

**GARNET VALLEY SCHOOL DISTRICT
GLEN MILLS, PENNSYLVANIA
DELAWARE COUNTY**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

GARNET VALLEY SCHOOL DISTRICT

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
<i>Statement of Net Assets</i>	15
<i>Statement of Activities</i>	16
Fund Financial Statements	
<i>Balance Sheet – Governmental Funds</i>	17
<i>Reconciliation of Governmental Funds Balance Sheet to Net Assets of Governmental Activities on the Statement of Net Assets</i>	18
<i>Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds</i>	19
<i>Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Change in Net Assets of Governmental Activities on the Statement of Activities</i>	20
<i>Statement of Net Assets – Proprietary Fund</i>	21
<i>Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund</i>	22
<i>Statement of Cash Flows – Proprietary Fund</i>	23
<i>Statement of Net Assets – Fiduciary Fund</i>	24
<i>Statement of Changes in Net Assets – Fiduciary Fund</i>	25
Notes to Financial Statements	26
REQUIRED SUPPLEMENTARY INFORMATION	
<i>Budgetary Comparison Schedule – General Fund</i>	41
<i>Other Post-Employment Benefits Schedule of Funding Progress</i>	42
SINGLE AUDIT	
<i>Schedule of Expenditures of Federal Awards and Certain State Grants</i>	43
<i>Notes to Schedule of Expenditures of Federal Awards and Certain State Grants</i>	45
<i>Summary Schedule of Prior Audit Findings</i>	46
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	47
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	49
<i>Schedule of Findings and Questioned Costs</i>	51



INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
Garnet Valley School District
Glen Mills, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Garnet Valley School District, Glen Mills, Pennsylvania, 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 Garnet Valley School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the financial statements of the Garnet Valley School District as of and for the year ended June 30, 2010 which were audited by other auditors whose report dated January 10, 2011 expressed an unqualified opinion on those statements.

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

In our opinion, the 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 Garnet Valley School District, Glen Mills, Pennsylvania, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 11, 2011, on our consideration of the Garnet Valley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the budgetary comparison schedule – general fund and other post employment benefits schedule of funding progress on pages 3 through 14 and 41 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

BBD, LLP

Philadelphia, Pennsylvania
November 11, 2011

GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

Management's discussion and analysis ("**MD&A**") of the financial performance of the Garnet Valley School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2011. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of five schools – three elementary schools, a middle school and a senior high school consisting of approximately 4,800 students. The District encompasses several communities in southwestern Delaware County and covers an area of approximately 21.4 square miles. The District's boundaries are coterminous with those of the Borough of Chester Heights and the Townships of Bethel and Concord, all located in Delaware County, Pennsylvania. The central point of the District lies approximately 8 miles west of the City of Chester, Delaware County, Pennsylvania, 10 miles north of Wilmington, Delaware, 20 miles southeast of the City of Coatesville, Chester County, Pennsylvania, and 25 miles southwest of downtown Philadelphia. There are approximately 823 employees in the District, including 402 teachers, 50 administrative staff and 371 support personnel including secretaries, maintenance staff, custodial staff, cafeteria staff, transportation and teachers aides.

The mission of the District is to provide a stimulating learning environment, which provides quality educational opportunities for all students.

FINANCIAL HIGHLIGHTS

- On a government-wide basis, including all governmental activities and the business-type activity, the assets of the District exceeded liabilities resulting in total net assets at the close of the 2010-2011 fiscal year of \$6,756,896. During the 2010-2011 fiscal year, the District had a decrease in total net assets of \$1,055,654. The net assets of governmental activities decreased by \$1,036,027 and net assets of business-type activities decreased by \$19,627.
- The General Fund reported a decrease in fund balance of \$1,274,212, bringing the cumulative balance to \$7,554,972 at the conclusion of the 2010-2011 fiscal year or 9.16% of the 2011-2012 \$82,484,602 General Fund budget.
- Budgeted amounts in the General Fund used \$1,063,182 of fund balance as of June 30, 2010 to balance the 2010-2011 General Fund budget. Actual results during the 2010-2011 fiscal year used \$1,274,212 of General Fund fund balance for a negative variance of \$211,030.
- Total General Fund expenditures and other financing uses were \$2,677,372 or 3.20% less than budgeted amounts.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

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

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 15 and 16 of this report.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The District maintains three individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the three major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

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

Proprietary Funds

The District maintains one type of proprietary fund. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

The proprietary fund financial statements can be found on Pages 21 through 23 of this report.

Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, consisting of scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on Pages 24 and 25 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 26 through 40 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund and a schedule concerning the District's progress in funding its obligation to provide other post-employment benefits.

The required supplementary information can be found on Pages 41 and 42 of this report.

GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net assets may serve over time as a useful indicator of the District's financial position. At the close of the 2010-2011 fiscal year the District's assets exceeded liabilities by \$6,756,896. The following table presents condensed information for the *Statement of Net Assets* of the District at June 30, 2011 and 2010.

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current assets	\$ 17,773,109	\$ 17,616,874	\$ 73,577	\$ 110,002	\$ 17,846,686	\$ 17,726,876
Noncurrent assets	<u>120,957,491</u>	<u>123,955,223</u>	<u>127,552</u>	<u>147,179</u>	<u>121,085,043</u>	<u>124,102,402</u>
Total assets	<u>138,730,600</u>	<u>141,572,097</u>	<u>201,129</u>	<u>257,181</u>	<u>138,931,729</u>	<u>141,829,278</u>
LIABILITIES						
Current liabilities	10,330,846	8,910,604	73,577	110,002	10,404,423	9,020,606
Non-current liabilities	<u>121,770,410</u>	<u>124,996,122</u>	<u>-</u>	<u>-</u>	<u>121,770,410</u>	<u>124,996,122</u>
Total liabilities	<u>132,101,256</u>	<u>133,906,726</u>	<u>73,577</u>	<u>110,002</u>	<u>132,174,833</u>	<u>134,016,728</u>
NET ASSETS (DEFICIT)						
Invested in capital assets, net of related debt	7,522,897	4,894,675	127,552	147,179	7,650,449	5,041,854
Restricted	484,921	392,221	-	-	484,921	392,221
Unrestricted (deficit)	<u>(1,378,474)</u>	<u>2,378,475</u>	<u>-</u>	<u>-</u>	<u>(1,378,474)</u>	<u>2,378,475</u>
Total net assets	<u>\$ 6,629,344</u>	<u>\$ 7,665,371</u>	<u>\$127,552</u>	<u>\$147,179</u>	<u>\$ 6,756,896</u>	<u>\$ 7,812,550</u>

The District's total assets as of June 30, 2011 were \$138,931,729 of which \$13,509,706 or 9.72% consisted of cash and \$119,964,723 or 86.35% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2011 were \$132,174,833 of which \$98,986,769 or 74.89% consisted of general obligation debt used to acquire and construct capital assets.

The District had a deficit in unrestricted net assets of \$1,378,474 at June 30, 2011. The District's unrestricted net assets decreased during 2011 primarily due to the results of current year operations, the approval of a new early retirement incentive plan in 2010-2011 for senior professional staff which has been recorded as a non-current liability at its net present value of \$1,791,333 at June 30, 2011, and costs incurred related to the demolition of the Francis Harvey Green School.

A portion of the District's net assets reflects its restricted net assets which totaled \$484,921 as of June 30, 2011. All of the District's restricted net assets related to amounts restricted for student activities.

Another portion of the District's net assets reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2011, the District's investment in capital assets, net of related debt, increased by \$2,608,595 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated.

GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The following table presents condensed information for the *Statement of Activities* of the District for 2011 and 2010:

	Governmental Activities		Business-Type Activities		Totals	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
REVENUES						
Program revenues						
Charges for services	\$ 1,717,961	\$ 2,060,525	\$ 1,814,751	\$ 1,839,571	\$ 3,532,712	\$ 3,900,096
Operating grants and contributions	9,699,501	10,411,715	243,622	257,718	9,943,123	10,669,433
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes levied for general purposes	63,616,924	62,002,043	-	-	63,616,924	62,002,043
Property taxes levied for specific purposes	724,310	857,139	-	-	724,310	857,139
Grants and entitlements not restricted to specific programs	4,545,836	3,241,803	-	-	4,545,836	3,241,803
Investment earnings	<u>97,287</u>	<u>137,985</u>	<u>725</u>	<u>660</u>	<u>98,012</u>	<u>138,645</u>
Total revenues	<u>80,401,819</u>	<u>78,711,210</u>	<u>2,059,098</u>	<u>2,097,949</u>	<u>82,460,917</u>	<u>80,809,159</u>
EXPENSES						
Instruction	51,384,042	49,366,380	-	-	51,384,042	49,366,380
Instructional student support services	5,019,432	4,458,180	-	-	5,019,432	4,458,180
Administrative and financial support services	5,931,581	6,022,245	-	-	5,931,581	6,022,245
Operation and maintenance of plant services	7,900,124	6,327,349	-	-	7,900,124	6,327,349
Pupil transportation	3,673,094	3,466,852	-	-	3,673,094	3,466,852
Student activities	2,610,551	2,688,787	-	-	2,610,551	2,688,787
Community services	197,824	219,245	-	-	197,824	219,245
Interest and amortization expense related to non-current liabilities	4,721,198	5,237,187	-	-	4,721,198	5,237,187
Food service	<u>-</u>	<u>-</u>	<u>2,078,725</u>	<u>2,117,576</u>	<u>2,078,725</u>	<u>2,117,576</u>
Total expenses	<u>81,437,846</u>	<u>77,786,225</u>	<u>2,078,725</u>	<u>2,117,576</u>	<u>83,516,571</u>	<u>79,903,801</u>
CHANGE IN NET ASSETS	<u>\$ (1,036,027)</u>	<u>\$ 924,985</u>	<u>\$ (19,627)</u>	<u>\$ (19,627)</u>	<u>\$ (1,055,654)</u>	<u>\$ 905,358</u>

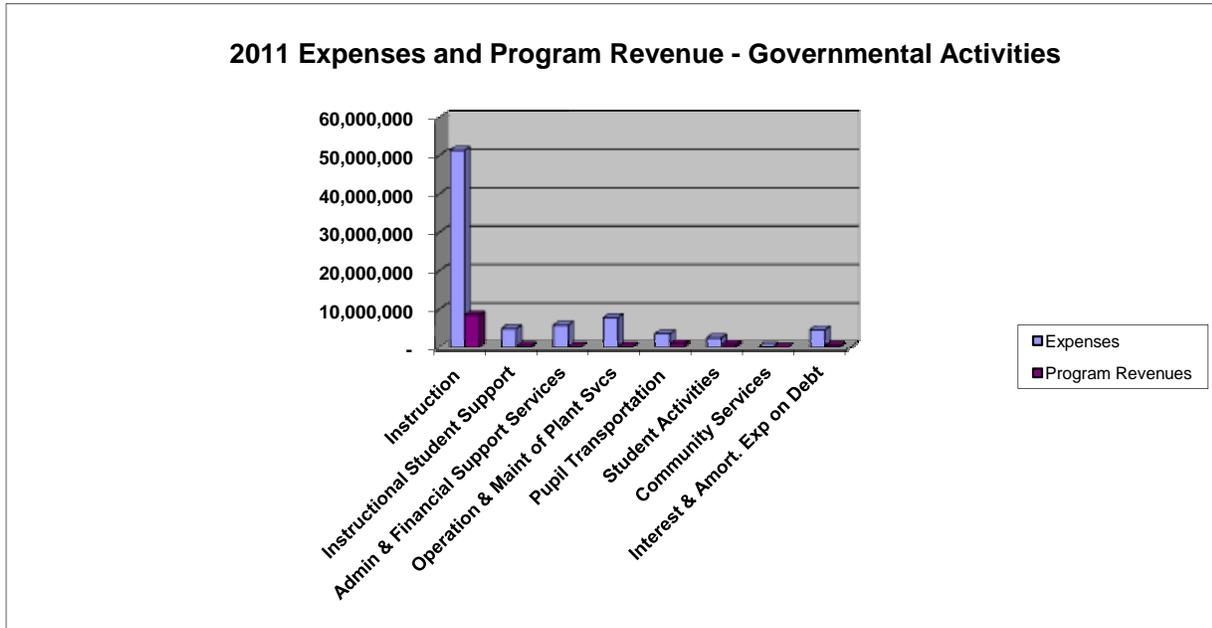
During 2011, the District's net assets decreased by \$1,055,654 in part due to challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing whose growth has slowed in recent years. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities located mostly in Concord Township.

GARNET VALLEY SCHOOL DISTRICT

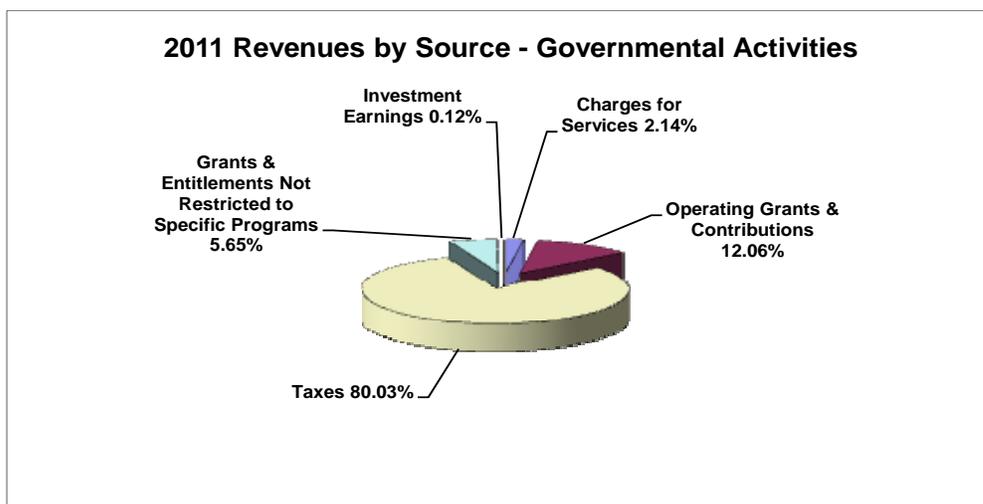
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

GOVERNMENTAL FUNDS

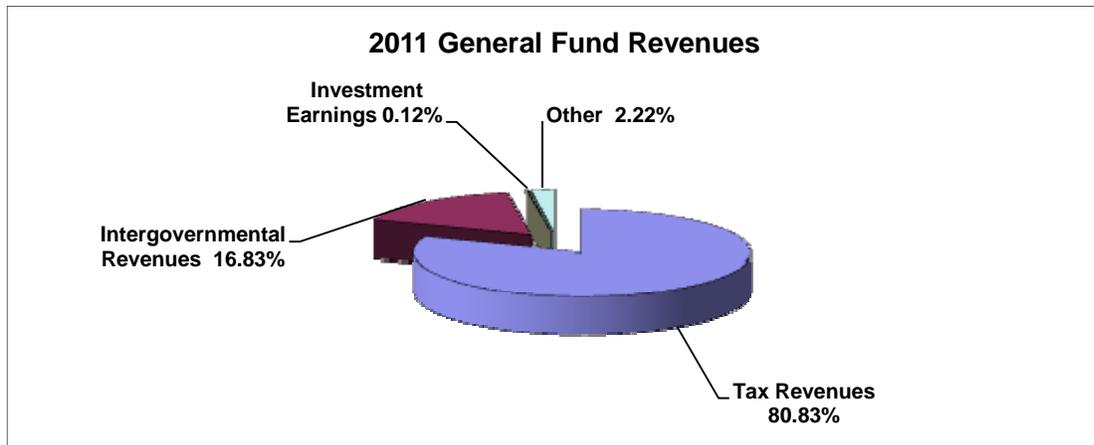
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2011, the District's governmental funds reported a combined fund balance of \$8,897,147 which is a decrease of \$1,548,553 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2011 and 2010 and the total 2011 change in governmental fund balances.

	<u>2011</u>	<u>2010</u>	<u>Change</u>
General Fund	\$7,554,972	\$ 8,829,184	\$(1,274,212)
Capital Projects Fund	1,342,175	1,616,516	(274,341)
Prison Fund	-	-	-
	<u>\$8,897,147</u>	<u>\$10,445,700</u>	<u>\$(1,548,553)</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2010-2011 fiscal year, the General Fund fund balance was \$7,554,972 representing a decrease of \$1,274,212 in relation to the prior year. The decrease in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2010-2011 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 80.86% of General Fund revenues are derived from local taxes.



General Fund Revenues

	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$64,402,787	\$63,170,658	\$1,232,129	1.95
Intergovernmental revenues	13,406,364	12,864,288	542,076	4.21
Investment earnings	96,681	132,589	(35,908)	(27.08)
Other	<u>1,767,332</u>	<u>2,057,648</u>	<u>(290,316)</u>	<u>(14.11)</u>
	<u>\$79,673,164</u>	<u>\$78,225,183</u>	<u>\$1,447,981</u>	<u>1.85</u>

GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

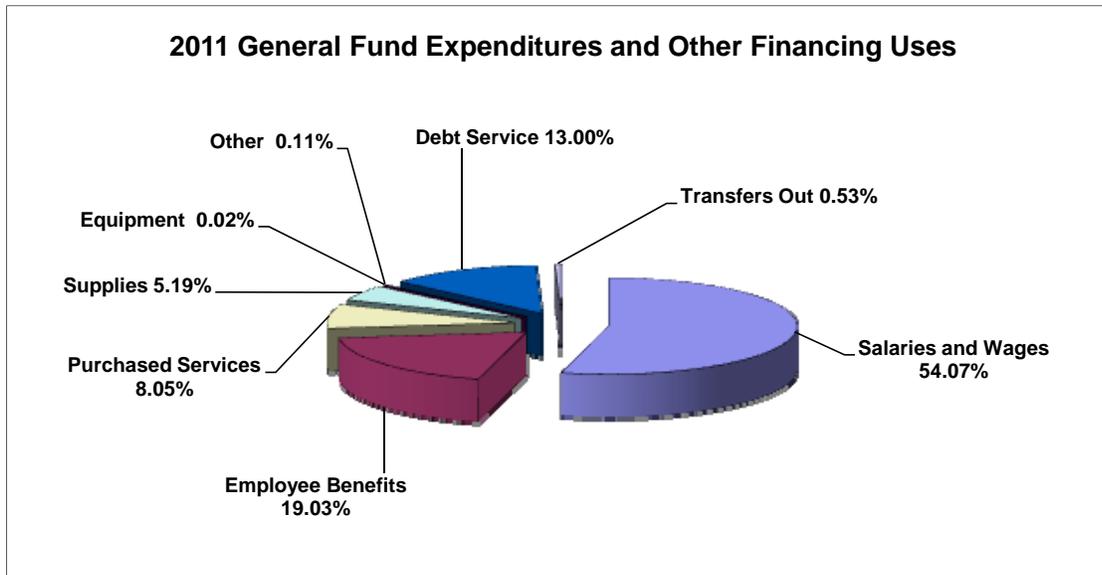
Net property tax revenues increased by \$1,232,129 or 1.95% due to several factors. A millage increase of approximately 2.8% in 2010-2011 compared to 2009-2010 and tax assessment base growth were offset by decreases in tax assessments as a result of property tax assessment appeals and changes in other local taxes as follows:

	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
Real estate tax	\$60,707,341	\$59,891,465	\$ 815,876	1.36
Interim tax	1,457,489	764,520	692,969	90.64
PURTA tax	85,299	82,302	2,997	3.64
Transfer tax	639,011	774,837	(135,826)	(17.53)
Delinquent tax	<u>1,513,647</u>	<u>1,657,534</u>	<u>(143,887)</u>	<u>(8.68)</u>
	<u>\$64,402,787</u>	<u>\$63,170,658</u>	<u>\$1,232,129</u>	<u>1.95</u>

Intergovernmental revenues increased primarily due to additional funding received for rental and sinking fund reimbursements, I.D.E.A. grant for special education and the retirement subsidy because of an increase in the employer annual contribution percentage.

In 2010-2011, the Delaware County Intermediate Unit discontinued its use of the Francis Harvey Green School. Hence, the District's rental revenue decreased which is classified within other revenue resulting in an overall decrease.

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

General Fund Expenditures and Other Financing Uses

	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$43,771,735	\$41,458,681	\$2,313,054	5.58
Employee benefits	15,404,198	14,108,701	1,295,497	9.18
Purchased services	6,514,265	5,962,182	552,083	9.26
Supplies	4,203,935	4,329,993	(126,058)	(2.91)
Equipment	15,656	14,247	1,409	9.89
Other	89,145	87,201	1,944	2.23
Debt service	10,522,663	10,239,674	282,989	2.76
Transfers out	<u>425,779</u>	<u>1,365,516</u>	<u>(939,737)</u>	<u>(68.82)</u>
	<u>\$80,947,376</u>	<u>\$77,566,195</u>	<u>\$3,381,181</u>	<u>4.36</u>

Salaries and wages and employee benefits were the primary reason for the overall increase in expenditures of \$3,381,181 or 4.36% in 2010-2011 compared to 2009-2010. Salaries and wages increased commensurate with increases stipulated in current collective bargaining and other employment contracts and employee benefits increased due to rising medical insurance premiums and an increase in the required employer annual retirement contribution to 5.64% from 4.78%.

Transfers out in 2009-2010 included an additional transfer to the Capital Projects fund of \$929,178 appropriated for planned capital projects in addition to the approximately \$400,000 transferred to the Capital Projects fund both in 2009-2010 and 2010-2011 related to funding received from the American Recovery and Reinvestment Act ("**ARRA**") which was used for capital expenditures.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt. During 2010-2011, the Capital Projects Fund expended monies for capital expenditures and costs associated with the demolition of the Francis Harvey Green School. The remaining fund balance of \$1,342,175 as of June 30, 2011 is restricted for future capital expenditures.

PRISON FUND

The Prison Fund accounts for education services provided to juveniles detained at the Delaware County prison located in Concord Township. The District outsources the services to the Delaware County Intermediate Unit and is funded solely from State appropriations. An annual reconciliation of revenues received and costs incurred for services provided is performed and any excess or deficiency is accounted for resulting in a net breakeven at year end.

GENERAL FUND BUDGET INFORMATION

The District maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1 each year. The most significant budgeted fund is the General Fund.

Actual revenues were \$2,888,402 less than budgeted amounts and actual expenditures and other financing sources were \$2,677,372 less than budgeted amounts resulting in a net overall negative variance of \$211,030. Major budgetary highlights for 2010-2011 were as follows:

- Actual local revenues received were \$2,669,488 less than budgeted amounts primarily due to tax appeal assessment reductions authorized in 2010-2011.

GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

- Actual state revenues were \$902,017 less than budget and federal revenues were \$683,103 more than budget. The variances are due to State funding that was budgeted to be received as a State source but was actually funded with Federal sources through ARRA and the timing of amounts budgeted and expended related to ARRA funding.
- Total actual expenditures and other financing uses were under budget by \$2,677,372 which resulted from not replacing or delaying the hiring of staff vacancies, reducing support staff hours where practical, combining job assignments, reducing the use of substitutes and savings realized by staff not using benefits to the extent anticipated.
- Professional staffing costs of approximately \$900,000 originally budgeted within support services were transferred to the special education program final budget to better reflect costs associated with the support staff assigned to the special education program which may result in higher Medical ACCESS and I.D.E.A. funding to the District in future years.
- Transfers out to the capital projects fund originally budgeted to instruction programs were used for technology purchases related to ARRA funding received through the State.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

The Food Service Program operates on a breakeven cash flow basis, but incurs annual net asset decreases equal to the annual provision for depreciation which was \$19,627 for 2011. As of June 30, 2011, the business-type activities and food service fund had net assets of \$127,552 equal to its investment in capital assets.

CAPITAL ASSETS

The District's investment in capital asset for its governmental and business-type activities as of June 30, 2011 amounted to \$119,964,723 net of accumulated depreciation. This investment in capital assets includes land, land improvements, buildings and improvements and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$2,614,731 or 2.13%. The decrease was the result of current year depreciation expense and disposals in excess of current year capital additions.

Current year capital additions were \$885,359 and depreciation expense was \$3,500,090.

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

- | | |
|-------------------------------------------------------------------------------------------|-----------|
| • Two 72 passenger and three 84 passenger school buses | \$438,940 |
| • 573 Smithbridge Road, Glen Mills, PA
(previously classified as land held for resale) | \$329,709 |

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

- | | |
|-------------------------------|-----------|
| • Francis Harvey Green School | \$403,296 |
| • 5 school buses | \$265,305 |

All capital disposals had a net book value of zero at the date of disposal.

NON-CURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$98,986,769 consisting of \$85,826,546 in bonds payable and \$14,848,000 in notes payable, net of deferred charges of \$1,687,777. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$3,597,348 or 3.51% during the fiscal year. During 2010-2011, the District issued a general obligation note, Series of 2010, which is to be used for the acquisition of equipment, buses, computers and furniture.

GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is \$175,806,969 which exceeds the District's general obligation debt.

The District has an appropriation-based lease with the State Public School Building Authority to finance the construction of the Bethel Springs Elementary School. Lease rental payments are appropriated from current year funds and are not considered a general obligation debt of the District. This lease agreement qualifies as a capital lease and has been recorded at the present value of future minimum lease payments. The lease rental payable was \$15,790,000 at June 30, 2011 and decreased by \$780,000 or 4.71% in the current fiscal year.

Other non-current liabilities consist of the District's liabilities for compensated absences, early retirement incentive plans and its net obligation for post-employment benefits, which totaled \$6,993,641 as of June 30, 2011. These liabilities increased by \$1,151,636 or 19.71% during the fiscal year. The net increase in other non-current liabilities is primarily due to the approval of an early retirement incentive plan for senior professional staff recorded at its net present value of \$1,791,333.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District experienced significant growth over the last 10 years, which has more recently leveled. If the student population distribution changes so that more students enter the District than currently are anticipated, adjustments will have to be made to current and future building utilizations which in turn will affect the District's future budget and financial model which assumptions have been made.
- The increase in net property tax base assessments within the District has been moderate and an increase in successful property tax assessment appeals has been decreasing the District's existing property tax base.
- The District's student enrollment is not expected to change significantly for the next three years.
- Additional tax and enrollment information is available on the District's website: (<http://www.garnetvalleyschools.com/137610419102947590/site/default.asp>).
- The District adopted a balanced 2011-2012 budget which used approximately \$430,000 of General Fund fund balance as of June 30, 2011 and the real estate tax millage rate was increased by approximately 2%.
- In February 2009, President Barack Obama signed into law The American Recovery and Reinvestment Act of 2009 ("**ARRA**") which infused \$787 billion dollars into the economy to create and save jobs as well as improve student achievement through school improvement and reform. The District has received and expensed \$2,286,225 in appropriations of ARRA funds through June 30, 2011. These funds provided a two-year temporary fix to a funding issue with public schools in Pennsylvania both at the State and local level. These funds had prescriptive requirements to usage and are not available for appropriation after the 2011-2012 fiscal year.
- The future direction and level of funding for public education from the Commonwealth of Pennsylvania remains unclear at this time. In 2006, Act 1 was passed which repealed Act 72, which will provide taxpayer relief through gambling revenues generated at the State level. The intent of this legislation was to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increase real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduces certain new requirements on school districts which include the following:

GARNET VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

- ◆ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state (1.4% for Garnet Valley School District for 2011-2012), the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
- ◆ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.
- ◆ Any revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders. (Act 1 permitted slot machine gambling in Pennsylvania.)

On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("**House Bill 2497**") into law. The legislation is now known as Act 120 of 2010. House Bill 2497 includes a series of actuarial and funding changes to the public school employee's retirement system ("**PSERS**") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation the employer contribution rate for 2012-2013 is projected at 12.19%. Currently, the employer contribution rate for 2011-2012 is 8.65%.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Business Administrator, Garnet Valley School District, 80 Station Road, Glen Mills, Pennsylvania 19342-1558.

GARNET VALLEY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011 with summarized comparative totals for 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>	
			<u>2011</u>	<u>2010</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 13,509,694	\$ 12	\$ 13,509,706	\$ 13,490,165
Taxes receivable	1,623,779	-	1,623,779	1,720,353
Due from other governments	2,009,624	12,558	2,022,182	2,123,739
Internal balances	(5,966)	5,966	-	-
Other receivables	635,978	-	635,978	66,279
Prepaid expenses	-	-	-	281,594
Inventories	-	55,041	55,041	44,746
Total current assets	<u>17,773,109</u>	<u>73,577</u>	<u>17,846,686</u>	<u>17,726,876</u>
NON-CURRENT ASSETS				
Capital assets, net	119,837,171	127,552	119,964,723	122,579,454
Debt issuance costs, net	1,120,320	-	1,120,320	1,193,239
Land held for resale	-	-	-	329,709
Total non-current assets	<u>120,957,491</u>	<u>127,552</u>	<u>121,085,043</u>	<u>124,102,402</u>
Total assets	<u>138,730,600</u>	<u>201,129</u>	<u>138,931,729</u>	<u>141,829,278</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	2,200,754	34,896	2,235,650	1,341,668
Accrued salaries and benefits	4,705,823	-	4,705,823	4,393,997
Accrued interest payable	3,424,269	-	3,424,269	3,250,063
Deferred revenue	-	38,681	38,681	34,878
Total current liabilities	<u>10,330,846</u>	<u>73,577</u>	<u>10,404,423</u>	<u>9,020,606</u>
NON-CURRENT LIABILITIES				
Due within one year	6,629,653	-	6,629,653	6,180,056
Due in more than one year	115,140,757	-	115,140,757	118,816,066
Total non-current liabilities	<u>121,770,410</u>	<u>-</u>	<u>121,770,410</u>	<u>124,996,122</u>
Total liabilities	<u>132,101,256</u>	<u>73,577</u>	<u>132,174,833</u>	<u>134,016,728</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	7,522,897	127,552	7,650,449	5,041,854
Restricted	484,921	-	484,921	392,221
Unrestricted (deficit)	(1,378,474)	-	(1,378,474)	2,378,475
Total net assets	<u>\$ 6,629,344</u>	<u>\$ 127,552</u>	<u>\$ 6,756,896</u>	<u>\$ 7,812,550</u>

See accompanying notes

GARNET VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2011 with summarized comparative totals for 2010

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>	
							<u>2011</u>	<u>2010</u>
GOVERNMENTAL ACTIVITIES								
Instruction	\$51,384,042	\$ 976,532	\$7,603,768	\$ -	\$(42,803,742)	\$ -	\$(42,803,742)	\$(41,876,719)
Instructional student support	5,019,432	-	307,583	-	(4,711,849)	-	(4,711,849)	(3,834,058)
Administrative and financial support services	5,931,581	-	222,029	-	(5,709,552)	-	(5,709,552)	(5,130,583)
Operation and maintenance of plant services	7,900,124	74,143	165,441	-	(7,660,540)	-	(7,660,540)	(5,269,301)
Pupil transportation	3,673,094	-	918,973	-	(2,754,121)	-	(2,754,121)	(2,985,784)
Student activities	2,610,551	667,286	76,979	-	(1,866,286)	-	(1,866,286)	(1,622,393)
Community services	197,824	-	-	-	(197,824)	-	(197,824)	(152,566)
Interest and amortization expense related to non-current liabilities	4,721,198	-	404,728	-	(4,316,470)	-	(4,316,470)	(4,442,581)
Total governmental activities	<u>81,437,846</u>	<u>1,717,961</u>	<u>9,699,501</u>	<u>-</u>	<u>(70,020,384)</u>	<u>-</u>	<u>(70,020,384)</u>	<u>(65,313,985)</u>
BUSINESS-TYPE ACTIVITIES								
Food service	2,078,725	1,814,751	243,622	-	-	(20,352)	(20,352)	(20,287)
Total primary government	<u>\$83,516,571</u>	<u>\$3,532,712</u>	<u>\$9,943,123</u>	<u>\$ -</u>	<u>(70,020,384)</u>	<u>(20,352)</u>	<u>(70,040,736)</u>	<u>(65,334,272)</u>
GENERAL REVENUES								
Property taxes levied for general purposes					63,616,924	-	63,616,924	62,002,043
Taxes levied for specific purposes					724,310	-	724,310	857,139
Grants and entitlements not restricted to specific programs					4,545,836	-	4,545,836	3,241,803
Investment earnings					97,287	725	98,012	138,645
Total general revenues					<u>68,984,357</u>	<u>725</u>	<u>68,985,082</u>	<u>66,239,630</u>
CHANGE IN NET ASSETS								
					(1,036,027)	(19,627)	(1,055,654)	905,358
NET ASSETS								
Beginning of year					7,665,371	147,179	7,812,550	6,907,192
End of year					<u>\$ 6,629,344</u>	<u>\$127,552</u>	<u>\$ 6,756,896</u>	<u>\$ 7,812,550</u>

GARNET VALLEY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2011 with summarized comparative totals for 2010

	Major Funds			Totals	
	General Fund	Capital Projects Fund	Prison Fund	2011	2010
ASSETS					
Cash	\$12,160,649	\$1,349,045	\$ -	\$13,509,694	\$13,490,129
Taxes receivable	1,623,779	-	-	1,623,779	1,720,353
Due from other governments	1,989,597	-	20,027	2,009,624	2,089,084
Due from other funds	904	-	-	904	-
Other receivables	635,978	-	-	635,978	66,279
Prepaid items	-	-	-	-	281,594
Land held for sale	-	-	-	-	329,709
Total assets	\$16,410,907	\$1,349,045	\$20,027	\$17,779,979	\$17,977,148
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 2,180,727	\$ -	\$20,027	\$ 2,200,754	\$ 1,266,545
Due to other funds	-	6,870	-	6,870	30,565
Accrued salaries and benefits	5,449,127	-	-	5,449,127	4,946,705
Deferred revenues	1,226,081	-	-	1,226,081	1,287,633
Total liabilities	8,855,935	6,870	20,027	8,882,832	7,531,448
FUND BALANCES					
Restricted for					
Capital projects	-	1,342,175	-	1,342,175	1,286,807
Student activities	484,921	-	-	484,921	392,221
Committed to					
Land held for sale	-	-	-	-	329,709
Early retirement incentive	2,892,436	-	-	2,892,436	1,743,134
Unassigned	4,177,615	-	-	4,177,615	6,693,829
Total fund balances	7,554,972	1,342,175	-	8,897,147	10,445,700
Total liabilities and fund balances	\$16,410,907	\$1,349,045	\$20,027	\$17,779,979	\$17,977,148

See accompanying notes

GARNET VALLEY SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

June 30, 2011

TOTAL GOVERNMENTAL FUND BALANCES	\$ 8,897,147
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	119,837,171
Deferred charges for debt issuance costs are currently expensed in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net assets.	1,120,320
Some of the District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds balance sheet.	1,226,081
Non-current liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(121,027,106)
Accrued interest payable on long-term liabilities is included in the government-wide statement of net assets, but is excluded from the governmental funds balance sheet until due and payable.	<u>(3,424,269)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 6,629,344</u>

GARNET VALLEY SCHOOL DISTRICT

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

Year ended June 30, 2011 with summarized comparative totals for 2010

	Major Funds			Totals	
	General Fund	Capital Projects Fund	Prison Fund	2011	2010
REVENUES					
Local sources	\$66,266,800	\$ 605	\$ -	\$66,267,405	\$65,369,168
State sources	10,580,509	-	838,722	11,419,231	11,338,963
Federal sources	2,825,855	-	-	2,825,855	2,314,555
Total revenues	<u>79,673,164</u>	<u>605</u>	<u>838,722</u>	<u>80,512,491</u>	<u>79,022,686</u>
EXPENDITURES					
Current					
Instruction	46,934,783	-	838,722	47,773,505	44,266,605
Support services	20,379,015	5,000	-	20,384,015	19,660,125
Operation of noninstructional services	2,679,196	-	-	2,679,196	2,826,382
Facilities acquisition, construction and improvement services	-	1,945,725	-	1,945,725	3,066,130
Debt service	10,522,663	-	-	10,522,663	10,289,710
Total expenditures	<u>80,515,657</u>	<u>1,950,725</u>	<u>838,722</u>	<u>83,305,104</u>	<u>80,108,952</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(842,493)</u>	<u>(1,950,120)</u>	<u>-</u>	<u>(2,792,613)</u>	<u>(1,086,266)</u>
OTHER FINANCING SOURCES (USES)					
Refund of prior year receipts	(5,940)	-	-	(5,940)	-
Issuance of debt	-	1,250,000	-	1,250,000	1,250,000
Issuance of debt – refunding	-	-	-	-	5,695,000
Payment of debt – refunding	-	-	-	-	(5,792,386)
Bond premiums	-	-	-	-	181,592
Bond discounts	-	-	-	-	(39,170)
Transfers in	-	425,779	-	425,779	1,489,016
Transfers out	(425,779)	-	-	(425,779)	(1,489,016)
Total other financing sources (uses)	<u>(431,719)</u>	<u>1,675,779</u>	<u>-</u>	<u>1,244,060</u>	<u>1,295,036</u>
NET CHANGE IN FUND BALANCES	<u>(1,274,212)</u>	<u>(274,341)</u>	<u>-</u>	<u>(1,548,553)</u>	<u>208,770</u>
FUND BALANCES					
Beginning of year	<u>8,829,184</u>	<u>1,616,516</u>	<u>-</u>	<u>10,445,700</u>	<u>10,236,930</u>
End of year	<u>\$ 7,554,972</u>	<u>\$ 1,342,175</u>	<u>\$ -</u>	<u>\$ 8,897,147</u>	<u>\$10,445,700</u>

See accompanying notes

GARNET VALLEY SCHOOL DISTRICT

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

Year ended June 30, 2011

NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$(1,548,553)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(2,595,104)
Because some taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount in the current period.	(61,552)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net assets of governmental activities. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,524,429
Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures in governmental funds.	<u>(355,247)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$(1,036,027)</u>

GARNET VALLEY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – PROPRIETARY FUND

June 30, 2011 with summarized comparative totals for 2010

	<u>Food Service Fund</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 12	\$ 36
Due from other governments	12,558	34,655
Due from other funds	5,966	30,565
Inventories	<u>55,041</u>	<u>44,746</u>
Total current assets	<u>73,577</u>	<u>110,002</u>
NON-CURRENT ASSETS		
Capital assets, net	<u>127,552</u>	<u>147,179</u>
Total assets	<u>201,129</u>	<u>257,181</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	34,896	75,124
Deferred revenue	<u>38,681</u>	<u>34,878</u>
Total liabilities	<u>73,577</u>	<u>110,002</u>
NET ASSETS		
Invested in capital assets	<u>\$127,552</u>	<u>\$147,179</u>

See accompanying notes

GARNET VALLEY SCHOOL DISTRICT

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

Year ended June 30, 2011 with summarized comparative totals for 2010

	<u>Food Service Fund</u>	
	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Charges for services	\$1,814,751	\$1,839,571
OPERATING EXPENSES		
Salaries	739,398	715,698
Employee benefits	235,279	237,970
Supplies	1,084,421	1,144,280
Depreciation	<u>19,627</u>	<u>19,628</u>
Total operating expenses	<u>2,078,725</u>	<u>2,117,576</u>
Operating loss	<u>(263,974)</u>	<u>(278,005)</u>
NON-OPERATING REVENUES		
Earnings on investments	725	659
State sources	31,541	32,327
Federal sources	<u>212,081</u>	<u>225,391</u>
Total non-operating revenues	<u>244,347</u>	<u>258,377</u>
CHANGE IN NET ASSETS	(19,627)	(19,628)
NET ASSETS		
Beginning of year	<u>147,179</u>	<u>166,807</u>
End of year	<u>\$ 127,552</u>	<u>\$ 147,179</u>

See accompanying notes

GARNET VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

Year ended June 30, 2011 with summarized comparative totals for 2010

	<u>Food Service Fund</u>	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from charges for services	\$ 1,818,554	\$ 1,835,724
Payments to suppliers	(1,089,270)	(1,245,082)
Payments to employees	<u>(950,078)</u>	<u>(953,668)</u>
Net cash used for operating activities	<u>(220,794)</u>	<u>(363,026)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State sources	35,129	30,166
Federal sources	<u>184,916</u>	<u>149,520</u>
Net cash provided by noncapital financing activities	<u>220,045</u>	<u>179,686</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	<u>725</u>	<u>659</u>
Net decrease in cash	(24)	(182,681)
CASH		
Beginning of year	<u>36</u>	<u>182,717</u>
End of year	<u>\$ 12</u>	<u>\$ 36</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (263,974)	\$ (278,005)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	19,627	19,628
Donated commodities used	45,674	64,533
(Increase) decrease in		
Due from other funds	24,599	(25,167)
Inventories	(10,295)	(7,063)
Increase (decrease) in		
Accounts payable	(40,228)	36,533
Due to other funds	-	(177,332)
Deferred revenue	<u>3,803</u>	<u>3,847</u>
Net cash used for operating activities	<u>\$ (220,794)</u>	<u>\$ (363,026)</u>
SUPPLEMENTAL DISCLOSURE		
Noncash noncapital financing activity		
USDA donated commodities	<u>\$ 45,674</u>	<u>\$ 64,533</u>

See accompanying notes

GARNET VALLEY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – FIDUCIARY FUND

June 30, 2011 with summarized comparative totals for 2010

	Private-Purpose Trust Fund	
	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	<u>\$297,257</u>	<u>\$265,267</u>
LIABILITIES	<u>-</u>	<u>-</u>
NET ASSETS		
Net assets held in trust for scholarships	<u>\$297,257</u>	<u>\$265,267</u>

GARNET VALLEY SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET ASSETS – FIDUCIARY FUND

Year ended June 30, 2011 with summarized comparative totals for 2010

	Private-Purpose Trust Fund	
	<u>2011</u>	<u>2010</u>
ADDITIONS		
Local contributions	\$ 52,990	\$ 51,978
DEDUCTIONS		
Scholarships awarded and fees paid	<u>21,000</u>	<u>33,283</u>
CHANGE IN NET ASSETS	31,990	18,695
NET ASSETS		
Beginning of year	<u>265,267</u>	<u>246,572</u>
End of year	<u>\$297,257</u>	<u>\$265,267</u>

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Garnet Valley School District (the "**District**") operates three elementary schools, a middle school and a senior high school to provide education and related services to the residents in the Townships of Bethel and Concord and the Borough of Chester Heights. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("**GAAP**") as applied to governmental units. The Governmental Accounting Standards Board ("**GASB**") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

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

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

The government-wide financial statements report net assets in one of three components. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net assets arising from special revenue and capital projects funds. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

The Prison Fund accounts for financial resources restricted to be used to provide education services to juveniles detained at the Delaware County Prison located in Concord Township.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred revenue is reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary fund:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the District's proprietary funds include payroll, employee benefits, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds.

Cash and Cash Equivalents

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

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

July 1 – August 31	- Discount period, 2% of gross levy
September 1 – October 31	- Face period
November 1 to collection	- Penalty period, 10% of gross levy
February 28	- Lien date

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

The County Board of Assessments determines assessed valuations of property, and the District's taxes are billed and collected by local elected tax collectors. The tax on real estate for public school purposes for fiscal 2010-2011 was 27.470 mills (\$27.470 for \$1,000 of assessed valuation) for Chester Heights Borough and Concord Township and 27.833 mills (\$27.833 for \$1,000 of assessed valuation) for Bethel Township (includes additional levy for Delaware County Community College). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Taxpayers have the option of paying in three installments. These installments have the following due dates:

Installment One	-	October 31
Installment Two	-	November 30
Installment Three	-	December 31

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

Prepaid Items and Inventories

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

All inventories are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 20-50 years, land improvements – 20 years and furniture and equipment – 5-20 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2011.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a non-current liability in the government-wide financial statements. The portion of the liability resulting from employee resignations and retirements, if applicable, is reported as a liability in the governmental fund's financial statements.

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Deferred amounts on refunding are recorded as a decrease to debt payable and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

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

Fund Equity

Effective July 1, 2010, the District adopted the provisions of GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

Non-spendable

Non-spendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Business Administrator or (b) an appointed body (e.g., finance committee) or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

The School Board has set a General Fund maximum unassigned fund balance of 8% of the following year's expenditure budget in accordance with guidelines prescribed by the Pennsylvania Department of Education.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Use of Estimates

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

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. 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.

Excess of Expenditures Over Appropriation

During the year ended June 30, 2011, there were no expenditures in excess of appropriations.

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(3) DEPOSITS

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2011, the carrying amount of the District's deposits was \$13,806,963 and the bank balance was \$13,927,311. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$3,423,707 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**") and the Pennsylvania Local Government Investment Trust ("**PLGIT**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that their objective is to maintain a stable net assets value of \$1 per share, are rated by a nationally recognized statistical rating organization and are subject to independent annual audit. As of June 30, 2011, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating agency.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,311,955	\$ 329,709	\$ -	\$ 1,641,664
Construction in progress	1,353,383	-	1,353,383	-
Total capital assets not being depreciated	<u>2,665,338</u>	<u>329,709</u>	<u>1,353,383</u>	<u>1,641,664</u>
Capital assets being depreciated				
Buildings and improvements	143,563,542	30,757	379,632	143,214,667
Land improvements	6,970,072	1,406,804	23,664	8,353,212
Furniture and equipment	8,084,219	471,472	265,305	8,290,386
Total capital assets being depreciated	<u>158,617,833</u>	<u>1,909,033</u>	<u>668,601</u>	<u>159,858,265</u>
Less accumulated depreciation for				
Buildings and improvements	(29,990,111)	(2,785,284)	(379,632)	(32,395,763)
Land improvements	(2,520,769)	(336,163)	(23,664)	(2,833,268)
Furniture and equipment	(6,340,016)	(359,016)	(265,305)	(6,433,727)
Total accumulated depreciation	<u>(38,850,896)</u>	<u>(3,480,463)</u>	<u>(668,601)</u>	<u>(41,662,758)</u>
Total capital assets being depreciated, net	<u>119,766,937</u>	<u>(1,571,430)</u>	<u>-</u>	<u>118,195,507</u>
Governmental activities, net	<u>\$122,432,275</u>	<u>\$(1,241,721)</u>	<u>\$1,353,383</u>	<u>\$119,837,171</u>
Business-type activities				
Machinery and equipment	\$ 314,370	\$ -	\$ -	\$ 314,370
Less accumulated depreciation	(167,191)	(19,627)	-	(186,818)
Business-type activities, net	<u>\$ 147,179</u>	<u>\$ (19,627)</u>	<u>\$ -</u>	<u>\$ 127,552</u>

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

Governmental activities		
Instruction		\$2,294,507
Instructional student support		228,590
Administrative and financial support services		270,547
Operation and maintenance of plant services		400,377
Pupil transportation		167,348
Student activities		<u>119,094</u>
Total depreciation expense – governmental activities		<u>\$3,480,463</u>
Business-type activities		
Food service		<u>\$ 19,627</u>

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2011 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ 6,870	Capital Projects Fund	\$ 6,870
Food Service Fund	<u>5,966</u>	General Fund	<u>5,966</u>
	<u>\$12,836</u>		<u>\$12,836</u>

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses.

A summary of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	<u>\$425,779</u>	General Fund	<u>\$425,779</u>

Transfers represent monies to subsidize costs associated with capital purchases.

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(6) NON-CURRENT LIABILITIES

The following summarizes the changes in non-current liabilities for the year ended June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$ 89,271,546	\$ -	\$3,445,000	\$ 85,826,546	\$3,575,000
Notes payable	15,173,000	1,250,000	1,575,000	14,848,000	1,664,000
Bond premiums	817,155	-	72,445	744,710	72,445
Bond discounts	(234,085)	-	(31,976)	(202,109)	(31,976)
Deferred amounts on refunding	(2,443,499)	-	(213,121)	(2,230,378)	(213,121)
Total general obligation debt	<u>102,584,117</u>	<u>1,250,000</u>	<u>4,847,348</u>	<u>98,986,769</u>	<u>5,066,348</u>
Other long-term liabilities					
Lease rental payable	16,570,000	-	780,000	15,790,000	820,000
Early retirement incentive	2,861,995	1,791,333	1,017,587	3,635,741	743,305
Compensated absences	2,494,730	190,911	-	2,685,641	-
OPEB obligation	485,280	463,608	276,629	672,259	-
Total other long-term liabilities	<u>22,412,005</u>	<u>2,445,852</u>	<u>2,074,216</u>	<u>22,783,641</u>	<u>1,563,305</u>
Total non-current liabilities	<u>\$124,996,122</u>	<u>\$3,695,852</u>	<u>\$6,921,564</u>	<u>\$121,770,410</u>	<u>\$6,629,653</u>

Non-current liabilities are generally liquidated by the General Fund.

General Obligation Debt

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and are payable from unrestricted local sources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of June 30, 2011 consisted of the following:

<u>Description</u>	<u>Interest</u> <u>Rate(s)</u>	<u>Original</u> <u>Issue</u> <u>Amount</u>	<u>Final</u> <u>Maturity</u>	<u>Principal</u> <u>Outstanding</u>
General obligation bonds				
Series of 2001B	5.35% - 5.40%	\$2,646,546	02/15/2018	\$ 2,646,546
Series of 2002	5.375% - 5.50%	\$14,815,000	04/01/2015	6,035,000
Series of 2005	4.00% - 5.00%	\$23,255,000	04/01/2032	21,165,000
Series of 2006	3.40% - 4.20%	\$8,650,000	02/15/2025	8,585,000
Series of 2006A	3.90% - 4.60%	\$8,000,000	06/01/2026	6,780,000
Series of 2007	3.60% - 5.00%	\$37,985,000	04/01/2028	36,665,000
Series of 2009	2.50% - 3.50%	\$5,695,000	02/15/2015	3,950,000
Total general obligation bonds				<u>85,826,546</u>

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

General obligation notes

Series of 2002	Variable	\$25,343,000	08/25/2027	11,738,000
Series of 2007	Variable	\$1,000,000	10/25/2011	263,000
Series of 2008	Variable	\$1,250,000	01/25/2013	646,000
Series of 2009	Variable	\$1,250,000	06/25/2014	951,000
Series of 2010	Variable	\$1,250,000	11/25/2014	<u>1,250,000</u>

Total general obligation notes

14,848,000

Total general obligation debt

\$100,674,546

General obligation notes bear interest at a variable rate that is adjusted weekly based upon the Bond Market Association Municipal Swap Index.

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2012	\$ 5,239,000	\$ 3,783,337	\$ 9,022,337
2013	5,173,000	3,616,903	8,789,903
2014	5,051,000	3,440,125	8,491,125
2015	4,976,000	3,265,696	8,241,696
2016	4,916,000	3,078,693	7,994,693
2017-2021	20,541,546	16,829,498	37,371,044
2022-2026	29,985,000	8,631,259	38,616,259
2027-2031	21,388,000	2,976,935	24,364,935
2032	<u>3,405,000</u>	<u>150,150</u>	<u>3,555,150</u>
	<u>\$100,674,546</u>	<u>\$45,772,596</u>	<u>\$146,447,142</u>

In-Substance Defeasance – Prior Years

In prior years, the District has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's government-wide financial statements. As of June 30, 2011, the amount of defeased outstanding debt was as follows:

	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Series of 2001A	08/15/2011	\$ 7,925,000
Series of 2004	04/01/2014	<u>26,535,000</u>
		<u>\$34,460,000</u>

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Interest Rate Management Plan

The General Obligation Notes of the District have been issued to the Delaware Valley Regional Finance Authority ("**DVRFA**"). The DVRFA was formed by certain counties in Southeastern Pennsylvania to provide financing to local government units ("**participants**") for various projects. DVRFA obtained the funds used to finance these projects by issuing its Local Government Revenue Bonds. In order to reduce the interest costs of participants in its loan program and to enhance their ability to manage their interest rate risks, DVRFA and the participants in its loan program, including the District, have entered into an Interest Rate Management Plan, the provisions of which allow the participants to select fixed or variable rates of interest on their loans. In order to provide this option to participants, DVRFA has entered into interest rate swap agreements with financial institutions. In the event that the swap agreements between DVRFA and the financial institutions are terminated and the value of the swaps to DVRFA at the time of termination is a liability, the participants are required to pay their proportionate share of the liability. The value of the swap agreements relative to the General Obligation Notes at June 30, 2011 was an asset of \$1,876,856. The value of the swap agreements relative to the District's General Obligation Notes is not reflected on the District's statement of net assets.

Lease Rental Payable

The District has entered into a long-term appropriation-based lease with the State Public School Building Authority (the "**SPSBA**") to finance the construction of the Bethel Springs Elementary School. The SPSBA was formed by the Commonwealth of Pennsylvania for the purpose of financing the construction and improvement of public school facilities under the jurisdiction of the Pennsylvania Department Education. The SPSBA finances projects through the issuance of bonds, the principal and interest of which are paid by the annual lease rental payments from public schools. The SPSBA has no general liability with respect to these obligations and has no beneficial interest in the related assets. Acting solely in an agency capacity, the SPSBA serves as a financing conduit, bringing the ultimate borrower and lender together. The goal of the SPSBA is to make lower cost financings available to public schools.

The lease agreement between the District and the SPSBA provides that the SPSBA will lease to the District, for a term at least as long as the term of the bonds issued to finance the project, certain school facilities owned by the Authority known as the Bethel Springs Elementary School. The District is obligated to make rental payments under the lease from funds appropriated from the current fiscal year and constitutes a current expense. The lease and the obligations of the District under the lease do not constitute a lien or charge upon the funds of the District beyond the fiscal year for which the District has made appropriations for lease rental payments. Therefore, the lease and the obligations of the District under the lease do not constitute a debt or general obligation of the District.

This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The cost and accumulated amortization of Bethel Springs Elementary School was \$20,000,000 and \$3,200,000, respectively, at June 30, 2011. The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments as of June 30, 2011 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 820,000	\$ 727,858	\$ 1,547,858
2013	860,000	690,957	1,550,957
2014	900,000	652,257	1,552,257
2015	945,000	611,758	1,556,758
2016	985,000	569,232	1,554,232
2017-2021	5,645,000	2,157,323	7,802,323
2022-2025	<u>5,635,000</u>	<u>723,500</u>	<u>6,358,500</u>
	<u>\$15,790,000</u>	<u>\$6,132,885</u>	<u>\$21,922,885</u>

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Early Retirement Incentive

The District from time to time offers additional retirement incentives known as early retirement incentive plans ("**ERIP**") to senior professional staff and administrators contemplating retirement. There is no contractual requirement for the District to offer ERIP incentives. An ERIP is formally approved by School Board action in the year an ERIP plan is implemented.

In order for an employee to retire and participate in a District sponsored ERIP, the District must first decide whether or not to offer an ERIP in the year the employee is retiring and a specified minimum number of employees must opt into the ERIP. The District's various ERIP plans provide for the payment of specific annuity amounts to the participating retiree or the payments of a specified dollar amount to be applied toward participating retiree healthcare premiums through Medicare eligible age.

The District's liability for its ERIP plans has been reported at the discounted present value of expected future benefit payments in the government-wide financial statements. For the year ended June 30, 2011, 64 retirees received benefits under the District's ERIP plans and the District paid \$749,587 in ERIP benefits to retirees.

As of June 30, 2011, the District had seven ERIP plans in effect. The number of participants and the present value of those benefits as of June 30, 2011 are summarized below:

<u>ERIP Began</u>	<u>Participants</u>			<u>Present Value of ERIP Benefits</u>		
	<u>Total</u>	<u>Contribution</u>	<u>Health</u>	<u>Total</u>	<u>Retirement Annuity</u>	<u>Healthcare Premium</u>
July 1, 1999	1	-	1	\$ 7,065	\$ -	\$7,065
July 1, 2004	13	13	-	329,952	329,952	-
July 1, 2006	7	7	-	161,200	161,200	-
July 1, 2007	10	10	-	450,694	450,694	-
July 1, 2008	10	10	-	659,504	659,504	-
July 1, 2010	3	3	-	235,994	235,994	-
July 1, 2011	<u>20</u>	<u>20</u>	<u>-</u>	<u>1,791,332</u>	<u>1,791,332</u>	<u>-</u>
	<u>64</u>	<u>63</u>	<u>1</u>	<u>\$3,635,741</u>	<u>\$3,628,676</u>	<u>\$7,065</u>

Other Post-Employment Benefits

The District's other post-employment benefits include a single-employer defined benefit plan that provides medical insurance to certain eligible retirees and their spouses. The School Board has the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("**ARC**"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011 and 2010 were as follows:

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$463,608	59.67%	\$672,259
2010	\$467,298	48.18%	\$485,280

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

Annual required contribution	\$ 471,283
Interest on net OPEB obligation	21,071
Adjustment to annual required contribution	<u>(28,746)</u>
Annual OPEB cost (expense)	463,608
Contributions made	<u>(276,629)</u>
Increase in net OPEB obligation	186,979
Net OPEB obligation – beginning of year	<u>485,280</u>
Net OPEB obligation – end of year	<u>\$ 672,259</u>

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$2,151,222, all of which was unfunded. The covered payroll (annual payroll of active employees was \$4,703,003 and the ratio of the unfunded actuarial accrued liability ("**UAAL**") to the covered payroll was 45.74%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the most recent actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 8.50%, decreasing 0.50% per year to an ultimate rate of 5.00% in 2015 and later. The UAAL is being amortized based on the level dollar, 30-year open period.

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(7) PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System ("**PSERS**"), a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees' Retirement System. The PSERS provides retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments and certain health care insurance premium assistance to plan members and beneficiaries. The Public School Employees' Retirement Code (Act No. 96, of October 2, 1975, as amended) provides the authority to establish and amend benefit provisions. The PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125; or by accessing its website at <http://www.psers.state.pa.us/publications/general/cafr.htm>.

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Individual employees contribute between 5.25% and 7.5% of annual salary depending on their membership status. Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2011, the rate of employer contribution was 5.64% of covered payroll. The District's contributions to PSERS for the years ended June 30, 2011, 2010 and 2009 were \$2,467,114, \$1,971,616 and \$2,071,324, respectively, equal to the required contribution for each year. The Commonwealth contributes to PSERS reimbursing the District 50% of its contribution each year.

(8) JOINT VENTURES

The District and the other fourteen Delaware County school districts participate in the Delaware County Vocational Technical School (the "**DCVTS**"). The DCVTS provides vocational-technical training and education to students of the participating school districts. The DCVTS is controlled by a joint Board comprised of representative school board members of the participating school districts. District oversight of the DCVTS operations is the responsibility of the joint board. The District's share of operating costs for the DCVTS fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2011 was \$219,564.

The District and the other fourteen Delaware County school districts also participate in a joint venture for the operation of the Delaware County Vocational-Technical School Authority (the "**DCVTSA**"). The DCVTSA oversees acquiring holding, constructing, improving and maintaining the DCVTSA school buildings. The DCVTSA is controlled by a joint board comprised of representative school board members of the participating school districts in the DCVTS. The participating school districts have entered into a long-term lease agreement with the DCVTSA to provide rental payments sufficient to retire the DCVTSA's outstanding debt obligations. The agreement expires in 2012-2013 unless the debt is retired earlier. The District's share of rent expense for 2011 was \$25,231.

Both the DCVTS and the DCVTSA prepare financial statements that are available to the public from their administrative offices located at 200 Yale Avenue Morton, Pennsylvania 19070.

The District and twelve other Delaware County schools sponsor the Delaware County Community College (the "**DCCC**"). Only residents of Bethel Township participate in this joint venture within the District. The DCCC provides higher education programs to the residents of southeastern Pennsylvania. Sponsoring school districts pay a share of the DCCC's operating and debt service costs which fluctuate based on each District's certified market values and in return residents of each of the sponsoring school districts pay a reduced cost to participate in DCCC higher education programs. The sponsoring school districts have entered into a long-term lease agreement with the DCCC to provide rental payments sufficient to retire the DCCC's outstanding debt obligations. The lease agreement expires in 2032-2033 unless the debt is retired earlier. The District's share of operating costs and rent expense for 2011 was \$241,159.

The DCCC prepares financial statements that are available to the public from their administrative offices located at 901 South Media Line Road, Media, Pennsylvania 19063.

GARNET VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

The District's annual lease payments to the DCVTSA and DCCC are as follows:

<u>Year ending June 30.</u>	<u>DCVTSA</u>	<u>DCCC</u>
2012	\$28,110	\$ 51,384
2013	28,000	48,446
2014	-	49,906
2015	-	49,951
2016	-	40,200
2017-2021	-	160,645
2022-2026	-	144,810
2027-2031	-	144,810
2032-2033	-	57,924
	<u>\$56,110</u>	<u>\$748,076</u>

(9) OPERATING LEASE

The District leases a building to the Delaware County Intermediate Unit (the "**D.C.I.U.**") under a lease agreement that expires on June 30, 2026. Rent is determined annually based upon an agreed-upon amount per square foot between the District and the D.C.I.U. The lease may be cancelled on June 30, 2016 or June 30, 2021 at the option of the D.C.I.U. with proper notification to the District. The D.C.I.U. is responsible for its share of expenses associated with the building. Rental income recognized under this lease, including the proportionate share of expenses, was \$989,020 for 2011.

(10) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

(11) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages during the 2010-2011 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 11, 2011, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2011 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

GARNET VALLEY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$68,936,288	\$68,936,288	\$66,266,800	\$(2,669,488)
State sources	11,482,526	11,482,526	10,580,509	(902,017)
Federal sources	<u>2,142,752</u>	<u>2,142,752</u>	<u>2,825,855</u>	<u>683,103</u>
Total revenues	<u>82,561,566</u>	<u>82,561,566</u>	<u>79,673,164</u>	<u>(2,888,402)</u>
EXPENDITURES				
Instruction				
Regular programs	35,391,493	34,542,366	34,272,267	270,099
Special programs	10,140,152	11,977,039	11,841,994	135,045
Vocational programs	550,040	778,876	508,787	270,089
Other instructional programs	219,198	70,576	70,576	-
Higher education programs	<u>244,973</u>	<u>241,159</u>	<u>241,159</u>	<u>-</u>
Total instruction	<u>46,545,856</u>	<u>47,610,016</u>	<u>46,934,783</u>	<u>675,233</u>
Support services				
Pupil support services	2,083,875	2,353,603	2,083,515	270,088
Instructional staff services	3,009,401	2,541,028	2,135,898	405,130
Administrative services	6,310,396	5,207,489	4,532,273	675,216
Pupil health	356,250	678,397	543,351	135,046
Business services	1,045,724	1,099,688	1,099,677	11
Operation and maintenance of plant services	6,775,277	6,531,333	6,420,939	110,394
Student transportation services	3,358,837	3,621,797	3,486,754	135,043
Other support services	<u>72,803</u>	<u>76,608</u>	<u>76,608</u>	<u>-</u>
Total support services	<u>23,012,563</u>	<u>22,109,943</u>	<u>20,379,015</u>	<u>1,730,928</u>
Operation of non-instructional services				
Student activities	2,659,347	2,752,583	2,481,373	271,210
Community services	<u>189,860</u>	<u>197,824</u>	<u>197,823</u>	<u>1</u>
Total operation of non-instructional services	<u>2,849,207</u>	<u>2,950,407</u>	<u>2,679,196</u>	<u>271,211</u>
Debt service				
	<u>10,857,122</u>	<u>10,528,603</u>	<u>10,522,663</u>	<u>5,940</u>
Total expenditures	<u>83,264,748</u>	<u>83,198,969</u>	<u>80,515,657</u>	<u>2,683,312</u>
Excess (deficiencies) of revenues over (under) expenditures	<u>(703,182)</u>	<u>(637,403)</u>	<u>(842,493)</u>	<u>(205,090)</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	-	-	(5,940)	(5,940)
Transfers out	-	(425,779)	(425,779)	-
Budgetary reserve	<u>(360,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(360,000)</u>	<u>(425,779)</u>	<u>(431,719)</u>	<u>(5,940)</u>
NET CHANGE IN FUND BALANCE	<u>(1,063,182)</u>	<u>(1,063,182)</u>	<u>(1,274,212)</u>	<u>(211,030)</u>
FUND BALANCE				
Beginning of year	<u>8,829,184</u>	<u>8,829,184</u>	<u>8,829,184</u>	<u>-</u>
End of year	<u>\$ 7,766,002</u>	<u>\$ 7,766,002</u>	<u>\$ 7,554,972</u>	<u>\$ (211,030)</u>

GARNET VALLEY SCHOOL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2011

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/2008	<u>\$ -</u>	<u>\$2,151,222</u>	<u>\$2,151,222</u>	<u>0.00%</u>	<u>\$4,703,003</u>	<u>45.74%</u>

SINGLE AUDIT

GARNET VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2011

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2010</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2011</u>
<u>U.S. Department of Education</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
Title I – Improving Basic Programs	I	84.010	013-100161	07/01/09 – 09/30/10	\$120,688	\$ 18,556	\$ 18,556	\$ -	\$ -	\$ -
Title I – Improving Basic Programs	I	84.010	013-110161	07/01/10 – 09/30/11	119,228	111,368	-	119,228	119,228	7,860
Title I – Academic Achievement	I	84.010	077-100161	07/01/09 – 09/30/10	1,800	1,440	1,440	-	-	-
Title II – Improving Teacher Quality	I	84.367	020-100161	07/01/09 – 09/30/10	69,052	18,414	18,414	-	-	-
Title II – Improving Teacher Quality	I	84.367	020-110161	07/01/10 – 09/30/11	68,784	55,226	-	68,784	68,784	13,558
Drug Free Schools	I	84.186	100-100161	07/01/09 – 09/30/10	9,500	6,612	6,612	-	-	-
ARRA – Fiscal Stabilization – Basic Ed	I	84.394	126-110161	07/01/10 – 06/30/11	425,779	177,408	-	425,779	425,779	248,371
ARRA – Education Jobs Fund	I	84.410	140-120119	07/01/10 – 06/30/11	252,267	252,267	-	252,267	252,267	-
<u>Passed Through the Delaware County I. U.</u>										
I.D.E.A. – Part B	I	84.027	N/A	07/01/09 – 06/30/10	899,971	899,971	899,971	-	-	-
I.D.E.A. – Part B	I	84.027	N/A	07/01/10 – 06/30/11	881,757	-	-	881,757	881,757	881,757
ARRA – I.D.E.A. – Part B	I	84.391	N/A	07/01/09 – 09/30/11	1,171,841	941,899	228,391	713,508	713,508	-
Total U.S. Department of Education						2,483,161	1,173,384	2,461,323	2,461,323	1,151,546
<u>U.S. Department of Agriculture</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
National School Lunch Program	I	10.555	N/A	07/01/09 – 06/30/10	N/A	28,619	28,619	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/10 – 06/30/11	N/A	153,175	-	163,535	163,535	10,360
Breakfast Program	I	10.553	N/A	07/01/09 – 06/30/10	N/A	445	445	-	-	-
Breakfast Program	I	10.553	N/A	07/01/10 – 06/30/11	N/A	2,677	-	2,872	2,872	195
State Matching Share	S	N/A	N/A	07/01/09 – 06/30/10	N/A	5,591	5,591	-	-	-
State Matching Share	S	N/A	N/A	07/01/10 – 06/30/11	N/A	29,538	-	31,541	31,541	2,003

Continued on next page

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2010</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2011</u>
Passed-Through PA Department of Agriculture										
USDA Donated Commodities	I	10.555	N/A	07/01/10 – 06/30/11	N/A	45,674	-	45,674	45,674	-
Total U.S. Department of Agriculture						<u>265,719</u>	<u>34,655</u>	<u>243,622</u>	<u>243,622</u>	<u>12,558</u>
Federal Emergency Management Agency										
Passed-Through the Pennsylvania Emergency Management Agency										
Public Assistance Grants	I	97.036	N/A	N/A	N/A	24,653	-	24,653	24,653	-
Total Federal Emergency Management Agency						<u>24,653</u>	<u>-</u>	<u>24,653</u>	<u>24,653</u>	<u>-</u>
Total Federal Awards and Certain State Grants						<u>\$2,773,533</u>	<u>\$1,208,039</u>	<u>\$2,729,598</u>	<u>\$2,729,598</u>	<u>\$1,164,104</u>

Source Codes

D – Direct Funding
I – Indirect Funding
S – State Share

GARNET VALLEY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

June 30, 2011

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 USDA Commodities represent federal surplus food consumed by the District during the 2010-2011 fiscal year.

(4) ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2011 was \$339,879.

GARNET VALLEY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2011

There were no audit findings for the year ended June 30, 2010.



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

**Board of School Directors
Garnet Valley School District
Glen Mills, Pennsylvania**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Garnet Valley School District, Glen Mills, Pennsylvania (the "*District*"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 11, 2011.

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

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

BBD, LLP

Philadelphia, Pennsylvania
November 11, 2011



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

**Board of School Directors
Garnet Valley School District
Glen Mills, Pennsylvania**

Compliance

We have audited the compliance of the Garnet Valley School District, Glen Mills, Pennsylvania (the "***District***"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on to each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily 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 the Board of School Directors, management, the Commonwealth of Pennsylvania and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BBD, LLP

Philadelphia, Pennsylvania
November 11, 2011

GARNET VALLEY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2011

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Garnet Valley School District.
2. No deficiencies relating to the audit of the financial statements of the Garnet Valley School District are reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the Garnet Valley School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No deficiencies in internal control over the major federal award programs are reported in the report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the Garnet Valley School District expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:
 - ARRA – Fiscal Stabilization – Basic Ed – CFDA Number 84.394
 - I.D.E.A. – Part B – CFDA Number 84.027
 - ARRA – I.D.E.A – Part B – CFDA Number 84.391
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Garnet Valley School District did qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None