



**COUNCIL ROCK SCHOOL DISTRICT
NEWTOWN, PENNSYLVANIA
BUCKS COUNTY**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

COUNCIL ROCK SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
Council Rock School District
Newtown, 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 Council Rock School District, Newtown, Pennsylvania, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council Rock School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Council Rock School District, Newtown, Pennsylvania, as of June 30, 2012, 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 February 15, 2013, on our consideration of the Council Rock 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 Council Rock 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 relation to the financial statements as a whole.

BBD, LLP

Philadelphia, Pennsylvania
February 15, 2013

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

Management's discussion and analysis ("**MD&A**") of the financial performance of the Council Rock School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2012. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The Districts consists of 15 schools – ten elementary schools, three middle schools and two senior high schools consisting of approximately 11,700 students. The District encompasses the municipal subdivisions of the Borough of Newtown and Townships of Newtown, Northampton, Upper Makefield and Wrightstown in Bucks County, Pennsylvania and covers approximately 71 square miles. Geographically, the area is located in south central Bucks County which lies 20 miles north of Philadelphia, 10 miles west of Trenton and Princeton, New Jersey; and 65 miles southwest of New York, New York. Many well-known unincorporated communities are located within the District which include Richboro, Holland and Churchville in Northampton Township and Washington Crossing in Upper Makefield Township. There are approximately 1,465 employees in the District including 914 professionals, 46 administrators and 505 support staff.

As a leader in educational excellence, and a vital resource in the community, the District is committed to children and will empower them with skills and knowledge through comprehensive, innovative and diverse educational experiences, enabling them to achieve self fulfillment and to become productive, responsible citizens who contribute to the world community.

FINANCIAL HIGHLIGHTS

- On a government-wide basis including all governmental activities and the business type activities, the assets of the District exceeded the liabilities resulting in total net assets at the close of the 2011-2012 fiscal year of \$58,550,976. During the 2011-2012 fiscal year, the District had an increase in total net assets of \$3,618,179. The net assets of governmental activities increased by \$3,793,941 and net assets of the business-type activities decreased by \$175,762.
 - The General Fund reported an increase of fund balance of \$1,492,898, bringing the cumulative balance to \$29,429,536 at the conclusion of the 2011-2012 fiscal year.
 - At June 30, 2012, the General Fund fund balance includes \$19,038,828 committed or assigned by the School Board and management for the following purposes:
 - ◆ \$7,477,408 committed to anticipated increases in the District's required share of contributions
 - ◆ \$4,127,924 committed to minimize future property tax rate increases
 - ◆ \$3,889,000 committed to fund future self-insured health insurance expenditures
 - ◆ \$312,377 committed to transfer to the Capital Projects Fund in accordance with School Board policy to transfer unassigned amounts in excess of 5% of the following year's expenditure budget
 - ◆ \$2,350,454 committed to balance the 2012-2013 budget
 - ◆ \$881,665 assigned for outstanding encumbrances for textbooks
 - At June 30, 2012, the General Fund fund balance includes unassigned amounts of \$10,092,135 or 5% of the \$201,842,704 2012-2013 General Fund expenditure budget. This is in compliance with School Board policy and guidelines prescribed by the Pennsylvania Department of Education which allows a district to maintain an unassigned maximum General Fund fund balance of 8% of the following year's expenditure budget.
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COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

- The Capital Projects Fund reported an increase in fund balance of \$8,358,657 due to proceeds received from general obligation debt in excess of amounts expended for capital expenditures. The cumulative remaining fund balances in the Capital Projects Fund was \$34,235,224 at the conclusion of the 2011-2012 fiscal year and is restricted for future capital expenditures.

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.

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 flows 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.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

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.

The District maintains two major 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 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 two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses its internal service fund to account for the District's self-funded healthcare plan. Because an internal service fund predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements provide separate financial information for its major fund and internal service fund. 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 and student activity 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.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

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.

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 2011-2012 fiscal year the District's assets exceeded liabilities by \$58,550,976. The following table presents condensed information for the *Statement of Net Assets* of the District at June 30, 2012 and 2011.

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current assets	\$ 79,954,958	\$ 69,542,827	\$ 810,688	\$ 611,883	\$ 80,765,646	\$ 70,154,710
Noncurrent assets	161,532,939	157,743,892	469,730	567,115	162,002,669	158,311,007
Total assets	<u>241,487,897</u>	<u>227,286,719</u>	<u>1,280,418</u>	<u>1,178,998</u>	<u>242,768,315</u>	<u>228,465,717</u>
LIABILITIES						
Current liabilities	13,591,472	11,614,648	519,220	242,038	14,110,692	11,856,686
Non-current liabilities	170,106,647	161,676,234	-	-	170,106,647	161,676,234
Total liabilities	<u>183,698,119</u>	<u>173,290,882</u>	<u>519,220</u>	<u>242,038</u>	<u>184,217,339</u>	<u>173,532,920</u>
NET ASSETS						
Invested in capital assets, net of related debt	26,547,809	18,534,719	469,730	567,115	27,017,539	19,101,834
Restricted	5,648,861	10,064,144	-	-	5,648,861	10,064,144
Unrestricted	25,593,108	25,396,974	291,468	369,845	25,884,576	25,766,819
Total net assets	<u>\$ 57,789,778</u>	<u>\$ 53,995,837</u>	<u>\$ 761,198</u>	<u>\$ 936,960</u>	<u>\$ 58,550,976</u>	<u>\$ 54,932,797</u>

The District's total assets as of June 30, 2012 were \$242,768,315 of which \$71,136,111 or 29.30% consisted of cash and \$160,631,394 or 66.17% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2012 were \$184,217,339 of which \$163,571,493 or 88.79% consisted of general obligation debt used to acquire and construct capital assets.

Of the District's total net assets at June 30, 2012, \$25,884,576 is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors. The District's unrestricted net assets increased by \$117,757 primarily due to the results of current year operations.

A portion of the District's net assets reflects its restricted net assets which totaled \$5,648,861 as of June 30, 2012. All of the District's restricted net assets related to amounts restricted through Board resolution for future capital expenditures.

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, 2012, the District's investment in capital assets, net of related debt, increased by \$7,915,705 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other long-term debt.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

The following table presents condensed information for the *Statement of Activities* of the District for 2012 and 2011:

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program revenues						
Charges for services	\$ 886,238	\$ 724,798	\$3,379,434	\$3,377,264	\$ 4,265,672	\$ 4,102,062
Operating grants and contributions	21,949,260	21,779,176	392,034	422,134	22,341,294	22,201,310
Capital grants and contributions	6,200	31,086	-	248,870	6,200	279,956
General revenues						
Property taxes levied for general purposes	134,930,821	133,710,687	-	-	134,930,821	133,710,687
Earned income taxes levied for general purposes	11,043,976	12,741,572	-	-	11,043,976	12,741,572
Other taxes levied for general purposes	5,588,288	8,748,631	-	-	5,588,288	8,748,631
Grants and entitlements not restricted to specific programs	18,581,341	18,869,742	-	-	18,581,341	18,869,742
Investment earnings	72,727	276,709	394	429	73,121	277,138
Total revenues	<u>193,058,851</u>	<u>196,882,401</u>	<u>3,771,862</u>	<u>4,048,697</u>	<u>196,830,713</u>	<u>200,931,098</u>
EXPENSES						
Instruction	129,500,430	131,592,691	-	-	129,500,430	131,592,691
Instructional student support services	14,469,027	14,310,141	-	-	14,469,027	14,310,141
Administrative and financial support services	13,358,985	13,055,569	-	-	13,358,985	13,055,569
Operation and maintenance of plant services	12,352,211	12,741,869	-	-	12,352,211	12,741,869
Pupil transportation	10,388,188	10,460,333	-	-	10,388,188	10,460,333
Student activities	2,809,781	2,918,836	-	-	2,809,781	2,918,836
Community services	171,587	159,811	-	-	171,587	159,811
Interest and amortization expense related to non-current liabilities	6,214,701	5,712,709	-	-	6,214,701	5,712,709
Food service	-	-	3,947,624	3,892,559	3,947,624	3,892,559
Total expenses	<u>189,264,910</u>	<u>190,951,959</u>	<u>3,947,624</u>	<u>3,892,559</u>	<u>193,212,534</u>	<u>194,844,518</u>
CHANGE IN NET ASSETS	<u>\$ 3,793,941</u>	<u>\$ 5,930,442</u>	<u>\$ (175,762)</u>	<u>\$ 156,138</u>	<u>\$ 3,618,179</u>	<u>\$ 6,086,580</u>

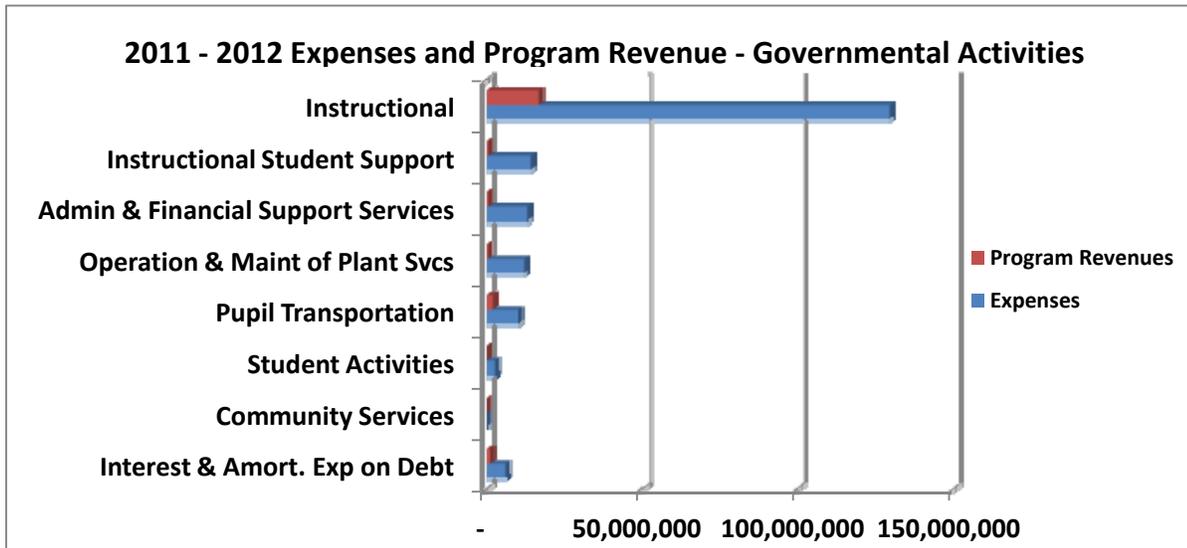
Overall, the District's financial position has been improving but challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts have a potential to offset these gains in future fiscal years. Management of the District continues to aggressively implement 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.

COUNCIL ROCK SCHOOL DISTRICT

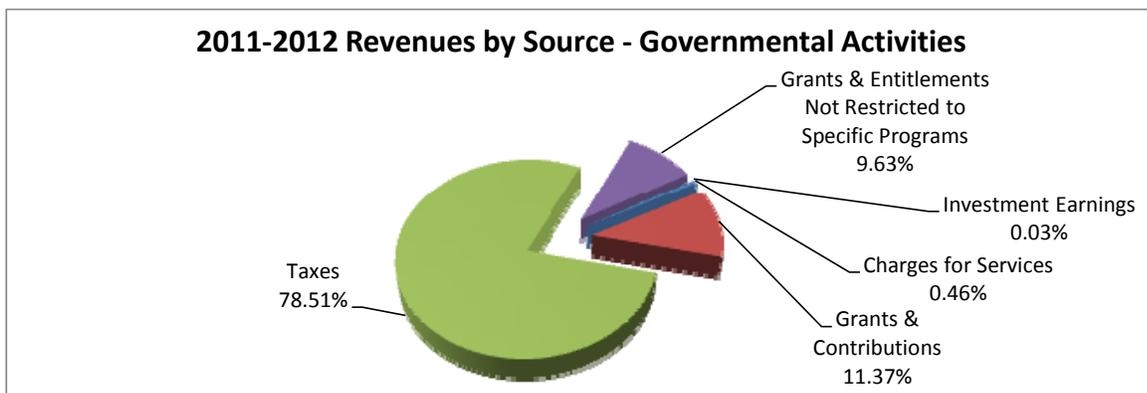
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

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.



COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

GOVERNMENTAL FUNDS

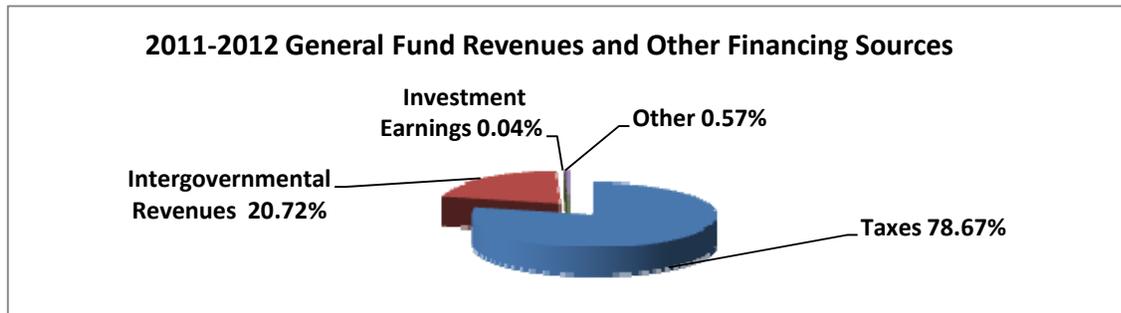
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2012, the District's governmental funds reported a combined fund balance of \$63,664,760 which is an increase of \$9,851,555 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2012 and 2011 and the total 2012 change in governmental fund balances.

	<u>2012</u>	<u>2011</u>	<u>Change</u>
General Fund	\$29,429,536	\$27,936,638	\$1,492,898
Capital Projects Fund	<u>34,235,224</u>	<u>25,876,567</u>	<u>8,358,657</u>
	<u>\$63,664,760</u>	<u>\$53,813,205</u>	<u>\$9,851,555</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2011-2012 fiscal year, the General Fund fund balance was \$29,429,536 representing an increase of \$1,492,898 in relation to the prior year. The increase 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 2011-2012 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 78.67% of General Fund revenues are derived from local taxes.



General Fund Revenues and Other Financing Sources

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$153,864,147	\$153,111,212	\$ 752,935	0.49
Intergovernmental revenues	40,527,601	41,739,660	(1,212,059)	(2.90)
Investment earnings	65,057	146,830	(81,773)	(55.69)
Other	<u>1,119,420</u>	<u>839,357</u>	<u>280,063</u>	<u>33.37</u>
	<u>\$195,576,225</u>	<u>\$195,837,059</u>	<u>\$ (260,834)</u>	<u>(0.13)</u>

Total revenues and other financing sources decreased by a nominal amount of \$260,834 or 0.13% compared to 2010-2011.

COUNCIL ROCK SCHOOL DISTRICT

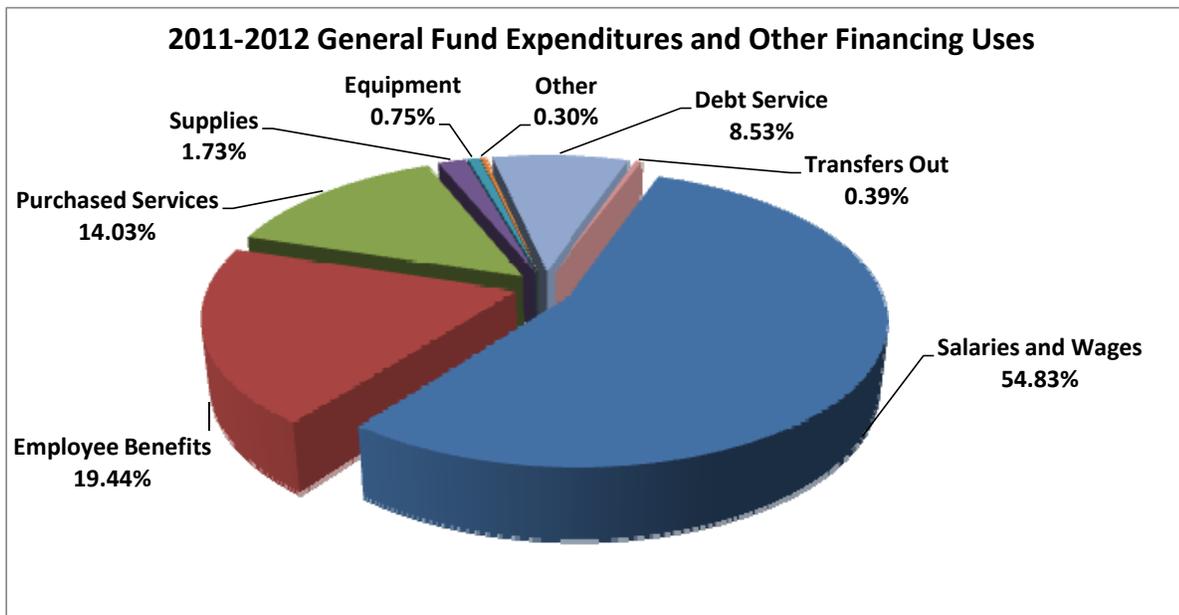
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

Although the real estate tax millage for 2011-2012 remained unchanged at 110.56 mills compared to 2010-2011, tax revenues increased by \$752,935 or 0.49% during 2011-2012. The major tax revenue which accounted for the increase was the District's earned income tax totaling \$13,499,684 an increase of \$758,112 or 5.95% compared to 2010-2011.

Intergovernmental revenues decreased in 2011-2012 compared to 2010-2011 as a result of the expiration of funding received through the American Recovery and Reinvestment Act ("**ARRA**") at the conclusion of 2010-2011 and reductions in funding from the State.

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.



General Fund Expenditures and Other Financing Uses

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$106,419,079	\$107,017,996	\$ (598,917)	(0.56)
Employee benefits	37,722,883	34,201,908	3,520,975	10.29
Purchased services	27,222,290	32,282,875	(5,060,585)	(15.68)
Supplies	3,362,613	3,877,194	(514,581)	(13.27)
Equipment	1,448,383	599,410	848,973	141.63
Other	579,820	476,936	102,884	21.57
Debt service	16,564,259	15,821,527	742,732	4.69
Transfers out	764,000	-	764,000	100.00
	<u>\$194,083,327</u>	<u>\$194,277,846</u>	<u>\$ (194,519)</u>	<u>(0.10)</u>

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

Salaries and wages decreased by \$598,917 or 0.56% in 2011-2012 compared to 2010-2011. During the development of the 2011-2012 budget, the District reduced staff levels in an effort reduce the significant deficit in budgeted revenues and expenditures. As a result, the decrease in salaries and wages for 2011-2012 was expected.

The employee benefit increase was primarily due to the increase in the District's expense for retirement by \$3,238,511 as a result of the increase in the required annual retirement contribution from 5.64% in 2010-2011 to 8.65% in 2011-2012. In addition, the District established an internal service fund for its self-funded healthcare plan during 2011-2012. The General Fund transfers resources to this fund based on the premiums developed to fund the District's health insurance plan.

The significant decrease in purchased services of \$5,060,585 or 15.68% in 2011-2012 compared to 2010-2011 is due to several factors. The largest decrease in purchased service expenditures was the result of the District paying the principal balance of a series of leases utilized to purchase technology equipment in 2010-2011. The resulting decrease in these expenditures for 2011-2012 was \$2,375,086. Other decreases in purchased services in 2011-2012 can be attributed to expenditures for tuition, contracted special education services and building utilities.

The increase in equipment expenditures in 2011-2012 is directly related to the discontinuance of the leasing of technology equipment. The District's current practice is to now purchase technology equipment with current financial resources.

The transfer out of \$764,000 in 2011-2012 was a one-time payment to the Capital Projects Fund representing an equity contribution related to the current refunding of the District's general obligation bonds, Series of 2005.

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 and transfers from the General Fund. During 2011-2012, the Capital Projects Fund reported an increase in fund balance of \$8,358,657 due to proceeds received from general obligation debt in excess of amounts expended for capital expenditures. The remaining fund balance of \$34,235,224 as of June 30, 2012 is restricted for future capital expenditures.

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.

The 2011-2012 General Fund budget was developed anticipating declining revenues and increasing costs. In an effort to balance the General Fund budget for 2011-2012, District-wide staffing was reduced, budgets were cut and the use of fund balance of \$2,000,000 in 2010-2011 was increased to \$4,000,000. Budgeted amounts in the General Fund used \$4,000,000 as of June 30, 2011 to balance the 2011-2012 General Fund budget. Actual results during the 2011-2012 fiscal year generated \$1,492,898 for a positive variance of \$5,492,898. Total General Fund revenues and other financing sources were \$1,026,539 or 0.53% more than budgeted amounts and total General Fund expenditures and other financing sources were \$4,466,359 or 2.25% less than budgeted amounts. Major budgetary highlights for 2011-2012 were as follows:

- Actual local source revenues were \$1,183,566 more than budgeted amounts primarily due to more than anticipated collections of both real estate and earned income taxes.
- Actual expenditures were \$3,503,860 less than budgeted amounts as a direct result of less than anticipated expenditures for special education, contracted services for human resources and debt service.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

- The District only utilized \$34,500 of the \$1,000,000 budgetary reserve which was budgeted in 2011-2012 for unexpected expenditures.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2011-2012, the net assets of the business-type activities and Food Service Fund decreased by \$175,162. As of June 30, 2012, the business-type activities and Food Service Fund had net assets of \$761,198.

CAPITAL ASSETS

The District's investment in capital asset for its governmental and business-type activities as of June 30, 2012 amounted to \$160,631,394 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was \$3,966,698 or 2.53%. The increase was the result of current year capital additions in excess of current year depreciation expense.

Current year capital additions were \$12,273,571 and depreciation expense was \$8,306,873.

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

• Holland Elementary School renovation project	\$ 3,168,757
• Churchville Elementary School renovation project	\$ 3,127,064
• Holland Middle School roof project	\$ 1,509,601
• Newtown Elementary School roof project	\$ 441,818
• Richboro Elementary School roof project	\$ 434,041
• Sol Feinstone Elementary School roof project	\$ 503,438
• Wrightstown Elementary School roof project	\$ 523,097
• Goodnoe Elementary School renovation project	\$ 312,063

NON-CURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$163,571,493 consisting of \$152,280,000 in bonds payable, \$11,000,000 in notes payable and net deferred credits of \$291,493. 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 increased by \$8,499,442 or 5.48% during the fiscal year.

During 2011-2012, the District issued general obligation bonds, Series of 2011A in the amount of \$10,000,000 and Series of 2012 in the amount of \$9,600,000 which are to be used for planning, designing, acquiring, constructing, equipping and furnishing renovations and additions to buildings and facilities in the District. In addition, the District issued general obligation bonds, Series of 2011 and 2012A, which currently refunded general obligation bonds, Series of 2005 and Series of 2007. The District currently refunded general obligation bonds, Series of 2011 and 2012A to obtain an economic gain (difference between the present value of debt service payments on the new and old debt) of approximately \$2.0 million.

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 \$437,449,966 which exceeds the District's outstanding general obligation debt.

The District maintains an AA rating from Standard and Poor's.

Other non-current liabilities consist of the District's liabilities for compensated absences and its net obligation for post-employment benefits, which totaled \$6,535,154 as of June 30, 2012. These liabilities increased by \$834,027 or 14.63% during the fiscal year.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

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 increase in net property tax base assessments within the District has been moderate and an increase in successful property tax assessment appeals has been modestly decreasing the District's existing property tax base.
- The District's current student enrollment for 2012-2013 is 11,466 and is projected to decrease to 11,216 in 2013-2014.
- Additional tax and enrollment information is available on the District's website: (<http://www.crsd.org>).
- The District adopted a balanced 2012-2013 budget totaling \$201,842,704 which used \$2,305,454 of General Fund fund balance as of June 30, 2012 and the real estate tax millage rate was increased by approximately 1.70%.
- In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is 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 increased 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 introduced certain new requirements on school districts which include the following:
 - ◆ 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 (1.7% for Council Rock School District for 2012-2013), 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. No Act 1 exceptions were applied for by the District in 2011-2012. The District applied for and received \$1,863,602 of exceptions for the 2012-2013 budget.
 - ◆ 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.) The District's distribution for 2011-2012 was \$4,956,325.

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 2013-2014 will be 16.93%. Currently, the employer contribution rate for 2012-2013 is 12.36%, which is an increase of 42.89% from the 2011-2012 employer contribution rate of 8.65%. The increase in the employer contribution rate in 2012-2013 is estimated to increase the District's net retirement contribution by approximately \$3.8 million, of which the District's share is \$1.9 million.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2012

The following table presents the projected employer contribution rates published by PSERS and the District's projected share of retirement contribution for the next five years.

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Increase Over Previous Year</u>	<u>Contributions</u>	<u>Additional State Support</u>	<u>Additional Local Support</u>	<u>Mill Equivalent</u>	<u>% Mill Increase</u>
2012-2013	12.36%		\$ 13,055,088				
2013-2014	16.75%	4.39%	17,708,488	\$2,326,700	\$2,326,700	1.92	1.71%
2014-2015	21.25%	4.50%	22,478,488	2,385,000	2,385,000	1.96	1.71%
2015-2016	25.56%	4.31%	27,047,088	2,284,300	2,284,300	1.88	1.64%
2016-2017	26.26%	0.07%	27,789,088	371,000	371,000	0.31	0.27%

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 Director of Business Administration/Board Treasurer, Council Rock School District, 30 North Chancellor Street, Newtown, Pennsylvania 18940.

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 70,454,837	\$ 681,274	\$ 71,136,111
Taxes receivable	3,693,470	-	3,693,470
Due from other governments	2,939,430	45,408	2,984,838
Other receivables	918,648	-	918,648
Prepaid expenses	245,503	-	245,503
Deposit	1,650,000	-	1,650,000
Inventories	<u>53,070</u>	<u>84,006</u>	<u>137,076</u>
Total current assets	<u>79,954,958</u>	<u>810,688</u>	<u>80,765,646</u>
NON-CURRENT ASSETS			
Capital assets, net	160,161,664	469,730	160,631,394
Debt issuance costs, net	<u>1,371,275</u>	<u>-</u>	<u>1,371,275</u>
Total non-current assets	<u>161,532,939</u>	<u>469,730</u>	<u>162,002,669</u>
Total assets	<u>241,487,897</u>	<u>1,280,418</u>	<u>242,768,315</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	7,462,097	494,283	7,956,380
Accrued salaries, payroll withholdings and benefits	3,609,797	-	3,609,797
Insurance claims payable	1,266,000	-	1,266,000
Accrued interest payable	1,059,821	-	1,059,821
Deferred revenue	<u>193,757</u>	<u>24,937</u>	<u>218,694</u>
Total current liabilities	<u>13,591,472</u>	<u>519,220</u>	<u>14,110,692</u>
NON-CURRENT LIABILITIES			
Due within one year	11,300,294	-	11,300,294
Due in more than one year	<u>158,806,353</u>	<u>-</u>	<u>158,806,353</u>
Total non-current liabilities	<u>170,106,647</u>	<u>-</u>	<u>170,106,647</u>
Total liabilities	<u>183,698,119</u>	<u>519,220</u>	<u>184,217,339</u>
NET ASSETS			
Invested in capital assets, net of related debt	26,547,809	469,730	27,017,539
Restricted	5,648,861	-	5,648,861
Unrestricted	<u>25,593,108</u>	<u>291,468</u>	<u>25,884,576</u>
Total net assets	<u>\$ 57,789,778</u>	<u>\$ 761,198</u>	<u>\$ 58,550,976</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	<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>Total</u>
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 129,500,430	\$ 328,824	\$ 16,755,747	\$ -	\$(112,415,859)	\$ -	\$(112,415,859)
Instructional student support	14,469,027	-	715,866	-	(13,753,161)	-	(13,753,161)
Administrative and financial support services	13,358,985	-	760,993	-	(12,597,992)	-	(12,597,992)
Operation and maintenance of plant services	12,352,211	315,470	230,507	-	(11,806,234)	-	(11,806,234)
Pupil transportation	10,388,188	-	2,095,774	-	(8,292,414)	-	(8,292,414)
Student activities	2,809,781	83,010	124,411	6,200	(2,596,160)	-	(2,596,160)
Community services	171,587	158,934	6,309	-	(6,344)	-	(6,344)
Interest and amortization expense related to long-term debt	<u>6,214,701</u>	<u>-</u>	<u>1,259,653</u>	<u>-</u>	<u>(4,955,048)</u>	<u>-</u>	<u>(4,955,048)</u>
Total governmental activities	<u>189,264,910</u>	<u>886,238</u>	<u>21,949,260</u>	<u>6,200</u>	<u>(166,423,212)</u>	<u>-</u>	<u>(166,423,212)</u>
BUSINESS-TYPE ACTIVITIES							
Food service	<u>3,947,624</u>	<u>3,379,434</u>	<u>392,034</u>	<u>-</u>	<u>-</u>	<u>(176,156)</u>	<u>(176,156)</u>
Total primary government	<u>\$ 193,212,534</u>	<u>\$ 4,265,672</u>	<u>\$ 22,341,294</u>	<u>\$ 6,200</u>	<u>(166,423,212)</u>	<u>(176,156)</u>	<u>(166,599,368)</u>
GENERAL REVENUES							
Property taxes levied for general purposes					134,930,821	-	134,930,821
Earned income taxes levied for general purposes					11,043,976	-	11,043,976
Other taxes levied for general purposes					5,588,288	-	5,588,288
Grants and entitlements not restricted to specific programs					18,581,341	-	18,581,341
Investment earnings					<u>72,727</u>	<u>394</u>	<u>73,121</u>
Total general revenues					<u>170,217,153</u>	<u>394</u>	<u>170,217,547</u>
CHANGE IN NET ASSETS							
					3,793,941	(175,762)	3,618,179
NET ASSETS							
Beginning of year					<u>53,995,837</u>	<u>936,960</u>	<u>54,932,797</u>
End of year					<u>\$ 57,789,778</u>	<u>\$ 761,198</u>	<u>\$ 58,550,976</u>

COUNCIL ROCK SCHOOL DISTRICT**BALANCE SHEET – GOVERNMENTAL FUNDS**

June 30, 2012

	<u>Major Funds</u>		<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
ASSETS			
Cash	\$33,794,847	\$36,659,990	\$70,454,837
Taxes receivable	3,693,470	-	3,693,470
Due from other governments	2,939,430	-	2,939,430
Due from other funds	-	63,817	63,817
Other receivables	918,648	-	918,648
Prepaid items	245,503	-	245,503
Inventories	53,070	-	53,070
Total assets	<u>\$41,644,968</u>	<u>\$36,723,807</u>	<u>\$78,368,775</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,973,514	\$ 2,488,583	\$ 7,462,097
Due to other funds	560,521	-	560,521
Accrued salaries, payroll withholdings and benefits	3,609,797	-	3,609,797
Deferred revenues	<u>3,071,600</u>	<u>-</u>	<u>3,071,600</u>
Total liabilities	<u>12,215,432</u>	<u>2,488,583</u>	<u>14,704,015</u>
FUND BALANCES			
Nonspendable			
Prepaid items	245,503	-	245,503
Inventories	53,070	-	53,070
Restricted for			
Capital projects	-	34,235,224	34,235,224
Committed to			
Employer retirement rate stabilization	7,477,408	-	7,477,408
Property tax rate stabilization	4,127,924	-	4,127,924
Self-insured health insurance	3,889,000	-	3,889,000
Capital projects	312,377	-	312,377
Balance 2012-2013 budget	2,350,454	-	2,350,454
Assigned for			
Outstanding encumbrances	881,665	-	881,665
Unassigned	<u>10,092,135</u>	<u>-</u>	<u>10,092,135</u>
Total fund balances	<u>29,429,536</u>	<u>34,235,224</u>	<u>63,664,760</u>
Total liabilities and fund balances	<u>\$41,644,968</u>	<u>\$36,723,807</u>	<u>\$78,368,775</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

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

June 30, 2012

TOTAL GOVERNMENTAL FUND BALANCES	\$ 63,664,760
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.	160,161,664
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.	1,371,275
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.	2,877,843
The Internal Service Fund is used by management to charge the cost of health insurance claims to the General Fund. The assets and liabilities of the District's Internal Service Fund are included in the governmental activities on the government-wide statement of net assets.	880,704
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.	(170,106,647)
Accrued interest payable on long-term liabilities is included in the statement of net assets, but is excluded from the governmental funds balance sheet until due and payable.	<u>(1,059,821)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 57,789,778</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

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

Year ended June 30, 2012

	Major Funds		Total
	General Fund	Capital Projects Fund	
REVENUES			
Local sources	\$155,042,501	\$ 13,870	\$155,056,371
State sources	36,606,533	-	36,606,533
Federal sources	3,921,068	-	3,921,068
Total revenues	<u>195,570,102</u>	<u>13,870</u>	<u>195,583,972</u>
EXPENDITURES			
Current			
Instruction	124,558,559	-	124,558,559
Support services	49,330,753	592,055	49,922,808
Operation of noninstructional services	2,862,755	-	2,862,755
Facilities acquisition, construction and improvement services	-	10,947,084	10,947,084
Debt service	16,564,259	352,073	16,916,332
Total expenditures	<u>193,316,326</u>	<u>11,891,212</u>	<u>205,207,538</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,253,776</u>	<u>(11,877,342)</u>	<u>(9,623,566)</u>
OTHER FINANCING SOURCES (USES)			
Issuance of debt	-	19,600,000	19,600,000
Issuance of debt – refunding	-	17,580,000	17,580,000
Payment of debt – refunding	-	(18,275,000)	(18,275,000)
Bond premiums	-	566,999	566,999
Refund of prior year receipts	(3,001)	-	(3,001)
Transfers in	-	764,000	764,000
Transfers out	(764,000)	-	(764,000)
Sale of/compensation for capital assets	6,123	-	6,123
Total other financing sources (uses)	<u>(760,878)</u>	<u>20,235,999</u>	<u>19,475,121</u>
NET CHANGE IN FUND BALANCES	1,492,898	8,358,657	9,851,555
FUND BALANCES			
Beginning of year	<u>27,936,638</u>	<u>25,876,567</u>	<u>53,813,205</u>
End of year	<u>\$ 29,429,536</u>	<u>\$ 34,235,224</u>	<u>\$ 63,664,760</u>

See accompanying notes

COUNCIL ROCK 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, 2012

NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ 9,851,555

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 capital outlays exceeded depreciation expense in the current period.

Capital outlay expenditures	\$ 12,254,447	
Depreciation expense	<u>(8,190,364)</u>	4,064,083

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

Deferred tax revenues at June 30, 2011	(5,178,905)	
Deferred tax revenues at June 30, 2012	<u>2,877,843</u>	(2,301,062)

The Internal Service Fund is used by management to charge the cost of health insurance premiums and claims to the General Fund. The Change in net assets of the Internal Service Fund is reported with the governmental activities.

880,704

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.

Issuance of debt	(37,180,000)	
Payment of bond issuance costs	514,891	
Proceeds from bond premiums	(566,999)	
Repayment of bonds payable	29,260,000	
Amortization of issuance costs, discounts, premiums and deferred amounts on refunding	<u>(802,370)</u>	(8,774,478)

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.

Current year change in accrued interest payable	4,110	
Current year change in compensated absences	(517,543)	
Current year change in other non-current liabilities	903,056	
Current year change in net post employment benefit (OPEB) obligation	<u>(316,484)</u>	<u>73,139</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 3,793,941

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT**STATEMENT OF NET ASSETS – PROPRIETARY FUNDS**

June 30, 2012

	<u>Major Fund Food Service Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 681,274	\$ -	\$ 681,274
Due from other governments	45,408	-	45,408
Due from other funds	-	496,704	496,704
Deposit	-	1,650,000	1,650,000
Inventories	<u>84,006</u>	<u>-</u>	<u>84,006</u>
Total current assets	<u>810,688</u>	<u>2,146,704</u>	<u>2,957,392</u>
NON-CURRENT ASSETS			
Capital assets, net	<u>469,730</u>	<u>-</u>	<u>469,730</u>
Total assets	<u>1,280,418</u>	<u>2,146,704</u>	<u>3,427,122</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	494,283	-	494,283
Insurance claims payable	-	1,266,000	1,266,000
Deferred revenue	<u>24,937</u>	<u>-</u>	<u>24,937</u>
Total liabilities	<u>519,220</u>	<u>1,266,000</u>	<u>1,785,220</u>
NET ASSETS			
Invested in capital assets	469,730	-	469,730
Unrestricted	<u>291,468</u>	<u>880,704</u>	<u>1,172,172</u>
Total net assets	<u>\$ 761,198</u>	<u>\$ 880,704</u>	<u>\$1,641,902</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

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

Year ended June 30, 2012

	<u>Major Fund Food Service Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$3,378,153	\$22,075,933	\$25,454,086
Other operating revenues	<u>1,281</u>	<u>-</u>	<u>1,281</u>
Total operating revenues	<u>3,379,434</u>	<u>22,075,933</u>	<u>25,455,367</u>
OPERATING EXPENSES			
Employee benefits	-	21,050,791	21,050,791
Purchased professional and technical services	-	144,438	144,438
Purchased property services	7,057	-	7,057
Other purchased services	3,727,036	-	3,727,036
Supplies	97,022	-	97,022
Depreciation	<u>116,509</u>	<u>-</u>	<u>116,509</u>
Total operating expenses	<u>3,947,624</u>	<u>21,195,229</u>	<u>25,142,853</u>
Operating income (loss)	<u>(568,190)</u>	<u>880,704</u>	<u>312,514</u>
NON-OPERATING REVENUES			
Earnings on investments	394	-	394
State sources	46,841	-	46,841
Federal sources	<u>345,193</u>	<u>-</u>	<u>345,193</u>
Total non-operating revenues	<u>392,428</u>	<u>-</u>	<u>392,428</u>
CHANGE IN NET ASSETS	(175,762)	880,704	704,942
NET ASSETS			
Beginning of year	<u>936,960</u>	<u>-</u>	<u>936,960</u>
End of year	<u>\$ 761,198</u>	<u>\$ 880,704</u>	<u>\$ 1,641,902</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

Year ended June 30, 2012

	<u>Major Fund</u> <u>Food Service</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from charges for services	\$ 3,375,264	\$ -	\$ 3,375,264
Cash received for assessments made to other fund	-	21,579,229	21,579,229
Cash received from other operating revenues	1,281	-	1,281
Cash payments to suppliers for goods and services	(3,449,156)	-	(3,449,156)
Cash payments for insurance claims	-	(21,434,791)	(21,434,791)
Cash payments for other operating expenses	-	(144,438)	(144,438)
Net cash used for operating activities	<u>(72,611)</u>	<u>-</u>	<u>(72,611)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State sources	47,541	-	47,541
Federal sources	249,408	-	249,408
Net cash provided by noncapital financing activities	<u>296,949</u>	<u>-</u>	<u>296,949</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(19,124)	-	(19,124)
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on investments	394	-	394
Net increase in cash	205,608	-	205,608
CASH			
Beginning of year	475,666	-	475,666
End of year	<u>\$ 681,274</u>	<u>\$ -</u>	<u>\$ 681,274</u>
Reconciliation of operating loss to net cash used for operating activities:			
Operating income (loss)	\$ (568,190)	\$ 880,704	\$ 312,514
Adjustments to reconcile operating loss to net cash used for operating activities			
Depreciation	116,509	-	116,509
Donated commodities used	97,022	-	97,022
(Increase) decrease in			
Due from other funds	-	(496,704)	(496,704)
Deposit	-	(1,650,000)	(1,650,000)
Inventories	4,866	-	4,866
Increase (decrease) in			
Accounts payable	280,071	-	280,071
Insurance claims payable	-	1,266,000	1,266,000
Deferred revenue	(2,889)	-	(2,889)
Net cash used for operating activities	<u>\$ (72,611)</u>	<u>\$ -</u>	<u>\$ (72,611)</u>
SUPPLEMENTAL DISCLOSURE			
Noncash noncapital financing activity			
USDA donated commodities	<u>\$ 97,022</u>	<u>\$ -</u>	<u>\$ 97,022</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF NET ASSETS – FIDUCIARY FUND

June 30, 2012

	Private- Purpose Trust	Agency
ASSETS		
Cash	\$22,004	\$795,630
Investments	<u>6,180</u>	<u>66,943</u>
Total assets	<u>28,184</u>	<u>862,573</u>
LIABILITIES		
Due to student groups	<u>-</u>	<u>\$862,573</u>
NET ASSETS		
Net assets held in trust for scholarships	<u>\$28,184</u>	

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET ASSETS – FIDUCIARY FUND

Year ended June 30, 2012

	<u>Private-Purpose Trust</u>
ADDITIONS	
Local contributions	\$ 252
DEDUCTIONS	
Scholarships awarded and fees paid	<u>310</u>
CHANGE IN NET ASSETS	(58)
NET ASSETS	
Beginning of year	<u>28,242</u>
End of year	<u>\$28,184</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Council Rock School District (the "**District**") operates ten elementary schools, three middle schools and two senior high schools to provide education and related services to the residents in the Townships of Newtown, Northampton, Wrightstown and Upper Makefield and the Borough of Newtown. 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 second 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.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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.

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.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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.

The Internal Service Fund is used to account for the District's self-funded healthcare plan.

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 and agency 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 agency fund accounts for funds held on behalf of the students in the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

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.

Investments

Investments are stated at fair value based upon quoted market prices.

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."

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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
January 1	- Lien date

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 2011-2012 was 110.68 mills (\$110.68 for \$1,000 of assessed valuation). 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 who have a primary residence within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	- August 31
Installment Two	- October 15
Installment Three	- November 30

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 – 15-40 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, 2012.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Compensated Absences

District policies permit employees to accumulate earned but unused vacation 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.

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

As prescribed by GASB, 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.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 policy to maintain an unassigned General Fund fund balance of not less than 4% and a maximum of 5% of the following year's expenditure budget. In accordance with Board policy, unassigned fund balance in excess of 5% of the following year's expenditure budget must be appropriated to the Capital Projects Fund.

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.

New Accounting Pronouncements

GASB has issued the following statements not yet implemented by the District. The District's management has not yet determined the effect, if any, these statements will have on the District's financial statements.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, will be effective for the District for the year ending June 30, 2013. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements ("**SCAs**"), which are a type of public-private or public-public partnership. As used in this statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, will be effective for the District for the year ending June 30, 2013. The objective of this Statement is to modify certain requirements for inclusion of component units in the financial reporting entity. This Statement amends Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the District for the year ending June 30, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, will be effective for the District for the year ending June 30, 2013. The objective of this Statement is to standardize the presentation of deferred balances and their effects on a government's net position.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(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.

(3) DEPOSITS AND INVESTMENTS

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.

Deposits

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, 2012, the carrying amount of the District's deposits was \$71,953,745 and the bank balance was \$73,170,706. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$1,000,000 was covered by federal depository insurance and \$36,457,842 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. 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 an independent annual audit. As of June 30, 2012, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating agency.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Investments

At June 30, 2012, the District had the following investments:

Certificates due within one year –

Collateral held by pledging bank's agent in the District's name \$73,123

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral security that are in the possession of an outside party. The District had no investments subject to custodial credit risk as of June 30, 2012.

Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates. The District had no investments subject to interest rate risk as of June 30, 2012.

Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal and state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 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	\$ 17,190,306	\$ -	\$ -	\$ 17,190,306
Construction in progress	<u>11,243,677</u>	<u>4,828,181</u>	<u>10,401,756</u>	<u>5,670,102</u>
Total capital assets not being depreciated	<u>28,433,983</u>	<u>4,828,181</u>	<u>10,401,756</u>	<u>22,860,408</u>
Capital assets being depreciated				
Buildings and improvements	185,914,816	16,496,396	-	202,411,212
Furniture and equipment	<u>60,893,948</u>	<u>1,331,626</u>	<u>-</u>	<u>62,225,574</u>
Total capital assets being depreciated	<u>246,808,764</u>	<u>17,828,022</u>	<u>-</u>	<u>264,636,786</u>
Less accumulated depreciation for				
Buildings and improvements	(75,113,484)	(5,171,889)	-	(80,285,373)
Furniture and equipment	<u>(44,031,682)</u>	<u>(3,018,475)</u>	<u>-</u>	<u>(47,050,157)</u>
Total accumulated depreciation	<u>(119,145,166)</u>	<u>(8,190,364)</u>	<u>-</u>	<u>(127,335,530)</u>
Total capital assets being depreciated, net	<u>127,663,598</u>	<u>9,637,658</u>	<u>-</u>	<u>137,301,256</u>
Governmental activities, net	<u>\$ 156,097,581</u>	<u>\$ 14,465,839</u>	<u>\$ 10,401,756</u>	<u>\$ 160,161,664</u>
Business-type activities				
Machinery and equipment	\$ 2,410,521	\$ 19,124	\$ -	\$ 2,429,645
Less accumulated depreciation	<u>(1,843,406)</u>	<u>(116,509)</u>	<u>-</u>	<u>(1,959,915)</u>
Business-type activities, net	<u>\$ 567,115</u>	<u>\$ (97,385)</u>	<u>\$ -</u>	<u>\$ 469,730</u>

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

Governmental activities	
Instruction	\$6,138,607
Instructional student support	679,134
Administrative and financial support services	656,994
Operation and maintenance of plant services	582,967
Student activities	<u>132,662</u>
Total depreciation expense – governmental activities	<u>\$8,190,364</u>
Business-type activities	
Food service	<u>\$ 116,509</u>

As of June 30, 2012, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed as of June 30, 2012 are as follows:

<u>Description</u>	<u>Project Amount</u>	<u>Completed Through June 30, 2012</u>	<u>Remaining Commitments</u>
Walt Snyder Stadium – repairs	\$ 465,250	\$ 85,400	\$ 379,850
Council Rock South High School – irrigation well pump	209,125	104,808	104,317
Wrightstown Elementary School – roof replacement	1,053,658	523,097	530,561
Sol Feinstone Elementary School – roof replacement	988,790	503,438	485,352
Council Rock North High School – drainage	142,979	33,525	109,454
Holland Elementary School – additions and renovations	16,396,217	3,726,312	12,669,905
Goonoe Elementary School – renovations	<u>966,800</u>	<u>256,734</u>	<u>710,066</u>
	<u>\$20,222,819</u>	<u>\$5,233,314</u>	<u>\$14,989,505</u>

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

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

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Internal Service Fund	\$496,704	General Fund	\$496,704
Capital Projects Fund	<u>63,817</u>	General Fund	<u>63,817</u>
	<u>\$560,521</u>		<u>\$560,521</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, 2012 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	<u>\$764,000</u>	General Fund	<u>\$764,000</u>

Transfers represent a one-time payment to the Capital Projects Fund representing an equity contribution related to the current refunding of the District's general obligation bonds, Series of 2005.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(6) NON-CURRENT LIABILITIES

The following summarizes the changes in non-current liabilities for the year ended June 30, 2012:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$143,660,000	\$37,180,000	\$28,560,000	\$152,280,000	\$10,520,000
Notes payable	11,700,000	-	700,000	11,000,000	700,000
Bond premiums	616,720	566,999	106,704	1,077,015	137,428
Bond discounts	(371,523)	-	(88,305)	(283,218)	(26,292)
Deferred amounts on refunding	(533,146)	-	(30,842)	(502,304)	(30,842)
Total general obligation debt	<u>155,072,051</u>	<u>37,746,999</u>	<u>29,247,557</u>	<u>163,571,493</u>	<u>11,300,294</u>
Other non-current liabilities					
Compensated absences	3,389,512	517,543	-	3,907,055	-
OPEB obligation	2,311,615	792,738	476,254	2,628,099	-
Total other non-current liabilities	<u>5,701,127</u>	<u>1,310,281</u>	<u>476,254</u>	<u>6,535,154</u>	<u>-</u>
Total non-current liabilities	<u>\$160,773,178</u>	<u>\$39,057,280</u>	<u>\$29,723,811</u>	<u>\$170,106,647</u>	<u>\$11,300,294</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 is 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, 2012 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 2006	3.25% - 4.00%	\$50,710,000	11/15/2017	\$ 35,565,000
Series of 2006A	4.00% - 4.50%	\$25,420,000	02/15/2024	24,925,000
Series of 2008	3.00% - 4.00%	\$8,200,000	12/15/2026	7,840,000
Series of 2009	2.25% - 3.00%	\$9,935,000	11/15/2017	9,160,000
Series of 2009A	3.00% - 4.00%	\$13,330,000	05/15/2028	13,315,000
Series of 2010	2.00% - 4.00%	\$21,925,000	05/15/2020	15,915,000
Series of 2010A	2.00% - 4.00%	\$8,720,000	08/15/2027	8,715,000
Series of 2011	2.00% - 4.00%	\$8,630,000	11/15/2018	8,295,000
Series of 2011A	1.00% - 2.75%	\$10,000,000	08/15/2023	10,000,000
Series of 2012	2.00% - 3.00%	\$9,600,000	08/15/2023	9,600,000
Series of 2012A	2.00% - 2.125%	\$8,950,000	02/15/2022	8,950,000
Total general obligation bonds				<u>152,280,000</u>

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

General obligation notes

Series of 2004A	Variable	\$5,000,000	08/01/2013	1,000,000
Series of 2004C	Variable	\$10,000,000	08/01/2023	<u>10,000,000</u>

Total general obligation notes

11,000,000

Total general obligation debt

\$163,280,000

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>
2013	\$ 11,220,000	\$ 5,084,125	\$ 16,304,125
2014	11,465,000	4,810,205	16,275,205
2015	11,785,000	4,415,613	16,200,613
2016	12,165,000	3,974,980	16,139,980
2017	12,660,000	3,566,186	16,226,186
2018-2022	65,840,000	12,319,371	78,159,371
2023-2027	34,885,000	3,127,467	38,012,467
2028	<u>3,260,000</u>	<u>120,700</u>	<u>3,380,700</u>
	<u>\$163,280,000</u>	<u>\$37,418,647</u>	<u>\$200,698,647</u>

Series of 2011 General Obligation Bonds

On November 7, 2011, the District issued \$8,630,000 of general obligation bonds, Series of 2011, the proceeds from which along with a cash contribution of \$764,000 were used to currently refund the District's outstanding general obligation bonds, Series of 2005, in the amount of \$9,495,000, and to pay for the costs of issuance. The District currently refunded the general obligation bonds, Series of 2005, to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$803,377.

Series of 2011A General Obligation Bonds

On December 20, 2011, the District issued \$10,000,000 of general obligation bonds, Series of 2011A, the proceeds from which are to be used for planning, designing, acquiring, constructing, equipping and furnishing renovations and additions to buildings and facilities in the District and to pay for the costs of issuance.

Series of 2012 General Obligation Bonds

On April 19, 2012, the District issued \$9,600,000 of general obligation bonds, Series of 2012, the proceeds from which are to be used for planning, designing, acquiring, constructing, equipping and furnishing renovations and additions to buildings and facilities in the District and to pay for the costs of issuance.

Series of 2012A General Obligation Bonds

On May 31, 2012, the District issued \$8,950,000 of general obligation bonds, Series of 2012A, the proceeds from which were used to currently refund the District's outstanding general obligation bonds, Series of 2007, in the amount of \$8,780,000, and to pay for the costs of issuance. The District currently refunded the general obligation bonds, Series of 2007, to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,188,189.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Other Post-Employment Benefits

The District's other post-employment benefits include a single-employer defined benefit plan that provides medical insurance to all retirees and their dependents. 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, 2012, 2011 and 2010 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$792,738	60.08%	\$2,628,099
2011	\$822,499	53.05%	\$2,311,615
2010	\$827,073	66.26%	\$1,925,456

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	\$ 830,629
Interest on net OPEB obligation	104,023
Adjustment to annual required contribution	<u>(141,914)</u>
Annual OPEB cost (expense)	792,738
Contributions made	<u>(476,254)</u>
Increase in net OPEB obligation	316,484
Net OPEB obligation – beginning of year	<u>2,311,615</u>
Net OPEB obligation – end of year	<u>\$2,628,099</u>

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$7,060,063, all of which was unfunded. The covered payroll (annual payroll of active employees was \$97,160,207 and the ratio of the unfunded actuarial accrued liability ("**UAAL**") to the covered payroll was 7.27%.

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.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 of 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 8.00%, decreasing 0.50% per year to an ultimate rate of 5.50% in 2016 and later. The UAAL is being amortized based on the level dollar, 30-year open period.

(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, 5 North Fifth Street, Harrisburg, PA 17101-0125; 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 10.30% 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, 2012, the rate of employer contribution was 8.65% of covered payroll. The District's contributions to PSERS for the years ended June 30, 2012, 2011 and 2010 were \$9,221,255, \$5,982,745 and \$4,967,625, 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 AND JOINTLY GOVERNED ORGANIZATION

Middle Bucks Institute of Technology

The District and three other Bucks County school districts participate in the Middle Bucks Institute of Technology (the "**MBIT**"). The MBIT provides vocational-technical training and education to students of the participating school districts. The MBIT is controlled by a joint board comprised of representative school board members of participating school districts. District oversight of the MBIT operations is the responsibility of the joint board. The District's share of operating costs for the MBIT fluctuates based on the District's percentage of enrollment. The District share of operating costs for 2011-2012 was \$1,278,497.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Middle Bucks Area Vocational – Technical School Authority

The District and three other Bucks County school districts also participate in a joint venture for the operation of the Middle Bucks Area Vocational Technical Authority (the "**Authority**"). The Authority oversees acquiring, holding, constructing, improving and maintaining the MBIT school buildings and facilities. The Authority is controlled by a joint board comprised of representative school board members of the participating school districts in the MBIT. The participating school districts have entered into a long-term lease agreement with the Authority to provide rental payments sufficient to retire the Authority's outstanding debt obligations. The agreement expires February 15, 2029 unless the related debt is retired earlier. The District's share of rent expense for 2011-2012 was \$471,304.

The District's annual lease rental payments are as follows:

Year ending June 30,

2013	\$ 473,375
2014	473,253
2015	473,653
2016	473,548
2017	473,809
2018-2022	2,366,556
2023-2027	2,366,475
2028-2029	<u>947,152</u>
	<u>\$8,047,821</u>

Both the MBIT and the Authority prepare financial statements that are available to the public from their administrative office located at 2740 Old York Road, Jamison, Pennsylvania 18929.

Bucks County Intermediate Unit

The District and the other Bucks County school districts are participating members of the Bucks County Intermediate Unit (the "**BCIU**"). The BCIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board or each participating district must approve the annual program budget for the BCIU but the participating districts have no ongoing fiduciary interest or responsibility to the BCIU. The BCIU is a self-sustaining organization that provides a board array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and federal liaison services.

(9) OPERATING LEASES

The District leases office equipment, office space and two transportation depots under non-cancelable operating leases expiring at various dates through August 2020. Rent expense for the office equipment, office space and two transportation depots, including additional operating costs, was \$1,435,786 for 2011-2012.

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2013	\$1,185,820
2014	1,193,278
2015	1,200,736
2016	1,208,193
2017	308,855
2018 - 2021	<u>963,049</u>
	<u>\$6,059,931</u>

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(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 including workers compensation. For insured programs, there were no significant reductions in insurance coverages during the 2011-2012 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District administers a self-insurance program to provide health insurance and related expenses for eligible employees, spouses and their dependents. Accordingly, benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. The District has recorded a liability in the Internal Service Fund for claims incurred through June 30, 2012 which has historically been satisfied within 60 days after June 30.

The following table presents the components of the self-insurance claims liability and the related changes in the claims liability for the year ended June 30, 2012:

Insurance claims liability – beginning of year	\$ 903,056
Current year insurance claims and changes in estimates	21,050,791
Insurance claims paid	<u>(20,687,847)</u>
Insurance claims liability – end of year	<u>\$ 1,266,000</u>

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 15, 2013, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2012 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

COUNCIL ROCK SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$153,855,935	\$153,858,935	\$155,042,501	\$1,183,566
State sources	36,700,418	36,712,619	36,606,533	(106,086)
Federal sources	4,086,914	3,902,132	3,921,068	18,936
Total revenues	<u>194,643,267</u>	<u>194,473,686</u>	<u>195,570,102</u>	<u>1,096,416</u>
EXPENDITURES				
Instruction				
Regular programs	82,826,230	82,305,261	81,585,206	720,055
Special programs	41,806,685	41,921,821	40,383,571	1,538,250
Vocational programs	1,748,629	1,748,629	1,278,497	470,132
Other instructional programs	915,576	1,136,867	1,311,285	(174,418)
Total instruction	<u>127,297,120</u>	<u>127,112,578</u>	<u>124,558,559</u>	<u>2,554,019</u>
Support services				
Pupil support services	6,063,425	6,040,346	5,686,663	353,683
Instructional staff services	5,648,274	5,655,172	5,447,548	207,624
Administrative services	7,762,943	7,739,561	8,179,826	(440,265)
Pupil health	2,678,549	2,709,920	2,646,115	63,805
Business services	1,269,708	1,269,208	1,256,592	12,616
Operation and maintenance of plant services	12,129,614	12,135,691	11,828,988	306,703
Student transportation services	10,581,643	10,581,643	10,390,461	191,182
Support services – central	4,061,725	4,107,407	3,797,915	309,492
Other support services	97,977	97,977	96,645	1,332
Total support services	<u>50,293,858</u>	<u>50,336,925</u>	<u>49,330,753</u>	<u>1,006,172</u>
Operation of non-instructional services				
Student activities	2,939,203	2,945,747	2,691,849	253,898
Community services	153,765	153,615	170,906	(17,291)
Total operation of non-instructional services	<u>3,092,968</u>	<u>3,099,362</u>	<u>2,862,755</u>	<u>236,607</u>
Debt service	<u>17,035,321</u>	<u>16,271,321</u>	<u>16,564,259</u>	<u>(292,938)</u>
Total expenditures	<u>197,719,267</u>	<u>196,820,186</u>	<u>193,316,326</u>	<u>3,503,860</u>
Excess (deficiencies) of revenues over (under) expenditures	<u>(3,076,000)</u>	<u>(2,346,500)</u>	<u>2,253,776</u>	<u>4,600,276</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year expenditures	75,000	75,000	-	(75,000)
Refund of prior year receipts	-	-	(3,001)	(3,001)
Transfers out	-	(764,000)	(764,000)	-
Budgetary reserve	(1,000,000)	(965,500)	-	965,500
Sale of/compensation for capital assets	1,000	1,000	6,123	5,123
Total other financing sources (uses)	<u>(924,000)</u>	<u>(1,653,500)</u>	<u>(760,878)</u>	<u>892,622</u>
NET CHANGE IN FUND BALANCE	<u>(4,000,000)</u>	<u>(4,000,000)</u>	<u>1,492,898</u>	<u>5,492,898</u>
FUND BALANCE				
Beginning of year	<u>27,936,638</u>	<u>27,936,638</u>	<u>27,936,638</u>	<u>-</u>
End of year	<u>\$ 23,936,638</u>	<u>\$ 23,936,638</u>	<u>\$ 29,429,536</u>	<u>\$ 5,492,898</u>

COUNCIL ROCK SCHOOL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2012

<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>
07/01/2011	\$ -	\$ 7,060,063	\$ 7,060,063	0.00%	\$97,160,207	7.27%
07/01/2009	\$ -	\$ 6,915,541	\$ 6,915,541	0.00%	\$94,394,182	7.33%
07/01/2007	\$ -	\$13,330,847	\$13,330,847	0.00%	\$92,677,046	14.38%

SINGLE AUDIT

COUNCIL ROCK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2012

<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, 2011</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2012</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	013-110105	07/01/10 – 09/30/11	\$ 276,795	\$ 39,427	\$ (26,637)	\$ 66,064	\$ 66,064	\$ -
Title I – Improving Basic Programs	I	84.010	013-120105	07/01/11 – 09/30/12	246,096	198,040	-	187,669	187,669	(10,371)
Title II – Improving Teacher Quality	I	84.367	020-120105	07/01/11 – 09/30/12	203,387	145,824	-	190,686	190,686	44,862
Title III – Language Instruction LEP/ Immigrant Students	I	84.365	010-110105	07/01/10 – 09/10/11	47,524	-	(24,599)	24,599	24,599	-
Title III – Language Instruction LEP/ Immigrant Students	I	84.365	010-120105	07/01/11 – 09/10/12	56,630	47,222	-	33,331	33,331	(13,891)
ARRA – Education Jobs Fund	I	84.410	140-119357	07/01/11 – 06/30/12	14,762	-	-	14,762	14,762	14,762
Drug Free Schools	I	84.186	100-100333	07/01/11 – 09/30/12	3,750	3,750	-	3,750	3,750	-
<u>Passed Through the Bucks County I. U.</u>										
I.D.E.A. – Part B – Section 611	I	84.027	062-110022	07/01/10 – 06/30/11	2,080,435	625,029	625,029	-	-	-
I.D.E.A. – Part B – Section 611	I	84.027	062-120022	07/01/11 – 06/30/12	1,978,111	728,330	-	1,978,111	1,978,111	1,249,781
I.D.E.A. – Part B – Section 619	I	84.173	131-110022	07/01/11 – 06/30/12	12,687	-	-	12,687	12,687	12,687
ARRA – I.D.E.A. – Part B	I	84.391	128-100022	02/17/09 – 09/30/11	2,511,223	459,521	458,250	1,271	1,271	-
Total U.S. Department of Education						2,247,143	1,032,043	2,512,930	2,512,930	1,297,830
<u>U.S. Department of Health and Human Services</u>										
Drug Free Communities Support Program	D	93.276	5H79SP0156670-04	09/30/10 – 09/29/11	125,000	14,789	14,789	-	-	-
Drug Free Communities Support Program	D	93.276	5H79SP015667-04	09/30/11 – 09/29/12	125,000	121,211	-	108,635	108,635	(12,576)
<u>Passed Through the Bucks County I.U.</u>										
Medical ACCESS – Admin.	I	93.778	N/A	07/01/11 – 06/30/12	N/A	9,437	-	9,437	9,437	-
Total U.S. Department of Health and Human Services						145,437	14,789	118,072	118,072	(12,576)

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, 2011</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2012</u>
<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	07/01/10 – 06/30/11	N/A	39,483	39,483	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/11 – 06/30/12	N/A	209,926	-	248,171	248,171	38,245
State Matching Share	S	N/A	N/A	07/01/10 – 06/30/11	N/A	7,863	7,863	-	-	-
State Matching Share	S	N/A	N/A	07/01/11 – 06/30/12	N/A	39,678	-	46,841	46,841	7,163
<u>Passed-Through PA Department of Agriculture</u>										
USDA Donated Commodities	I	10.555	N/A	07/01/11 – 06/30/12	N/A	a) 94,132	b) (27,827)	c) 97,022	97,022	d) (24,937)
Total U.S. Department of Agriculture						<u>391,082</u>	<u>19,519</u>	<u>392,034</u>	<u>392,034</u>	<u>20,471</u>
Total Federal Awards and Certain State Grants						<u>\$2,783,662</u>	<u>\$1,066,351</u>	<u>\$3,023,036</u>	<u>\$3,023,036</u>	<u>\$1,305,725</u>

Source Codes

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

Footnotes

- a) Total amount of commodities received from U.S. Department of Agriculture
- b) Beginning inventory at July 1
- c) Total amount of commodities used
- d) Ending inventory at June 30

COUNCIL ROCK SCHOOL DISTRICT

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

June 30, 2012

(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 2011-2012 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which 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, 2012 was \$1,290,066.

COUNCIL ROCK SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2012

#2011-1 Data Collection Form

Condition

The data collection form ("**Form SF-SAC**") for fiscal year 2010 was not completed and submitted to the Federal Audit Clearinghouse by the appropriate due date as required by the Office of Management ("**OMB**") Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Criteria

As required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the audit shall be completed and Form SF-SAC and reporting packages shall be submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

Cause

Procedures were not in place within the District's business office to ensure the timely filing of Form SF-SAC with the Federal Audit Clearinghouse as required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Effect

In accordance OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the District did not meet the criteria for a low-risk auditee because Form SF-SAC was not filed by the due date.

Recommendation

Implement procedures within the District's business office to ensure the timely filing of Form SF-SAC with the Federal Audit Clearinghouse as required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Status

Form SF-SAC for fiscal year 2011 was completed and submitted to the Federal Audit Clearinghouse by the appropriate due date as required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. This finding is no longer applicable.



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
Council Rock School District
Newtown, 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 Council Rock School District, Newtown, Pennsylvania (the "*District*"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective 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*.

We noted certain matters that we reported to management of the District in a separate letter dated February 15, 2013.

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
February 15, 2013



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
Council Rock School District
Newtown, Pennsylvania**

Compliance

We have audited the compliance of the Council Rock School District, Newtown, 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 each of its major federal programs for the year ended June 30, 2012. 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, 2012.

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
February 15, 2013

COUNCIL ROCK SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2012

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Council Rock School District.
2. No deficiencies relating to the audit of the financial statements of the Council Rock 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 Council Rock 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 Council Rock 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:
 - I.D.E.A. – Part B, Section 611 – CFDA Number 84.027
 - I.D.E.A. – Part B, Section 619 – CFDA Number 84.173
 - ARRA – I.D.E.A. – Part B – CDFA Number 84.391
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Council Rock School District did not qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None