305
2016-20	1,625,000	106,102
SUB-TOTAL	3,945,000	\$ 671,239
Unamortized Premium	15,116	
TOTAL OUTSTANDING	\$ 3,960,116	

General Obligation Bonds – Series A of 2005

On August 1, 2005, the District issued \$16,245,000 of General Obligation Bonds – Series A of 2005. The purpose of this issue is to advance refund the General Obligation Bonds – Series A of 2001, to advance refund the General Obligation Bonds – Series AAA of 2002, and to pay the costs and expenses of issuing the bonds. In accordance with the Local Government Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from December 15, 2005 to December 15, 2017. Interest rates range from 3.00% to 4.00% with total interest indebtedness of \$6,026,838.33. The outstanding debt service requirements at June 30, 2011, are:

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 685,000	\$ 533,675
2012-13	715,000	505,525
2013-14	750,000	468,900
2014-15	1,595,000	410,275
2015-16	2,580,000	318,800
2016-18	<u>6,680,000</u>	<u>240,600</u>
SUB-TOTAL	13,005,000	<u><u>\$ 2,477,775</u></u>
Unamortized Premium	221,197	
Unamortized Deferred Amt.	(298,284)	
TOTAL OUTSTANDING	<u><u>\$ 12,927,913</u></u>	

General Obligation Bonds – Series of 2006

On February 15, 2006, the District issued \$10,000,000 of General Obligation Bonds – Series of 2006. The purpose of this issue is to advance refund a portion of the General Obligation Bonds – Series of 2001, and to pay the costs and expenses of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from November 15, 2006 to November 15, 2017. Interest rates range from 3.00% to 3.75% with total interest indebtedness of \$2,393,981.88. On March 1, 2011, the District refunded the Series A of 2004 (\$8,755,000) and the Series of 2006 (\$6,565,000), with interest rates ranging from 2.8% to 4.0%, with new debt in the amount of \$15,395,000 with interest rates ranging from 2.0% to 3.25%.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

		<u>PORTION PERTAINING TO THE SERIES 2006 BONDS REFUNDED</u>
		42.85%
<u>SOURCES</u>		
Gross Proceeds of Bonds	\$	6,597,139
Plus: Accrued Interest		-
Premium		177,228
Less: Original Issue Discount		(5,007)
Underwriter's Discount		(42,749)
TOTAL SOURCES	\$	<u>6,726,611</u>
<u>USES</u>		
Escrow Deposit	\$	6,680,883
Issuance Costs		43,500
Sinking Fund Deposit		2,228
TOTAL USES	\$	<u>6,726,611</u>
<u>DIFFERENCE IN CASH FLOW REQUIREMENTS</u>		
Old Debt Service Cash Flows		\$ 7,538,573
Cash Flows From New Debt:		
New Debt Service Cash flow	\$	7,485,935
Less: Excess Funds Deposited in Sinking Fund		(2,228)
Net Cash Flows From New Debt		<u>7,483,707</u>
Net Difference in Cash Flows		<u>\$ 54,866</u>
<u>ECONOMIC GAIN/LOSS</u>		
Present Value of Old Debt Service Cash Flows		\$ 6,962,625
Present Value of New Debt Service Cash Flows	\$	6,812,581
Less: Excess Funds Deposited in Sinking Fund		(2,228)
Total		<u>6,810,353</u>
Economic Gain		<u>\$ 152,272</u>

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

General Obligation Bonds – Series A of 2006

On December 15, 2006, the District issued \$9,575,000 of General Obligations Bonds – Series A of 2006. The proceeds will be used: (1) to advance refund a portion of the General Obligation Bonds – Series of 2003 (\$5,115,000); (2) to advance refund a portion of General Obligation Bonds – Series AA of 2004 (\$3,985,000); and (3) to pay the costs and expenses of issuing the bonds. In accordance with the Local Governmental Debt Act, a sinking fund has been established with the paying agent. The bonds mature from January 1, 2008 to January 1, 2025. Interest rates range from 3.50% to 4.05% with total interest indebtedness of \$5,407,003. The outstanding debt service requirements at June 30, 2011 are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 40,000	\$ 372,710
2012-13	40,000	371,290
2013-14	45,000	369,782
2014-15	45,000	368,162
2015-16	45,000	366,497
2016-21	4,325,000	1,489,347
2021-25	<u>4,905,000</u>	<u>359,602</u>
SUB-TOTAL	9,445,000	<u>\$ 3,697,390</u>
Unamortized Discount	(10,681)	
Unamortized Deferred Amt.	<u>(161,608)</u>	
TOTAL OUTSTANDING	<u>\$ 9,272,711</u>	

General Obligation Note – Series A of 2007

On July 2, 2007, the District issued \$12,400,000 of General Obligation Note – Series A of 2007. The proceeds will be used: (1) For the planning, designing, constructing, equipping & furnishing additions, alterations and for renovations to existing Eyer Middle School; (2) Planning, designing, acquiring, constructing, equipping, and furnishing alterations, additions and renovations or improvements to existing school buildings and facilities or acquiring related land, fixtures, furnishings, or equipment for school purposes; (3) Paying design/architect fees for a new elementary school; (4) Capitalizing the interest on the Note; (5) Paying the remarketing costs. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The Note matures from August 1, 2009 to August 1, 2022. In the event of default, the Credit Note Series B of 2007 of \$12,721,150 becomes effective. Interest rate is variable equal to the weekly rate plus .55% per annum. The outstanding debt service requirements at June 30, 2011, using the year end interest rate of 0.11% are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 100,000	\$ 13,356
2012-13	100,000	13,210
2013-14	100,000	13,100
2014-15	100,000	12,990
2015-16	100,000	50,233
2016-21	6,200,000	12,915
2021-23	<u>5,500,000</u>	<u>3,610</u>
SUB-TOTAL	\$ 12,200,000	<u>\$ 119,414</u>
Unamortized Discount	-	
Unamortized Deferred Chgs.	-	
TOTAL OUTSTANDING	<u>\$ 12,200,000</u>	

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

General Obligation Bonds – Series of 2007

On November 29, 2007, the District issued \$10,000,000 of General Obligation Bonds – Series of 2007. The proceeds will be used: (1) to provide funds for and toward planning, designing, acquiring, constructing, furnishing, and equipping a new elementary center; and (2) paying the costs and expenses of this issue. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from November 15, 2008 to November 15, 2028. Interest rates range from 3.30% to 4.30% with total interest indebtedness of \$5,316,835. The outstanding debt service requirements at June 30, 2011 are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 325,000	\$ 367,418
2012-13	350,000	354,793
2013-14	375,000	342,106
2014-15	390,000	328,621
2015-16	405,000	314,307
2016-21	2,345,000	1,318,134
2021-26	2,950,000	786,217
2026-29	<u>2,170,000</u>	<u>142,760</u>
SUB-TOTAL	9,310,000	\$ 3,954,356
Unamortized Discount	(23,144)	
TOTAL OUTSTANDING	<u>\$ 9,286,856</u>	

General Obligation Bonds – Series of 2008

On April 15, 2008, the District issued \$10,000,000 of General Obligation Bonds – Series of 2008. The proceeds will be used: (1) to currently refund a portion (\$610,000) of the Series AA of 2001 bonds; (2) to currently refund the outstanding (\$6,180,000) Series of 2002 bonds; (3) to currently refund a portion (\$2,990,000) of the Series of AA 2002 bonds; and (4) to pay the costs of the issue. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 1, 2008 to October 1, 2017. Interest rates range from 3.00% to 3.500%, with total interest indebtedness of \$1,493,682. The outstanding debt service requirements at June 30, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 850,000	\$ 202,500
2012-13	870,000	179,913
2013-14	1,505,000	145,375
2014-15	1,605,000	98,725
2015-16	730,000	63,243
2016-18	<u>1,535,000</u>	<u>53,219</u>
SUB-TOTAL	7,095,000	\$ 742,975
Unamortized Premium	14,059	
Unamortized Deferred Chgs.	(237,964)	
TOTAL OUTSTANDING	<u>\$ 6,871,095</u>	

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

General Obligation Bonds – Series A of 2008

On August 14, 2008, the District issued \$9,845,000 of General Obligation Bonds – Series A of 2008. The proceeds will be used: (1) to refund a portion of Series 2003 bonds, (2) to refund series 2001 A Bond, (3) to refund series 2002 AA Bonds, and (4) to pay related costs, fees, and expenses. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from September 15, 2008 to September 15, 2015. Interest rates range from 3.25% to 3.50% with total interest indebtedness of \$1,058,529.17. The outstanding debt service requirements at June 30, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 1,825,000	\$ 173,531
2012-13	1,880,000	113,326
2013-14	1,330,000	59,500
2014-15	510,000	27,299
2015-16	525,000	9,188
SUB-TOTAL	\$ 6,070,000	\$ 382,844
Unamortized Premium	46,267	
Unamortized Deferered Chgs.	(98,518)	
TOTAL OUTSTANDING	\$ 6,017,749	

General Obligation Bonds – Series of 2009

On June 1, 2009, the district issued \$9,615,000 of General Obligation Bonds – Series of 2009. The proceeds will be used to provide funds for designing, acquiring, constructing, furnishing and equipping (1) a new Willow Lane Elementary School, (2) capital improvements to buildings and facilities owned and operated by the School District, and (3) to pay the costs of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. Interest rates range from 2.0% to 4.375% with total interest indebtedness of \$4,437,160.89. The outstanding debt service requirements at June 30, 2011, are

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 345,000	\$ 329,230
2012-13	350,000	322,280
2013-14	355,000	315,053
2014-15	375,000	306,638
2015-16	395,000	296,519
2016-21	2,290,000	1,278,270
2021-26	2,990,000	783,519
2026-28	2,185,000	145,471
SUB-TOTAL	\$ 9,285,000	\$ 3,776,980
Unamortized Discount	(54,939)	
Unamortized Deferered Chgs.	-	
TOTAL OUTSTANDING	\$ 9,230,061	

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

General Obligation Bonds – Series A of 2009

On December 30, 2009, the District issued \$6,105,000 of General Obligation Bonds – Series A of 2009. The proceeds will be issued to (1) currently refund GOB Series of 2004 (2) and to pay related costs and expenses of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from November 15, 2010 to November 15, 2017. Interest rates range from 2.0% to 2.5% with total interest indebtedness of \$609,085,94. The outstanding debt service requirements at June 30, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 750,000	\$ 110,213
2012-13	765,000	95,062
2013-14	780,000	79,612
2014-15	790,000	63,913
2015-16	810,000	47,912
2016-18	<u>1,675,000</u>	<u>41,157</u>
SUB-TOTAL	\$ 5,570,000	\$ 437,869
Unamortized Discount	(11,429)	
Unamortized Deferered Chgs.	(224,878)	
Unamortized Premiums	<u>55,844</u>	
TOTAL OUTSTANDING	\$ 5,389,537	

General Obligation Bonds – Series of 2010

On March 1, 2010, the District issued \$14,280,000 of General Obligation Bonds – Series of 2010. The proceeds will be used (1) to currently refund GOB Series A of 2002 (2) to currently refund GOB Series 2005 (3) to pay related costs, fees, and expenses. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 1, 2010 to October 1, 2017. Interest rates range from 2.00% to 2.75% with total indebtedness of \$1,416,857,29. The outstanding debt service requirements at June 30, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 2,045,000	\$ 313,763
2012-13	2,095,000	261,887
2013-14	2,160,000	198,062
2014-15	2,215,000	132,437
2015-16	2,280,000	76,413
2016-18	<u>2,090,000</u>	<u>55,957</u>
SUB-TOTAL	\$ 12,885,000	\$ 1,038,519
Unamortized Premium	312,746	
Unamortized Deferered Chgs.	(10,496)	
Unamortized Discount	<u>(592,496)</u>	
TOTAL OUTSTANDING	\$ 12,594,754	

General Obligation Bonds – Series A of 2010

On March 1, 2010, the District issued \$4,000,000 of General Obligation Bonds – Series A of 2010. The proceeds will be used (1) toward capital improvements to facilities owned and operated by the

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

School District (2) to pay related costs, fees, and expenses. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 1, 2010 to October 1, 2023. Interest rates range from 2.00% to 3.6% with total indebtedness of \$1,448,724,79. The outstanding debt service requirements at June 30, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 5,000	\$ 129,958
2012-13	5,000	129,857
2013-14	5,000	129,757
2014-15	5,000	129,658
2015-16	5,000	129,557
2016-21	1,915,000	550,250
2021-25	2,055,000	108,788
SUB-TOTAL	\$ 3,995,000	\$ 1,307,825
Unamortized Discount	(23,779)	
Unamortized Deferered Chgs.	-	
Unamortized Premiums	429	
TOTAL OUTSTANDING	\$ 3,971,650	

General Obligation Bonds – Series of 2011

On March 1, 2011, the District issued \$15,395,000 of General Obligation Bonds – Series of 2011. The proceeds will be used (1) to currently refund GOB Series A of 2004 (2) to currently refund GOB Series of 2006, (3) to pay related costs, fees, and expenses. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from November 15, 2011 to November 15, 2019. Interest rates range from 2.00% to 3.25% with total indebtedness of \$2,074,082. The outstanding debt service requirements at June 30, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 1,435,000	\$ 417,838
2012-13	1,815,000	385,337
2013-14	1,865,000	339,212
2014-15	1,925,000	282,362
2015-16	1,980,000	223,788
2016-19	6,375,000	336,707
SUB-TOTAL	\$ 15,395,000	\$ 1,985,244
Unamortized Premium	395,862	
Unamortized Discount	(11,185)	
Unamortized Deferred Chgs.	(870,867)	
TOTAL OUTSTANDING	\$ 14,908,810	

Lease Rental Debt

The Lehigh Career and Technical Institute (LCTI), with authority of the nine participating school districts, have agreed to borrow up to \$53,715,000 to improve the Institute's facilities. The participating districts, such as East Penn School District, will be required to pay their proportionate shares of the incurred debt under the Articles of Agreement in subsequent years as "Capital Costs" under Section 4.2 of the Articles.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

Specifically, Lehigh Career and Technical Institute issued \$32,000,000 of revenue bonds - Series of 2003 dated March 15, 2003, and \$21,715,000 of revenue bonds - Series of 2001 dated September 15, 2001, through the State Public School Building Authority (SPSBA). The bonds are special limited obligations of the SPSBA. During the 2005-06 fiscal year, these issues have been refunded with new issues.

The LCTI financing translates into an ongoing obligation of the participating districts for credit purposes; however, for purposes of the Local Governmental Unit Debt Act, this borrowing is not considered general obligation debt of the school districts; therefore, the future obligations of debt service are not recorded as a liability on East Penn's financial statements.

Combined Long-Term Debt

The combined general long-term debt obligations for subsequent years, except for Compensated absences and retirement benefits are:

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

SUMMARY OF PRINCIPAL REQUIREMENTS

FISCAL YEAR	G.O.N. SERIES OF 1998	G.O.N. SERIES A OF 2003	G.O.N. SERIES C OF 2003	G.O.N. SERIES A OF 2004	G.O.B. SERIES AA OF 2004	G.O.B. SERIES A OF 2005	G.O.B. SERIES A OF 2006	G.O.N. SERIES A OF 2007	G.O.B. SERIES OF 2007
2011-12	\$ 570,000	\$ -	\$ 700,000	\$ 700,000	\$ 430,000	\$ 685,000	\$ 40,000	\$ 100,000	\$ 325,000
2012-13	595,000	200,000	500,000	700,000	445,000	715,000	40,000	100,000	350,000
2013-14	620,000	800,000	-	800,000	465,000	750,000	45,000	100,000	375,000
2014-15	645,000	800,000	-	800,000	480,000	1,595,000	45,000	100,000	390,000
2015-16	670,000	800,000	-	800,000	500,000	2,580,000	45,000	100,000	405,000
2016-21	2,190,000	4,700,000	-	4,700,000	1,625,000	6,680,000	4,325,000	6,200,000	2,345,000
2021-26	-	3,200,000	-	3,300,000	-	-	4,905,000	5,500,000	2,950,000
2026-29	-	-	-	-	-	-	-	-	2,170,000
TOTAL	5,290,000	10,500,000	1,200,000	11,800,000	3,945,000	13,005,000	9,445,000	12,200,000	9,310,000
LESS PAYABLE WITH- IN ONE YEAR	570,000	-	700,000	700,000	430,000	685,000	40,000	100,000	325,000
LONG-TERM PRINC. DUE AFTER ONE YEAR	\$ 4,720,000	\$ 10,500,000	\$ 500,000	\$ 11,100,000	\$ 3,515,000	\$ 12,320,000	\$ 9,405,000	\$ 12,100,000	\$ 8,985,000

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS

FISCAL YEAR	G.O.N. SERIES OF 1998	G.O.N. SERIES A OF 2003	G.O.N. SERIES C OF 2003	G.O.N. SERIES A OF 2004	G.O.B. SERIES AA OF 2004	G.O.B. SERIES A OF 2005	G.O.B. SERIES A OF 2006	G.O.N. SERIES A OF 2007	G.O.B. SERIES OF 2007
2011-12	\$ 576,591	\$ 11,582	\$ 700,619	\$ 712,611	\$ 576,417	\$ 1,218,675	\$ 412,710	\$ 113,356	\$ 692,418
2012-13	600,820	211,349	500,048	711,508	576,086	1,220,525	411,290	113,210	704,793
2013-14	625,033	810,527	-	810,637	579,024	1,218,900	414,782	113,100	717,106
2014-15	649,214	809,647	-	809,757	576,305	2,005,275	413,162	112,990	718,621
2015-16	673,370	808,791	-	808,901	577,305	2,898,800	411,497	112,915	719,307
2016-21	2,194,611	4,728,736	-	4,729,286	1,731,102	6,920,600	5,814,347	6,250,233	3,663,134
2021-26	-	3,203,938	-	3,303,948	-	-	5,264,602	5,503,610	3,736,217
2026-29	-	-	-	-	-	-	-	-	2,312,760
TOTAL	\$ 5,319,639	\$ 10,584,570	\$ 1,200,667	\$ 11,886,648	\$ 4,616,239	\$ 15,482,775	\$ 13,142,390	\$ 12,319,414	\$ 13,264,356

G.O.B SERIES OF 2008	G.O.B SERIES A OF 2008	G.O.B SERIES OF 2009	G.O.B SERIES A OF 2009	G.O.B SERIES OF 2010	G.O.B SERIES A OF 2010	G.O.B SERIES OF 2011	TOTAL PRINCIPAL PAYMENTS
\$ 850,000	\$ 1,825,000	\$ 345,000	\$ 750,000	\$ 2,045,000	\$ 5,000	\$ 1,435,000	\$ 10,805,000
870,000	1,880,000	350,000	765,000	2,095,000	5,000	1,815,000	11,425,000
1,505,000	1,330,000	355,000	780,000	2,160,000	5,000	1,865,000	11,955,000
1,605,000	510,000	375,000	790,000	2,215,000	5,000	1,925,000	12,280,000
730,000	525,000	395,000	810,000	2,280,000	5,000	1,980,000	12,625,000
1,535,000	-	2,290,000	1,675,000	2,090,000	1,915,000	6,375,000	48,645,000
-	-	2,990,000	-	-	2,055,000	-	24,900,000
-	-	2,185,000	-	-	-	-	4,355,000
<u>7,095,000</u>	<u>6,070,000</u>	<u>9,285,000</u>	<u>5,570,000</u>	<u>12,885,000</u>	<u>3,995,000</u>	<u>15,395,000</u>	<u>136,990,000</u>
<u>850,000</u>	<u>1,825,000</u>	<u>345,000</u>	<u>750,000</u>	<u>2,045,000</u>	<u>5,000</u>	<u>1,435,000</u>	<u>10,805,000</u>
<u>\$ 6,245,000</u>	<u>\$ 4,245,000</u>	<u>\$ 8,940,000</u>	<u>\$ 4,820,000</u>	<u>\$ 10,840,000</u>	<u>\$ 3,990,000</u>	<u>\$ 13,960,000</u>	<u>\$ 126,185,000</u>

G.O.B SERIES OF 2008	G.O.B SERIES A OF 2008	G.O.B SERIES OF 2009	G.O.B SERIES A OF 2009	G.O.B SERIES OF 2010	G.O.B SERIES A OF 2010	G.O.B SERIES OF 2011	TOTAL DEBT SVC. PAYMENTS
\$ 1,052,500	\$ 1,998,531	\$ 674,230	\$ 860,213	\$ 2,358,763	\$ 134,958	\$ 1,852,838	\$ 13,947,012
1,049,913	1,993,326	672,280	860,062	2,356,887	134,857	2,200,337	14,317,291
1,650,375	1,389,500	670,053	859,612	2,358,062	134,757	2,204,212	14,555,680
1,703,725	537,299	681,638	853,913	2,347,437	134,658	2,207,362	14,561,003
793,243	534,188	691,519	857,912	2,356,413	134,557	2,203,788	14,582,506
1,588,219	-	3,568,270	1,716,157	2,145,957	2,465,250	6,711,707	54,227,609
-	-	3,773,519	-	-	2,163,788	-	26,949,622
-	-	2,330,471	-	-	-	-	4,643,231
<u>7,837,975</u>	<u>6,452,844</u>	<u>13,061,980</u>	<u>6,007,869</u>	<u>13,923,519</u>	<u>5,302,825</u>	<u>17,380,244</u>	<u>157,783,954</u>

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

Compensated Absences

Sick-Pay

Under the District's various bargaining agreements and plans, professional and eligible support personnel accumulate unused sick days from year to year based on their classification. These accumulated sick days are non-vesting during the employee's tenure. Only administrators employed prior to 7-1-04 who have opted to retain this benefit are eligible for payment. Upon retirement, these employees except for administrators are eligible for remuneration for unused sick days under the following bargaining agreements:

1.	East Penn Education Association Members	- \$25 per day
2.	Teamsters Union Members	- \$22 per day
3.	Food Crafters Association Members	- \$20 per day
4.	Secretarial & Aide Members	- \$20 per day
5.	Administrative Plan Members	- \$25 per day

The District maintains records of each employee's accumulated sick days that are vested with employees who are eligible to retire, and for those under the administrative plan. In accordance with GASB Statement No. 16, \$38,478, including FICA tax (net of reimbursement), has been recorded in the Food Service (Enterprise) Fund for sick leave termination benefits earned by Cafeteria employees at June 30, 2011. This amount is also included as a long-term liability in the business-type activity column of the government-wide statement of net assets. The amount recorded in the General Fund for governmental employees, which will use currently available financial resources, is \$65,637, including FICA tax (net of reimbursement). This amount is reflected as a current liability in the governmental activities column of the government-wide statement of net assets. The remaining sick leave termination benefit of \$858,831, including FICA tax (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net assets.

Vacation Leave

Unused vacation leave is paid upon an employee's termination. The District maintains records of each employee's accumulated vacation days. In accordance with GASB Statement No. 16, the portion of vacation pay earned at June 30, 2011, that will use currently available financial resources is \$117,188, including fica tax and retirement contributions (net of reimbursement), which has been recorded in the General Fund. This amount is also shown as a current liability in the governmental activities column of the government-wide statement of net assets. The Enterprise (Food Service) Fund has recorded \$2,504, including fica tax and retirement contributions (net of reimbursement), which is also reflected as a long-term liability in the business-type activity column of the government-wide statement of net assets. The remaining vacation pay earned at June 30, 2011, of \$621,338, including FICA tax and retirement contributions (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net assets.

Defined benefit pension plans

Plan Description

Name of plan: The Public School Employees' Retirement System (the System).

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

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

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).

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, P. O. Box 125, Harrisburg, PA 17108-0125. The report is also available in the publications section of the PSERS website at www.psers.state.pa.us.

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, contributed at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 5.4 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2011, the rate of employer contribution was 5.64 percent of covered payroll. The 5.64 percent rate is comprised of a pension contribution rate of 5.00 percent for pension benefits and 0.64 for healthcare insurance premium assistance.

The employer's current year covered payroll was \$51,226,413 and total payroll was \$53,775,205.

The total employee and employer contributions for this current year were \$3,824,661 and \$2,929,405, respectively.

Other Employee Benefits

Special Termination Benefits

The East Penn School District's Board of School Directors has established an early retirement incentive program (ERIP) for those employees who meet certain qualifications. All professional employees will select, in writing, one of two financial options.

Option 1

Upon meeting the requirements explained later, the District shall pay to the employee a total payment equal to his/her final base salary, at the time of application for ERIP, multiplied by the percentage appearing in the chart below. Such payment will be made during the first calendar year of ERIP at a time stipulated, in writing, by the retiree. The employee may opt to receive these monies in either one or two installments.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

<u>AGE OF PERSON ON JULY 1 OF ERIP YEAR</u>	<u>PERCENTAGE</u>
54	50%
55	50%
56	40%
57	35%
58	30%
59	25%
60	20%

Option 2

Upon receipt of a letter of request and letter of intent to retire, the Board will approve the applicant's request for a sabbatical leave, if the employee is eligible by law, and waives the return-to-work provision. Under this option, the employee would not begin receiving PSERS benefits until the conclusion of the year's sabbatical leave.

The plan is on a voluntary basis. To be eligible to receive this retirement incentive, the employee must meet all of the following qualifications:

The employee must be an active (not on leave) member of the instructional or administrative staff at the time of request.

The employee must choose to begin the ERIP program on July 1, and must be at least the age of 54 or not older than 60 on the preceding June 30.

The employee must have a minimum of fifteen (15) consecutive years of service in the East Penn School District prior to the commencement of ERIP.

The employee must qualify for retirement under provisions of the Public School Employees Retirement System (PSERS).

A letter of resignation, application to PSERS for benefits, and an application for ERIP must be received in the Superintendent's office on or before May 1, of the school year preceding the July 1, start date of ERIP.

In accordance with GASB Statement No. 47, an employer that provides voluntary termination benefits shall recognize a liability and an expense when the employees accept the offer and the amount can be reasonably estimated. The amount recognized shall include any lump-sum payments and the present value of any expected future payments. The District records a liability when an employee accepts the offer. As of June 30, 2011, there were no eligible persons that accepted the offer that were not paid or recorded as a liability.

Under the provisions of Board Policy 450, the East Penn School District will pay, for those employees electing the Early Retirement Incentive Program explained in the preceding note, the premium for the retiring employee in an early retiree's hospitalization/medical plan. Such coverage will continue until the employee becomes eligible for government sponsored hospitalization/medical insurance or reaches age 65. Such insurance plan will be substantially equivalent to the plan offered to regular employees, but will have a mandatory reduction in major medical benefits. In accordance with GASB Statement No. 47, the portion of the ERIP liability at June 30, 2011, that will use currently available financial resources is \$83,655, which has been recorded in the General Fund, while \$828,705 is shown as a current liability in

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

the governmental activities column of the government-wide statement of net assets. The remaining ERIP liability at June 30, 2011, of \$2,288,305 is recorded as a long-term liability in the government activities column of the government-wide statement of net assets.

Retirement Incentive Benefits

In an effort to retain administrative employees the East Penn School District adopted Board Policy Number 350.1. This policy establishes a Retention Incentive Program applicable to administrative employees. To qualify for this program the employee must be a member of the administrative staff at the time of request, be an employee of the District for at least five years and qualify for retirement under the provisions of the Public School Retirement System. Those employees meeting the qualifications and proper request procedures will receive health insurance benefits at the District's expense until the employee becomes eligible for government sponsored hospitalization or reaches age 65. In addition, the retiring employee is entitled to a payment determined as a percentage of his/her final base salary as:

Age	% of Base Salary for Each Yr of Svc at that Age
49 and below	1%
50 to 54	2%
55 and Over	3%

Employees hired prior to 7-1-04 were given the option to elect to participate in this plan or remain eligible for the early retirement incentive plan discussed previously. Employees electing to participate in this plan waive their right to reimbursement of unused accumulated sick leave days.

In accordance with Government Accounting Standards Board Statement No. 27, this benefit is considered a pension plan.

Funding Policy and Annual Pension Cost

This benefit is determined by contractual agreement between the Board of School Directors and each eligible class of employees. The District's annual pension cost is calculated based on the annual required contribution of the employer (ARC), amount actuarially determined in accordance with the parameters of GASB Statement 27. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost, each year, and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's annual pension cost for the current year and the related information is as follows:

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Contribution Rates:	Retirement Incentive Pension Benefit Actuarially Determined
Interest Rate	4.5%
Plan Members	38
Annual Required Contribution	\$ 101,309
Interest on net Pension obligation	6,663
Adjustment to annual required contribution	<u>(9,090)</u>
Annual Pension Cost	98,882
Contributions made	<u>(48,434)</u>
Increase in net Pension obligation	50,448
Net Pension obligation - beginning of year	<u>148,063</u>
Net Pension obligation - end of year	<u>\$ 198,511</u>

The District's annual pension cost, the percentage of annual Pension cost contributed to the plan and the net Pension obligation for the three fiscal years ending June 30th, for the benefits were as follows:

<u>Year ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
6/28/2011	\$ 98,882	49.0%	\$ 198,511
6/29/2010	102,209	56.8%	148,063
6/30/2009	103,912	0.0%	103,912

Funded Status and Funding Process. The funded status of the benefits as of June 30, 2011, were as follows:

	Retirement Incentive Benefit Governmental Activity
Actuarial accrued liability (a)	\$ 454,389
Actuarial value of plan assets (b)	<u>-</u>
Unfunded actuarial accrued liability (a) - (b)	<u>\$ 454,389</u>
Funded Ratio (b) / (a)	0.0%
Covered payroll	\$ 3,747,744
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll.	12.1%

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the benefits and the annual required contributions of the employer are subject to continual revision, actual results are compared to past expectations, and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan Net Assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits are based on substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the district and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	Retirement Incentive Benefit
Actuarial Valuation Date	7/1/2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar method over a 30 year period
Remaining amortization period	27 years
Asset Valuation Method	pay as you go basis
Actuarial Assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.25% to 7.25%
Healthcare inflation rate	
2011	N/A
2012	N/A
2013	N/A
2014	N/A
2015	N/A
2016 +	N/A

Other Post Employment Benefits

Plan Description: East Penn School District has one single-employer defined benefit plan.

1. In accordance with the PA School Code of 1949, as amended, medical coverage is provided to eligible retirees and spouses with the retiree paying the full active premium rate for coverage until age 65. This benefit has an implicit rate subsidy based upon GASB Statement No. 45, since the retiree pays the premium at the insurance carrier's global rate charged to the School District versus an age-adjusted rate, as defined in the GASB Statement.

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Summary of Plan Provisions			
Group	Eligibility	Coverage And Premium Sharing	Duration
<u>I. ADMINISTRATORS</u>	<p>Retention Incentive Program – (RIP) – must complete 5 years with the district and retire through PSERS.</p> <p>Other – must attain age 55 and retire through PSERS.</p>	<ul style="list-style-type: none"> • Coverage: Medical, Prescription Drug, and Dental. • Premium Sharing: If the member retires under the ERIP or the RIP, the district will pay for the amount of the Classic Blue retiree medical and prescription drug plan for the member only. Any difference in premiums must be paid for by the individual. Spouses may elect coverage by paying the full premiums. Member and spouse may also elect dental coverage by paying the full premiums. • If the member does not meet the requirements for the district subsidy but requirements are met to retire through PSERS, the member and spouse may continue coverage by paying the full premiums. • Upon death of active employee or retiree, the spouse may continue coverage until Medicare Age. • Dependents: Spouses included. 	<ul style="list-style-type: none"> • Member –Benefits cease upon Medicare age. • Spouse - Benefits cease upon Medicare age.
<u>II. TEACHERS</u>	<p>Early Retirement Incentive Program (ERIP) – must attain age 54, but not exceed age 60, and complete 15 consecutive years with the district and retire through PSERS.</p> <p>Other – must attain age 55 and retire through PSERS.</p>	<ul style="list-style-type: none"> • Coverage: Medical, Prescription Drug, and Dental. • Premium Sharing: If the member retires under the ERIP, the district will pay for the amount of the Classic Blue retiree medical and prescription drug plan for the member only. Any difference in premiums must be paid for by the individual. Spouses may elect coverage by paying the full premiums. Member and spouse may also elect dental coverage by paying the full premiums. • If the member does not meet the requirements for the district subsidy but requirements are met to retire through PSERS, the member and spouse may continue coverage by paying the full premiums. • Upon the death of a retiree, the spouse may continue coverage until Medicare age. • Dependents: Family included. 	<p style="text-align: center;">Same as I</p>

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Summary of Plan Provisions			
Group	Eligibility	Coverage And Premium Sharing	Duration
<u>III. SUPPORT STAFF</u>	Must attain age 55 and retire through PSERS.	<ul style="list-style-type: none"> ● Coverage: Medical, Prescription Drug and Dental. ● Premium Share: Retiree pays 100% of the cost. ● Upon death of active employee or retiree, the spouse may continue coverage until Medicare Age. ● Dependents: Spouse Included. 	<ul style="list-style-type: none"> ● Same as I.

Notes: Act 10/43 Benefit: All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement (age 60 with 30 years of service, age 62 with 1 year of service, or 35 years of service regardless of age). Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purposes of COBRA.

Cash Payments: Cash payments are not GASB 45 liabilities

- Financial Incentives under the ERIP are valued under GASB 47.
- Financial Incentives under the RIP are valued under GASB 27.

* The first schedule of this valuation contains supplemental calculations under GASB 27. The benefit provision is as follows:

- Administrators who qualify for PSERS retirement and have worked for the district are entitled to a one-time payment equal to the individual's base salary times a percentage which is the sum of A) 1% times services prior to age 49, plus B) 2% times service for ages between 50-54, plus C) 3% times service for ages greater than 55.

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Funding Policy and Annual OPEB Cost. This benefit is state mandated via the School Code statute. The District's annual other post-employment benefit (OPEB) cost (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an the amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost, each year, and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's annual OPEB cost for the current year and the related information is as follows:

Contribution Rates:	
	OPEB Benefit Actuarially Determined
Interest Rate	4.5%
Plan Members	877
Annual Required Contribution	\$ 1,600,598
Interest on net OPEB obligation	34,715
Adjustment to annual required contribution	<u>(47,360)</u>
Annual OPEB cost	1,587,953
Contributions made	<u>(1,297,422)</u>
Increase in net OPEB obligation	290,531
Net OPEB obligation - beginning of year	<u>771,440</u>
Net OPEB obligation - end of year	<u>\$ 1,061,971</u>

The following table shows the benefit separated by fund:

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

	Actuarial Valuation by Fund		
	Other Post Employment Benefit Plan		
	General Fund	Food Service Fund	Total
Demographic Information:			
Active Participants	732	12	744
Retired Participants	132	1	133
Total	<u>864</u>	<u>13</u>	<u>877</u>
Annual Payroll of Active Participants	\$ 46,433,473	\$ 200,299	\$ 46,633,772
Annual Required Contributions	1,599,404	1,194	1,600,598
Interest on Net OPEB Obligation	34,669	46	34,715
Adjustment to Annual Required Contribution	(47,297)	(63)	(47,360)
Annual OPEB Cost	1,586,776	1,177	1,587,953
Contributions made	(1,293,648)	(3,774)	(1,297,422)
Increase in Net OPEB Obligation	293,128	(2,597)	290,531
Net OPEB Obligation - beginning of year	770,416	1,024	771,440
Net OPEB Obligation - end of year	<u>\$ 1,063,544</u>	<u>\$ (1,573)</u>	<u>\$ 1,061,971</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the three fiscal years ending June 30th, for the benefits were as follows:

<u>Year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 1,587,953	81.7%	\$ 1,061,971
6/30/2010	1,515,843	81.7%	771,440
6/30/2009	1,522,986	71.4%	435,823

Funding Status and Funding Process. The funded status of the benefits as of June 30, 2011, was as follows:

	Healthcare Benefit <u>Governmental Activity</u>	Healthcare Benefit <u>Business-Type Activity</u>
	Actuarial accrued liability (a)	\$ 13,135,046
Actuarial value of plan assets (b)	-	-
Unfunded actuarial accrued liability (a) - (b)	<u>\$ 13,135,046</u>	<u>\$ 12,013</u>
Funded Ratio (b) / (a)	0.0%	0.0%
Covered payroll	\$ 46,433,473	\$ 200,299
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll.	28.3%	6.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the benefits and the annual required contributions of the employer are subject to continual revision, actual results are

**East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

compared to past expectations, and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that show whether the actuarial value of plan Net Assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the district and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actual accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	Healthcare Benefit
Actuarial Valuation Date	7/1/2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar method over a 30 year period
Remaining amortization period	27 years
Asset Valuation Method	pay as you go basis
Actuarial Assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.25% to 7.25%
Healthcare inflation rate	
2011	7.0%
2012	6.5%
2013	6.0%
2014	5.5%
2015	5.0%
2016 +	5.0%

Note 6 - Risk Management

The District is subject to risk of loss from employee acts, property damage, personal injury auto accidents, theft, etc. The District covers those risks through the purchase of commercial insurance. The District's Workmen's compensation policy is a retrospectively rated policy; the final total premium is based on the actual payroll for the policy year and is determined by the insurance company. Any settlements received by the District or its employees did not exceed insurance coverage in any of the last three years.

East Penn School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

Note 7 – Fund Balance Allocations

Restricted Fund Balance

The two Capital Project Funds have restrictions on the use of the resources at year end. The Capital Reserve Fund's \$1,894,027 fund balance at year end is restricted because of enabling legislation under the Municipal Code in Pennsylvania. Section 1432 of this Code restricts the use of resources for limited purposes.

In addition, the debt covenant on the District's Bond issues restricts the proceeds shown in the 2010 Construction Fund for the purposes outlined in the bond resolution. As such, the \$1,790,012, in fund balance at year end within this fund is considered restricted.

The General Fund has \$398 in restricted fund balance as a result of the grants received.

Assigned Fund Balance

The General Fund has \$8,813,072, assigned for appropriations in the 2011-12 budget.

Note 8 - Net Asset Restrictions

The portion of net assets for governmental activities, shown on the government-wide statement of net assets invested in capital assets, net of related debt is \$38,180,088. The business-type activities column reflects \$284,511 invested in capital assets with no related debt.

Note 9 – Contingencies

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund, or other applicable funds. However, in the opinion of management any such disallowed claims will not have a material adverse effect on the overall financial position of the School District as of June 30, 2011.

Litigation

In accordance with management, there are no legal matters that could materially affect the financial position of the District as of June 30, 2011.

REQUIRED SUPPLEMENTAL INFORMATION

**East Penn School District
Schedule of Funding Progress
For the Year Ended June 30, 2011**

Healthcare benefit						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Unit Credit (b)	Unfunded AAL (UALL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2010	\$ -	\$ 13,147,059	\$ 13,147,059	0.0%	\$ 46,633,772	28.19%
7/1/2008	-	12,566,485	12,566,485	0.0%	41,208,304	30.50%
7/1/2006	-	-	-	0.0%	-	0.00%
Retention Incentive Benefit						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Unit Credit (b)	Unfunded AAL (UALL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2010	\$ -	\$ 433,789	\$ 433,789	0.0%	\$ 3,675,020	11.80%
7/1/2008	-	433,789	433,789	0.0%	3,675,021	11.80%
7/1/2006	-	-	-	0.0%	-	0.00%

S U P P L E M E N T A L I N F O R M A T I O N S E C T I O N

**East Penn School District
Combining Balance Sheet
Non-Major Governmental Funds
As of June 30, 2011**

	<u>DEBT SERVICE FUNDS</u>			TOTAL NON-MAJOR GOVERNMENTAL FUNDS
	2009 A BOND FUND	2010 BOND FUND	2011 BOND FUND	
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-
Other Receivables	-	-	-	-
Due from other funds	-	-	-	-
Receivables from other governments	-	-	-	-
Other Recoverable Disbursements	-	-	-	-
Prepaid Expenditures	-	-	-	-
Inventories	-	-	-	-
TOTAL ASSETS	\$ -	\$ -	\$ -	\$ -
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Interest Payable	-	-	-	-
Payable to other governments	-	-	-	-
Deferred Revenue	-	-	-	-
Compensated Absences	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Nonspendable Fund Balance	-	-	-	-
Restricted Fund Balance	-	-	-	-
Committed Fund Balance	-	-	-	-
Assigned Fund Balance	-	-	-	-
TOTAL FUND BALANCES	-	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ -	\$ -	\$ -

East Penn School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2011

	DEBT SERVICE FUNDS			TOTAL NON-MAJOR GOVERNMENTAL FUNDS
	2009 A BOND FUND	2010 BOND FUND	2011 BOND FUND	
REVENUES				
Local Sources	\$ -	\$ -	\$ -	\$ -
State Sources	-	-	-	-
Federal Sources	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Instruction	-	-	-	-
Support Services	-	-	201,270	201,270
Operation of Non-Instructional Services	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service	<u>2,312</u>	<u>1,325</u>	<u>5,198</u>	<u>8,835</u>
TOTAL EXPENDITURES	<u>2,312</u>	<u>1,325</u>	<u>206,468</u>	<u>210,105</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,312)</u>	<u>(1,325)</u>	<u>(206,468)</u>	<u>(210,105)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Refunding Bond Issues	-	-	15,395,000	15,395,000
Bond Premium	-	-	413,577	413,577
Payment to bond refunding escrow agent	-	-	15,590,423	15,590,423
Bond Discount	-	-	11,686	11,686
Sale/Compensation for Fixed Assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES AND USES	<u>-</u>	<u>-</u>	<u>206,468</u>	<u>206,468</u>
NET CHANGE IN FUND BALANCES	(2,312)	(1,325)	-	(3,637)
FUND BALANCES - BEGINNING	<u>2,312</u>	<u>1,325</u>	<u>-</u>	<u>3,637</u>
FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**East Penn School District
Combining Statement of Fiduciary Net Assets
Private Purpose Trust Funds
As of June 30, 2011**

	MEMORIAL FUND	COMMENCEMENT AWARDS FUND	TOTAL
ASSETS			
Cash	\$ 114,835	\$ 1,438	\$ 116,273
Investments	-	-	-
Interest Receivable	-	-	-
Due from Other Funds	-	-	-
TOTAL ASSETS	<u>\$ 114,835</u>	<u>\$ 1,438</u>	<u>\$ 116,273</u>
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ -
Interfund Payables	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS			
Held in Trust for future recipients	<u>\$ 114,835</u>	<u>\$ 1,438</u>	<u>\$ 116,273</u>

**Combining Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Funds
For the Year Ended June 30, 2011**

	MEMORIAL FUND	COMMENCEMENT AWARDS FUND	TOTAL
ADDITIONS:			
Contributions	\$ 2,898	\$ 35,798	\$ 38,696
Transfers from Other Funds	-	-	-
INVESTMENT EARNINGS:			
Interest and dividends	1,613	-	1,613
TOTAL ADDITIONS	<u>4,511</u>	<u>35,798</u>	<u>40,309</u>
DEDUCTIONS:			
Administrative Charges	-	-	-
Transfers to Other Funds	-	-	-
Awards	5,501	26,993	32,494
TOTAL DEDUCTIONS	<u>5,501</u>	<u>26,993</u>	<u>32,494</u>
CHANGES IN NET ASSETS	(990)	8,805	7,815
NET ASSETS - BEGINNING OF THE YEAR	<u>115,825</u>	<u>(7,367)</u>	<u>108,458</u>
NET ASSETS - END OF THE YEAR	<u>\$ 114,835</u>	<u>\$ 1,438</u>	<u>\$ 116,273</u>

East Penn School District
Combining Balance Sheet - All Capital Project Funds
As of June 30, 2011

	<u>CAPITAL RESERVE FUND</u>	<u>2009 CONSTRUCTION FUND</u>	<u>2010 CONSTRUCTION FUND</u>	<u>TOTAL</u>
ASSETS				
Cash	\$ 1,770,141	\$ -	\$ 1,862,492	\$ 3,632,633
Investments	-	-	-	-
Accounts Receivable	137,500	-	-	137,500
Accrued Interest Receivable	-	-	-	-
Other Recoverable Disbursements	-	-	-	-
Due from Other Funds	-	-	-	-
TOTAL ASSETS	<u>\$ 1,907,641</u>	<u>\$ -</u>	<u>\$ 1,862,492</u>	<u>\$ 3,770,133</u>
LIABILITIES				
Accounts Payable	\$ 13,614	\$ -	\$ 72,480	\$ 86,094
Due to Other Funds	-	-	-	-
Other Liabilities	-	-	-	-
Deferred Revenue	-	-	-	-
FUND BALANCES:				
Nonspendable Fund Balance	-	-	-	-
Restricted Fund Balance	1,894,027	-	1,790,012	3,684,039
Committed Fund Balance	-	-	-	-
Assigned Fund Balance	-	-	-	-
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,907,641</u>	<u>\$ -</u>	<u>\$ 1,862,492</u>	<u>\$ 3,770,133</u>

East Penn School District
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - All Capital Project Funds
For the Year Ended June 30, 2011

	CAPITAL RESERVE FUND	2009 CONSTRUCTION FUND	2010 CONSTRUCTION FUND	TOTAL
REVENUES				
Local Sources	\$ 143,924	\$ 74	\$ 59,900	\$ 203,898
OTHER FINANCING SOURCES				
Bond Proceeds	-	-	-	-
Bond Premium	-	-	-	-
Interfund Transfers In	100,000	-	456	100,456
TOTAL REVENUES AND OTHER FINANCING SOURCES	243,924	74	60,356	304,354
EXPENDITURES AND OTHER FINANCING USES				
Instructional Services	-	-	6,574	6,574
Support Services	-	-	33,693	33,693
Capital Outlay	53,232	-	1,880,701	1,933,933
Debt Service	-	-	-	-
Bond Discount	-	-	-	-
Interfund Transfers Out	-	456	-	456
TOTAL EXPENDITURES AND OTHER FINANCING USES	53,232	456	1,920,968	1,974,656
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	190,692	(382)	(1,860,612)	(1,670,302)
FUND BALANCE - JULY 1, 2010	1,703,335	382	3,650,624	5,354,341
FUND BALANCE - JUNE 30, 2011	\$ 1,894,027	\$ -	\$ 1,790,012	\$ 3,684,039

**East Penn School District
Combining Balance Sheet
All Agency Funds
As of June 30, 2011**

	ACTIVITY FUND	PAYROLL FUND	TOTAL
ASSETS			
Cash	\$ 303,322	\$ 324,716	\$ 628,038
Investments	-	-	-
Other Receivables	109	-	109
Due from General Fund	-	-	-
TOTAL ASSETS	\$ 303,431	\$ 324,716	\$ 628,147
 LIABILITIES			
Federal Income Tax	\$ -	\$ 104,345	\$ 104,345
PA State Income Tax Withholding	-	15,818	15,818
Due Student Organizations	294,367	-	294,367
Due to General Fund	1,446	30	1,476
Annuities	-	-	-
Wage Taxes	-	173,673	173,673
Retirement-Buy Backs	-	16,842	16,842
Union Dues	-	-	-
OPT	-	14,008	14,008
Accounts Payable	7,618	-	7,618
Other	-	-	-
TOTAL LIABILITIES	\$ 303,431	\$ 324,716	\$ 628,147

East Penn School District
Combining Statement of Changes in Assets and
Liabilities - All Agency Funds
For the Year Ended June 30, 2011

<u>ACTIVITY FUND</u>	<u>BALANCE</u> <u>7/1/10</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>6/30/11</u>
ASSETS				
Cash	\$ 335,897	\$ 1,182,757	\$ 1,215,332	\$ 303,322
Investments	-	-	-	-
Due from Other Funds	-	-	-	-
Other Receivable	-	109	-	109
TOTAL ASSETS	<u>\$ 335,897</u>	<u>\$ 1,182,866</u>	<u>\$ 1,215,332</u>	<u>\$ 303,431</u>

LIABILITIES				
Due to the General Fund	\$ -	\$ 1,446	\$ -	\$ 1,446
Accounts Payable	-	7,618	-	7,618
Due to Student Organizations	335,897	1,173,802	1,215,332	294,367
TOTAL LIABILITIES	<u>\$ 335,897</u>	<u>\$ 1,182,866</u>	<u>\$ 1,215,332</u>	<u>\$ 303,431</u>

<u>PAYROLL FUND</u>				
ASSETS				
Cash	\$ 513,241	324,716	513,241	\$ 324,716
Investments	-	-	-	-
Other Receivables	-	-	-	-
Due from General Fund	-	-	-	-
TOTAL ASSETS	<u>\$ 513,241</u>	<u>\$ 324,716</u>	<u>\$ 513,241</u>	<u>\$ 324,716</u>

LIABILITIES				
Due to General Fund	\$ 216	\$ 30	\$ 216	\$ 30
Payroll Deductions	513,025	324,686	513,025	324,686
TOTAL LIABILITIES	<u>\$ 513,241</u>	<u>\$ 324,716</u>	<u>\$ 513,241</u>	<u>\$ 324,716</u>

<u>ALL AGENCY FUNDS</u>				
ASSETS				
Cash	\$ 849,138	\$ 1,507,473	\$ 1,728,573	\$ 628,038
Investments	-	-	-	-
Due from Other Funds	-	-	-	-
Accounts Receivable	-	109	-	109
TOTAL ASSETS	<u>\$ 849,138</u>	<u>\$ 1,507,582</u>	<u>\$ 1,728,573</u>	<u>\$ 628,147</u>

LIABILITIES				
Due to Student Organizations	\$ 335,897	\$ 1,173,802	\$ 1,215,332	\$ 294,367
Accounts Payable	-	7,618	-	7,618
Payroll Deductions	513,025	324,686	513,025	324,686
Due to Other funds	216	1,476	216	1,476
TOTAL LIABILITIES	<u>\$ 849,138</u>	<u>\$ 1,507,582</u>	<u>\$ 1,728,573</u>	<u>\$ 628,147</u>

**East Penn School District
General Fund
Schedule on Tax Collectors' Receipts
For the Year Ended June 30, 2011**

	<u>ALBURTIS BOROUGH</u>	<u>EMMAUS BOROUGH</u>	<u>LOWER MACUNGIE TOWNSHIP</u>	<u>MACUNGIE BOROUGH</u>	<u>UPPER MILFORD TOWNSHIP</u>	<u>TOTAL</u>
CURRENT REAL ESTATE TAXES						
Assessed Value	\$ 40,602,700	\$ 262,633,900	\$ 1,117,434,000	\$ 67,701,400	\$ 242,960,100	\$ 1,731,332,100
Millage Rate	<u>0.04532</u>	<u>0.04532</u>	<u>0.04532</u>	<u>0.04532</u>	<u>0.04532</u>	<u>0.04532</u>
TOTAL TAX PER DUPLICATE	1,840,105	11,902,527	50,641,976	3,068,227	11,011,009	78,463,844
Less: Act 1 Deduction	<u>72,791</u>	<u>324,983</u>	<u>1,048,097</u>	<u>85,662</u>	<u>263,726</u>	<u>1,795,259</u>
TOTAL TAX TO BE COLLECTED	<u>1,767,314</u>	<u>11,577,544</u>	<u>49,593,879</u>	<u>2,982,565</u>	<u>10,747,283</u>	<u>76,668,585</u>
	-----	-----	-----	-----	-----	-----
PLUS - Additions	5,334	2,829	2,755	-	10,080	20,998
- Penalties	<u>5,460</u>	<u>31,232</u>	<u>75,937</u>	<u>4,137</u>	<u>27,395</u>	<u>144,161</u>
CURRENT REAL ESTATE TAXES TO BE COLLECTED	<u>1,778,108</u>	<u>11,611,605</u>	<u>49,672,571</u>	<u>2,986,702</u>	<u>10,784,758</u>	<u>76,833,744</u>
	-----	-----	-----	-----	-----	-----
LESS - Discount	31,072	200,238	870,704	52,817	174,419	1,329,250
- Reductions	6,338	3,028	6,833	-	13,535	29,734
- Refunds	-	11,137	332,999	435	1,254	345,825
- Rebates	8,712	67,434	65,056	8,286	21,960	171,448
- Returned to County	43,693	229,128	805,697	74,883	316,704	1,470,105
- Exonerations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CURRENT REAL ESTATE TAXES COLLECTED	<u>\$ 1,688,293</u>	<u>\$ 11,100,640</u>	<u>\$ 47,591,282</u>	<u>\$ 2,850,281</u>	<u>\$ 10,256,886</u>	<u>\$ 73,487,382</u>
	-----	-----	-----	-----	-----	-----
CURRENT INTERIM REAL ESTATE TAXES COLLECTED	<u>\$ 312</u>	<u>\$ 19,961</u>	<u>\$ 698,208</u>	<u>\$ 1,764</u>	<u>\$ 59,374</u>	<u>\$ 779,619</u>

**East Penn School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2011**

REVENUES

LOCAL SOURCES:

Current Real Estate Taxes	\$ 73,487,382	
Interim Real Estate Taxes	779,619	
Public Utility	111,987	
Payment in Lieu of Taxes	11,705	
Current Per Capita Taxes - 511	-	
Current Per Capita Taxes - 679	-	
Occupational Privilege Tax	-	
Earned Income Tax	7,514,663	
Real Estate Transfer Tax	1,129,003	
Amusement Taxes	-	
Delinquent Real Estate Taxes	1,731,195	
Delinquent EIT Taxes	225,409	
Admissions	71,485	
Fees	40,697	
Other Student Activity Income	7,380	
Interest	148,505	
State Revenue from Other Public Schools	25,000	
I/U Services - Federal	1,099,976	
I/U Services - ARRA Federal	473,547	
Rentals	43,468	
Contributions	10,292	
Capital Contributions	100,000	
Summer School	54,787	
Adult Education Tuition	65,996	
Receipts from Other LEA's - Education	20,445	
Other Tuition From Patrons	23,366	
Other Services Provided Other Governments	-	
Miscellaneous	11,293	
Revenue from Community Service Activities	-	
Refunds of Prior Yr. Expenditures	5,460	
TOTAL LOCAL SOURCE REVENUE	87,192,660	\$

STATE SOURCES:

Basic Subsidy - ESBE	9,284,001
Read to Succeed	-
Charter Schools	555,208
School Performance	-
Orphan Tuition	4,531
Homebound	-
Alternative Education	-
Driver Education	10,115
Special Education	3,118,944
SUB-TOTAL	12,972,799

East Penn School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2011

SUB-TOTAL (CARRIED FORWARD)	\$ 58,204,988
Business Education	766,033
Other Vocational Education Programs	2,339,595
Drivers' Education	228,421
Summer School	63,147
Homebound Instruction	88,752
Adjudicated/Court Placed Programs	-
Alternative Education Program	140,677
Additional Other Instructional Program	-
Other Adult Education Programs	58,424
Nonpublic School Programs	17,462
Community College Programs	902,397
Supervision of Pupil Personnel Services	354,716
Guidance Services	2,654,644
Attendance Services	-
Psychological Services	680,764
Social Work Services	111,360
Other Pupil Personnel Services	-
Support Services - Instructional Staff	-
Technology Support Services	766,456
Educational Television Services	13,914
Computer Assisted Instruction Services	211,917
School Library Services	1,226,974
Instructional & Curriculum Dev. Service	962,225
Instructional Staff Development Services	-
Instructional Staff Development	167,101
Instructional Staff Development - Non-certified	1,737
Non-Public Support Services	-
Other Instructional Staff Services	59,902
Board Services	49,328
Board Treasurer Services	8,573
Tax Assessment & Collection Service	325,306
Staff Relations	316,388
Legal Services	105,000
Office of the Superintendent Services	588,997
Community Relations Services	99,022
Office of the Principal Services	3,644,721
Other Administration Services	-
Supervision of Health Services	-
Medical Services	10,711
Dental Services	803
Nursing Services	947,227
Non-Public Health Services	98,568
Support Services - Business	844,853
SUB-TOTAL	77,061,103

East Penn School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2011

SUB-TOTAL (CARRIED FORWARD)	\$ 77,061,103	
Operation and Maintenance of Plant Services	10,195,764	
Vehicle Operation and Maint. Services	4,532,779	
Non-Public Transportation	1,381,583	
Support Services - Central	-	
Planning, Research, Development & Evaluation Svcs.	208,625	
System-Wide Technology Services	1,036,316	
Staff Development Services	11,723	
Health Services	661	
Staff Development-Non-Instruction	7,658	
Data Processing Services	232,871	
State and Federal Agency Liaison Services	39,603	
Other Support Services	142,008	
Pass-Thru Funds	-	
Student Activities	-	
School Sponsored Student Activities	293,451	
School Sponsored Athletics	1,192,698	
Community Services	1,803	
Existing Building Improvement Services	-	
Debt Service	14,069,238	
Refund of Prior Yr. Receipts	503	
TOTAL EXPENDITURES	<u>110,408,387</u>	\$ 110,408,387
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		\$ 1,759,261
OTHER FINANCING SOURCES (USES)		
Proceeds from Extended Term Financing	-	
Debt Service Fund Transfers In	-	
Transfer from Activity Funds	-	
Sale of Fixed Assets	465	
Insurance Recoveries	30,602	
Special Revenue Fund Transfers Out	-	
Capital Projects Funds Transfers Out	(100,000)	
Debt Service Fund Transfers Out	-	
Food Service Fund Transfers Out	-	
Activity Fund Transfers Out	-	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(68,933)</u>	
Special Items	-	
Extraordinary Items	<u>-</u>	(68,933)
NET CHANGE IN FUND BALANCE		1,690,328
FUND BALANCE - JULY 1, 2010		<u>10,119,618</u>
FUND BALANCE - JUNE 30, 2011		\$ 11,809,946

**East Penn School District
Capital Reserve Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010 \$ 1,703,335

REVENUES AND OTHER FINANCING SOURCES

Interest	\$	6,424	
Refund of Prior Year Expenditures		137,500	
Transfer from General Fund		100,000	243,924
TOTAL FUNDS AVAILABLE		100,000	1,947,259

EXPENDITURES

INSTRUCTIONAL SERVICES:

Equipment -

SUPPORT SERVICES:

Professional Services -

Miscellaneous -

CAPITAL OUTLAY:

Rentals -

Professional Services 13,614

Construction Services -

Land & Improvements -

Miscellaneous -

Equipment		39,618	53,232
		39,618	53,232

FUND BALANCE - JUNE 30, 2011 **\$ 1,894,027**

**East Penn School District
Food Service Fund
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011**

REVENUES

Sales	\$ 2,054,807	
Donated Commodities	154,976	
Special Events	43,212	
Over or (Short)	85	
State Subsidies	187,873	
Federal Subsidies	659,999	
Interest	366	
Rebates	2,793	
Gain (Loss) on Sale of Fixed Assets	-	
Miscellaneous	-	
Transfer from General Fund	-	
TOTAL REVENUES	-	\$ 3,104,111

COST OF COMMODITIES

Beginning Inventory - 7/1	46,729	
Purchases	154,976	
Ending Inventory - 6/30	(33,226)	
TOTAL COST OF COMMODITIES SOLD	-	168,479
GROSS PROFIT		2,935,632

SALARY AND BENEFIT EXPENSES

Cafeteria Aides	913,814	
Clerical	32,021	
Overtime	1,974	
Custodial/Maintenance	67,711	
Technology Assistants	6,877	
Other	4,569	
Benefits	245,440	1,272,406

OPERATING EXPENSES

Supplies	16,331	
Food Service Management Costs	1,476,107	
Professional Services	200	
Repairs and Maintenance	500	
Advertising	-	
Software	8,283	
Small Tools	2,344	
Electricity	60,000	
Periodicals	-	
Travel	24	
Depreciation	40,182	
Dues and Fees	-	1,603,971
TOTAL EXPENSES	-	2,876,377

CHANGES IN NET ASSETS **59,255**

NET ASSETS - JULY 1, 2010 **242,220**

NET ASSETS - JUNE 30, 2011 **\$ 301,475**

**East Penn School District
Agency Fund
Payroll Fund - Balance Sheet
For the Year Ended June 30, 2011**

ASSETS

Cash	\$	324,716	
Investments		-	
Other Receivables		-	
Due from General Fund		-	
TOTAL ASSETS		<u> </u>	<u>\$ 324,716</u>

LIABILITIES

Sec. 125 Withholding	\$	104,345	
Other Payroll Deductions		15,818	
Annuity		-	
Dues		-	
Unemployment		14,008	
Local Wage Tax		173,673	
OPT		16,842	
Dental Insurance		-	
Due to General Fund		30	
Other		-	
TOTAL LIABILITIES		<u> </u>	<u>\$ 324,716</u>

**East Penn School District
Memorial Fund
Statement of Additions and Deductions
For the Year Ended June 30, 2011**

NET ASSETS - JULY 1, 2010		\$	115,825
ADDITIONS			
Contributions	\$	2,898	
Transfers from Commencement Awards Fund		-	
Interest		<u>1,613</u>	<u>4,511</u>
TOTAL FUNDS AVAILABLE			120,336
DEDUCTIONS			
Awards		5,501	
Trasfers to Activity Fund		<u>-</u>	<u>5,501</u>
NET ASSETS - JUNE 30, 2011		<u>\$</u>	<u>114,835</u>

**East Penn School District
Commencement Awards Fund
Statement of Additions and Deductions
For the Year Ended June 30, 2011**

NET ASSETS - JULY 1, 2010		\$	(7,367)
ADDITIONS			
Transfers from Memorial Fund	\$	-	
Transfers from Activity Fund		-	
		<u> </u>	
TOTAL TRANSFERS FROM OTHER FUNDS		-	
Contributions		<u>35,798</u>	
TOTAL ADDITIONS			<u>35,798</u>
TOTAL FUNDS AVAILABLE			28,431
DEDUCTIONS			
Transfer to Memorial Fund		-	
Scholarships - Awards		<u>26,993</u>	<u>26,993</u>
NET ASSETS - JUNE 30, 2011		<u>\$</u>	<u>1,438</u>

**2009 A Bond Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010		\$	2,312
REVENUES AND OTHER FINANCING SOURCES			
Interest	\$	-	
Bond Premium		-	
Proceeds from Refunded Bond Issues		<u> </u>	<u> </u>
TOTAL FUNDS AVAILABLE			2,312
EXPENDITURES AND OTHER FINANCING USES			
Professional Services		-	
Insurance		-	
Printing		-	
Bond Discount		-	
Debt Service - Interest		2,312	
Payment to Refunded Bonds Escrow Agent		-	
Transfer to General Fund		<u> </u>	<u>2,312</u>
FUND BALANCE - JUNE 30, 2011		<u>\$</u>	<u> </u>

**East Penn School District
2010 Bond Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010	\$	1,325
REVENUES AND OTHER FINANCING SOURCES		
Interest	\$	-
Bond Premium		-
Proceeds from Refunded Bond Issues		-
TOTAL FUNDS AVAILABLE		<u>1,325</u>
EXPENDITURES AND OTHER FINANCING USES		
Professional Services		-
Insurance		-
Printing		-
Bond Discount		-
Debt Service - Interest	1,325	
Payment to Refunded Bonds Escrow Agent		-
Transfer to General Fund		-
		<u>1,325</u>
FUND BALANCE - JUNE 30, 2011	\$	<u>-</u>

**2011 Bond Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010	\$	-
REVENUES AND OTHER FINANCING SOURCES		
Interest earnings	\$	-
Bond Premium		413,577
Proceeds from Refunded Bond Issues		15,395,000
TOTAL FUNDS AVAILABLE		<u>15,808,577</u>
EXPENDITURES AND OTHER FINANCING USES		
Professional Services	199,122	
Insurance		-
Printing		2,148
Bond Discount		11,686
Debt Service - Interest		5,198
Payment to Refunded Bonds Escrow Agent		15,590,423
Transfer to General Fund		-
		<u>15,808,577</u>
FUND BALANCE - JUNE 30, 2011	\$	<u>-</u>

**East Penn School District
2009 Construction Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010	\$	382
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
Proceeds from Bond Issues	\$	-
Transfers In		-
Refund of Prior Year Expenditures		-
Interest		-
		74
		74
 TOTAL FUNDS AVAILABLE		
		456
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
INSTRUCTIONAL:		
Equipment		-
SUPPORT SERVICES:		
Printing		-
Claims & Judgments		-
Equipment		-
CAPITAL OUTLAY:		
Professional Services		-
Rentals		-
Other Purchased Services		-
Construction Costs		-
Project Manager		-
Equipment		-
Municipal Fees		-
DEBT SERVICE:		
Bond Discount		-
INTERFUND TRANSFERS:		
Transfers Out		-
		456
		456
 FUND BALANCE - JUNE 30, 2011		
	\$	-

**East Penn School District
2010 Construction Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010 \$ 3,650,624

REVENUES AND OTHER FINANCING SOURCES

Refund of Prior Year Expenditures	\$ 57,245	
Transfer from Other Construction Fund	456	
Interest	2,655	60,356

TOTAL FUNDS AVAILABLE 3,710,980

EXPENDITURES AND OTHER FINANCING USES

INSTRUCTIONAL:

Equipment	5,444	
Supplies	1,130	

SUPPORT SERVICES:

Printing	64	
Supplies	603	
Equipment	33,026	

CAPITAL OUTLAY:

Professional Services	102,965	
Equipment	73,565	
Construction Costs	1,566,576	
Municipal Fees	52,800	
Dues & Fees	2,807	
Fines	81,988	

DEBT SERVICE:

Bond Discount	-	
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INTERFUND TRANSFERS:

Transfers Out	-	1,920,968
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FUND BALANCE - JUNE 30, 2011 **\$ 1,790,012**

East Penn School District
Schedule on General Obligation Notes - Series of 1998
Dated as of December 30, 1998
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 6,591	\$ 570,000
2012-13	5,820	595,000
2013-14	5,033	620,000
2014-15	4,214	645,000
2015-16	3,370	670,000
2016-17	2,476	700,000
2017-18	1,550	730,000
2118-19	585	760,000
TOTAL OUTSTANDING	<u>\$ 29,639</u>	<u>\$ 5,290,000</u>

Schedule on General Obligation Notes - Series A of 2003
Dated as of November 3, 2003
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 11,582	\$ -
2012-13	11,349	200,000
2013-14	10,527	800,000
2014-15	9,647	800,000
2015-16	8,791	800,000
2016-17	7,787	900,000
2017-18	6,797	900,000
2018-19	5,807	900,000
2019-20	4,729	1,000,000
2020-21	3,616	1,000,000
2021-22	2,516	1,000,000
2022-23	1,316	1,100,000
2023-24	106	1,100,000
TOTAL OUTSTANDING	<u>\$ 84,570</u>	<u>\$ 10,500,000</u>

East Penn School District
Schedule on General Obligation Notes - Series C of 2003
Dated as of November 3, 2003
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 619	\$ 700,000
2012-13	48	500,000
TOTAL OUTSTANDING	\$ 667	\$ 1,200,000

Schedule on General Obligation Notes - Series A of 2004
Dated as of October 1, 2004
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 12,611	\$ 700,000
2012-13	11,508	700,000
2013-14	10,637	800,000
2014-15	9,757	800,000
2015-16	8,901	800,000
2016-17	7,897	900,000
2017-18	6,907	900,000
2018-19	5,917	900,000
2019-20	4,839	1,000,000
2020-21	3,726	1,000,000
2021-22	2,526	1,100,000
2022-23	1,316	1,100,000
2023-24	106	1,100,000
TOTAL OUTSTANDING	\$ 86,648	\$ 11,800,000

Schedule on General Obligation Bonds - Series AA of 2004
Dated as of October 1, 2004
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 146,417	\$ 430,000
2012-13	131,086	445,000
2013-14	114,024	465,000
2014-15	96,305	480,000
2015-16	77,305	500,000
2016-17	57,165	520,000
2017-18	36,225	540,000
2018-19	12,712	565,000
TOTAL OUTSTANDING	\$ 671,239	\$ 3,945,000

East Penn School District
Schedule on General Obligation Bonds - Series A of 2005
Dated as of August 1, 2005
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 533,675	\$ 685,000
2012-13	505,525	715,000
2013-14	468,900	750,000
2014-15	410,275	1,595,000
2015-16	318,800	2,580,000
2016-17	187,100	4,005,000
2017-18	53,500	2,675,000
TOTAL OUTSTANDING	<u>\$ 2,477,775</u>	<u>\$ 13,005,000</u>

Schedule on General Obligation Bonds - Series A of 2006
Dated as of December 15, 2006
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 372,710	\$ 40,000
2012-13	371,290	40,000
2013-14	369,782	45,000
2014-15	368,162	45,000
2015-16	366,497	45,000
2016-17	354,633	580,000
2017-18	332,062	600,000
2018-19	308,325	625,000
2019-20	272,055	1,235,000
2020-21	222,272	1,285,000
2021-22	169,972	1,330,000
2022-23	115,572	1,390,000
2023-24	58,972	1,440,000
2024-25	15,086	745,000
TOTAL OUTSTANDING	<u>\$ 3,697,390</u>	<u>\$ 9,445,000</u>

East Penn School District
Schedule on General Obligation Notes - Series A of 2007
Dated as of July 2, 2007
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 13,356	\$ 100,000
2012-13	13,210	100,000
2013-14	13,100	100,000
2014-15	12,990	100,000
2015-16	12,915	100,000
2016-17	12,770	100,000
2017-18	11,656	1,100,000
2018-19	10,446	1,100,000
2019-20	9,060	1,300,000
2020-21	6,301	2,600,000
2021-22	3,340	2,700,000
2022-23	270	2,800,000
TOTAL OUTSTANDING	\$ 119,414	\$ 12,200,000

Schedule on General Obligation Bonds - Series of 2007
Dated as of November 15, 2007
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	367,418	325,000
2012-13	354,793	350,000
2013-14	342,106	375,000
2014-15	328,621	390,000
2015-16	314,307	405,000
2016-17	299,054	425,000
2017-18	282,737	445,000
2018-19	264,981	465,000
2019-20	245,781	495,000
2020-21	225,581	515,000
2021-22	204,581	535,000
2022-23	182,330	560,000
2023-24	158,716	585,000
2024-25	133,630	620,000
2025-26	106,960	650,000
2026-27	78,475	690,000
2027-28	48,052	725,000
2028-29	16,233	755,000
TOTAL OUTSTANDING	\$ 3,954,356	\$ 9,310,000

East Penn School District
Schedule on General Obligation Bonds - Series of 2008
Dated as of April 15, 2008
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 202,500	\$ 850,000
2012-13	179,913	870,000
2013-14	145,375	1,505,000
2014-15	98,725	1,605,000
2015-16	63,243	730,000
2016-17	39,569	755,000
2017-18	13,650	780,000
TOTAL OUTSTANDING	\$ 742,975	\$ 7,095,000

Schedule on General Obligation Bonds - Series A of 2008
Dated as of August 1, 2008
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 173,531	\$ 1,825,000
2012-13	113,326	1,880,000
2013-14	59,500	1,330,000
2014-15	27,299	510,000
2015-16	9,188	525,000
TOTAL OUTSTANDING	\$ 382,844	\$ 6,070,000

East Penn School District
Schedule on General Obligation Bonds - Series of 2009
Dated as of June 1, 2009
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 329,230	\$ 345,000
2012-13	322,280	350,000
2013-14	315,053	355,000
2014-15	306,638	375,000
2015-16	296,519	395,000
2016-17	284,863	415,000
2017-18	271,786	435,000
2018-19	257,230	460,000
2019-20	241,213	475,000
2020-21	223,178	505,000
2021-22	203,063	540,000
2022-23	181,367	565,000
2023-24	158,067	600,000
2024-25	133,568	625,000
2025-26	107,454	660,000
2026-27	79,352	690,000
2027-28	49,275	725,000
2028-29	16,844	770,000
TOTAL OUTSTANDING	\$ 3,776,980	\$ 9,285,000

Schedule on General Obligation Bonds - Series A of 2009
Dated as of December 30, 2009
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 110,213	\$ 750,000
2012-13	95,062	765,000
2013-14	79,612	780,000
2014-15	63,913	790,000
2015-16	47,912	810,000
2016-17	30,532	825,000
2017-18	10,625	850,000
TOTAL OUTSTANDING	\$ 437,869	\$ 5,570,000

East Penn School District
Schedule on General Obligation Bonds - Series of 2010
Dated as of March 1, 2010
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 313,763	\$ 2,045,000
2012-13	261,887	2,095,000
2013-14	198,062	2,160,000
2014-15	132,437	2,215,000
2015-16	76,413	2,280,000
2016-17	41,382	1,030,000
2017-18	14,575	1,060,000
TOTAL OUTSTANDING	<u>\$ 1,038,519</u>	<u>\$ 12,885,000</u>

Schedule on General Obligation Bonds - Series A of 2010
Dated as of March 1, 2010
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 129,958	\$ 5,000
2012-13	129,857	5,000
2013-14	129,757	5,000
2014-15	129,658	5,000
2015-16	129,557	5,000
2016-17	129,448	5,000
2017-18	122,170	550,000
2018-19	113,601	90,000
2019-20	102,642	615,000
2020-21	82,389	655,000
2021-22	60,270	680,000
2022-23	36,458	705,000
2023-24	12,060	670,000
TOTAL OUTSTANDING	<u>\$ 1,307,825</u>	<u>\$ 3,995,000</u>

East Penn School District
Schedule on General Obligation Bonds - Series of 2011
Dated as of March 1, 2011
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 417,838	\$ 1,435,000
2012-13	385,337	1,815,000
2013-14	339,212	1,865,000
2014-15	282,362	1,925,000
2015-16	223,788	1,980,000
2016-17	163,488	2,040,000
2017-18	101,387	2,100,000
2018-19	53,388	1,100,000
2019-20	18,444	1,135,000
TOTAL OUTSTANDING	<u>\$ 1,985,244</u>	<u>\$ 15,395,000</u>

S I N G L E A U D I T S E C T I O N

EAST PENN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR PROJECT TITLE	SOURCE CODE	CFDA NUMBER	GRANTOR PASS-THROUGH NUMBER	GRANT PERIOD	AWARD AMOUNT	TOTAL RECEIVED	ACCRUED OR (DEFERRED) AT 7/01/10	REVENUE	EXPENDI- TURES	ACCRUED OR (DEFERRED) AT 6/30/11	PROGRAM DISCLOSURE FOOTNOTES
PASSED THROUGH THE PA											
DEPT. OF EDUCATION											
TITLE I IMPROVING BASIC PROGRAMS	I	84.010	013-100127	07/01/09-09/30/10	\$ 457,893	\$ 122,105	\$ 27,893	\$ 94,212	\$ 94,212	\$ -	
TITLE I IMPROVING BASIC PROGRAMS	I	84.010	013-110127	07/01/10-09/30/11	\$ 389,209	259,473	-	309,628	309,628	50,155	
TITLE I ACADEMIC ACHIEVEMENT	I	84.010	077-100127	07/01/09-09/30/10	\$ 5,400	4,680	4,680	-	-	-	
TITLE IIA IMPROVING TEACHER QUALITY	I	84.367	020-010127	07/01/09-09/30/10	\$ 190,923	63,641	32,740	30,901	30,901	-	
TITLE IIA IMPROVING TEACHER QUALITY	I	84.367	020-110127	07/01/10-09/30/11	\$ 190,963	153,287	-	178,583	178,583	25,296	
TITLE III LEP/IMMIGRANT	I	84.365	010-090127	07/01/08-09/30/09	\$ 30,932	13,257	13,257	-	-	-	
TITLE III LEP/IMMIGRANT	I	84.365	010-100127	08/03/10-09/30/10	\$ 31,682	31,682	-	31,682	31,682	-	
TITLE III LEP/IMMIGRANT	I	84.365	010-110127	07/01/10-09/30/11	\$ 34,055	10,478	-	9,644	9,644	(834)	
DRUG FREE	I	84.186	100-100127	07/01/09-09/30/10	\$ 24,254	15,502	(3,706)	19,208	19,208	-	
ARRA - STATE FISCAL STABILIZATION FUND	I	84.394	126-100127	07/01/09-06/30/10	\$ 1,268,984	105,749	105,749	-	-	-	7
ARRA - STATE FISCAL STABILIZATION FUND	I	84.394	126-110127	07/01/10-06/30/11	\$ 1,286,592	1,286,592	-	1,286,592	1,286,592	-	7
ARRA - EDUCATION JOB FUND	I	84.410	140-110127	08/10/10-06/30/11	\$ 761,579	761,579	-	-	761,579	-	7
PASSED THROUGH CARBON-LEHIGH I.U.											
IDEA	I	84.027	N/A	07/01/09-06/30/10	\$ 1,061,692	265,423	265,423	-	-	-	1,2
IDEA	I	84.027	N/A	07/01/10-06/30/11	\$ 1,089,514	553,217	-	1,089,514	1,089,514	536,297	1,2
ARRA - IDEA	I	84.391A	N/A	07/01/09-09/30/11	\$ 1,373,547	848,233	469,396	473,547	473,547	94,710	1,2,7
PASSED THROUGH MONTGOMERY COUNTY I.U.											
IDEA	I	84.027	N/A	7/1/09-6/30/10	\$ 64,049	64,049	64,049	-	-	-	1,2
TOTAL U.S. DEPT. OF EDUCATION						4,558,947	979,481	4,285,090	4,285,090	705,624	
U.S DEPARTMENT OF HEALTH & HUMAN SERVICES											
PASSED THROUGH THE PA.											
DEPARTMENT OF PUBLIC WELFARE											
TITLE 19 - MEDICAL REIMBURSMENT	I	93.778	N/A	10/01/09-09/30/10	NA	5,911	-	5,911	5,911	-	
U.S. DEPARTMENT OF AGRICULTURE											
PASSED THROUGH THE PA											
DEPARTMENT OF EDUCATION											
NATIONAL SCHOOL LUNCH	I	10.555	N/A	07/01/09-06/30/10	N/A-F	40,543	40,543	-	-	-	6
NATIONAL SCHOOL LUNCH	S	N/A	N/A	07/01/09-06/30/10	N/A	6,741	6,741	-	-	-	
LUNCH NUTRITIONAL STANDARDS INCENTIVE	S	N/A	N/A	07/01/09-06/30/10	N/A	1,110	1,110	-	-	-	
NATIONAL SCHOOL LUNCH	I	10.555	N/A	07/01/10-06/30/11	N/A-F	563,904	-	603,476	603,476	39,572	6
NATIONAL SCHOOL LUNCH	S	N/A	N/A	07/01/10-06/30/11	N/A	91,876	-	98,178	98,178	6,302	
LUNCH NUTRITIONAL STANDARDS INCENTIVE	S	N/A	N/A	07/01/10-06/30/11	N/A	15,171	-	16,216	16,216	1,045	
BREAKFAST PROGRAM	I	10.553	N/A	07/01/09-06/30/10	N/A-F	4,495	4,495	-	-	-	6
BREAKFAST PROGRAM	S	N/A	N/A	07/01/09-06/30/10	N/A	541	541	-	-	-	
BREAKFAST NUTRITIONAL STANDARDS INCENTIVE	S	N/A	N/A	07/01/09-06/30/10	N/A	54	54	-	-	-	
BREAKFAST PROGRAM	I	10.553	N/A	07/01/10-06/30/11	NA-F	51,671	-	56,522	56,522	4,851	6
BREAKFAST PROGRAM	S	N/A	N/A	07/01/10-06/30/11	N/A	6,374	-	6,979	6,979	605	
BREAKFAST NUTRITIONAL STANDARDS INCENTIVE	S	N/A	N/A	07/01/10-06/30/11	N/A	637	-	698	698	61	
PASSED THROUGH THE PA											
DEPARTMENT OF AGRICULTURE											
USDA COMMODITIES	I	10.550	N/A	07/01/10-06/30/11	N/A	154,976	(46,729)	168,478	168,478	(33,227)	4,5,6
TOTAL U.S. DEPARTMENT OF AGRICULTURE						938,093	6,755	950,547	950,547	19,209	
TOTAL FINANCIAL AWARDS					\$ 5,502,951	\$ 986,236	\$ 5,241,548	\$ 5,241,548	\$ 724,833		
LESS - STATE SHARE					(122,504)	(8,446)	(122,071)	(122,071)	(8,013)		
TOTAL FEDERAL FINANCIAL AWARDS					\$ 5,380,447	\$ 977,790	\$ 5,119,477	\$ 5,119,477	\$ 716,820		

SOURCE: D - DIRECT; I - INDIRECT; F- FEDERAL SHARE; S- STATE SHARE

East Penn School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Note 1 - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting for all federal awards charged to governmental funds and on the accrual basis of accounting for all federal awards charged to proprietary funds, as contemplated by generally accepted accounting principles.

Note 2- Organization and Scope

The District recognized 4.2 % of its total general fund revenue in federal awards, and 26.3% of its total enterprise fund revenue.

Note 3 - Program Disclosure – Footnotes

1. The federal awards, passed through the Carbon-Lehigh I. U. and Montgomery County I. U., under the U.S. Department of Education heading, is part of a consortium of participating school districts. In accordance with directions from the Commonwealth of Pennsylvania, these awards are reported on the basic financial statements as local source revenue.
2. Under the U.S. Department of Education, IDEA grants using CFDA No. 84.027, are part of a cluster program, in accordance with OMB Circular A-133 Compliance Supplement, with ARRA-IDEA grant, using CFDA No. 84.391.
3. The Medical Access grant passed through the PA Department of Education is reflected as federal source revenue on the basic financial statements; however, pursuant to instructions from the Commonwealth of PA, it is not reported as revenue on the Schedule of Federal Awards.
4. The District received non-monetary assistance from the U.S. Department of Agriculture of \$154,976 in the form of commodities. These commodities are valued at U.S.D.A.'s approximate costs. During the 2010-11 fiscal year, the District used \$168,478 in commodities and established a year end inventory of \$33,227 at June 30, 2011.
5. The amount recognized as revenue in the Schedule of Expenditures of Federal Awards, under the U.S. Department of Agriculture heading, represents the commodities used versus the commodities received, which are recognized as revenue in the basic financial statements.
6. The National School Lunch, National School Breakfast , and Donated Commodities programs, under the U.S. Department of Agriculture heading, are considered a cluster program in accordance with OMB Circular A-133 Compliance Supplement.
7. The programs reporting this footnote are grants received using funds from the American Recovery and Reinvestment Act.

FINANCIAL STATEMENT RECONCILIATION	
General Fund Federal Source Revenues	\$ 3,096,291
Federal Grants in Local Sources	1,573,523
Food Service Fund Federal Revenue	814,975
Total Federal Revenue, per financial statements	5,484,789
Less - Medical Access Grant	(368,351)
Less - Transportaton Access	(10,462)
Change in Donated Commodities	13,501
Federal Revenue on SEFA	\$ 5,119,477



Board of School Directors
East Penn School District
800 Pine Street
Emmaus, PA 18079-2131

**INDEPENDENT AUDITOR'S 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**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison statement for the General Fund of East Penn School District as of and for the year ended June 30, 2011, which collectively comprise East Penn School District's basic financial statements and have issued our report thereon dated December 12, 2011. We conducted our audit in accordance with auditing standards, generally accepted in the United States of America, and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of East Penn School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered East 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 East Penn School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of East 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of East Penn School District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East 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*.

We noted certain matters that we reported to the governing body of East Penn School District in a separate letter dated December 12, 2011.

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

Respectfully submitted,



December 12, 2011



Board of School Directors
East Penn School District
800 Pine Street
Emmaus, PA 18079-2131

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

Compliance

We have audited East Penn School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of East Penn's School District's major federal programs for the year ended June 30, 2011. East 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 East Penn School District's management. Our responsibility is to express an opinion on East 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 OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program, occurred. An audit includes examining, on a test basis, evidence about East 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 East Penn School District's compliance with those requirements.

In our opinion, East Penn School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

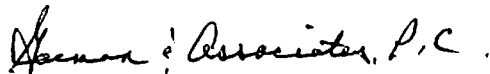
Management of East Penn School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered East Penn School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Respectfully submitted,



December 12, 2011

**East Penn School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

Section I - Summary of Auditor Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) Identified? yes no
- Significant Deficiencies identified that are not considered to be material weaknesses? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) Identified? yes no
- Significant Deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of **OMB** Circular A-133? yes no

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.394	State Fiscal Stabilization Fund
84.027, 84.391	IDEA Cluster
84.410	Education Job Fund

Percentage of programs tested to total awards 70.5%

Dollar threshold used to distinguish between type A and type B program: \$ 300,000

Auditee qualified as low-risk auditee? yes no

**East Penn School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

Section II – Financial Statement Findings

There were no findings discovered, relating to the financial statements, which are required to be reported in accordance with generally accepted government auditing standards.

Section III – Findings and Questioned Costs for Federal Awards

There were no findings discovered, relating to the federal awards, which are required to be reported in accordance with OMB Circular A-133, Section 510.

Audit Follow-up Procedures

We performed follow-up procedures on the findings reported last year, which are shown in the accompanying schedule of prior year findings.

**East Penn School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Prior Year Findings 2009-10

Significant Deficiency 2010-1	(Food Service Fund - Bank Reconciliation)
Criteria:	The District should reconcile their monthly bank statements to the cash balance reported in their bookkeeping system.
Condition:	During our review of cash balances, we discovered discrepancies in the reconciliation process and recording process that went undetected during the year.
Cause:	The reason for this condition was created by an employee, assigned to the process that had limited understanding of the function.
Effect	The failure to properly reconcile cash can cause an understatement or overstatement of the District's financial positions.
Status:	Corrective Action was taken.
Significant Deficiency 2010-2	(Food Service Fund – POS System)
Criteria:	The District should establish controls that will enable the POS system to properly record deposits applied to a student's account as a liability.
Condition:	During our review of revenues received in the Food Service Fund, we discovered that when deposits are being applied to a student's account, the computer system is recording the transaction to sales. In addition, when the student purchases a meal the computer system is recording the transaction to sales.
Cause:	The reason for this condition, is that the personnel responsible has not assigned the correct account coding to the POS system.
Effect:	The failure to correct the coding in the POS system has resulted in revenues being overstated by over \$375,000, which also means the monthly treasurer reports submitted to the Board may have been incorrect.
Status:	Corrective Action was taken.