

BROWNSVILLE AREA SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

**BROWNSVILLE AREA SCHOOL DISTRICT
FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2012

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Zelenkofske Axelrod LLC

Independent Auditor's Report

Members of the Board
Brownsville Area School District
Brownsville, 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 BROWNSVILLE AREA SCHOOL DISTRICT as of and for the year ended June 30, 2012, which collectively comprise the BROWNSVILLE AREA SCHOOL DISTRICT's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the BROWNSVILLE AREA 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and any 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 for the BROWNSVILLE AREA SCHOOL DISTRICT as of June 30, 2012, and the respective changes in the financial position and cash flows, where applicable, thereof for the year ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 on our consideration of the BROWNSVILLE AREA SCHOOL DISTRICT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Harrisburg

830 Sir Thomas Court, Suite 100
Harrisburg, PA 17109
717.561.9200 Fax 717.561.9202

Lehigh Valley

1101 West Hamilton Street
Allentown, PA 18101-1043
610.871.5077 Fax 717.561.9202

Philadelphia

2370 York Road, Suite A-5
Jamison, PA 18929
215.918.2277 Fax 215.918.2302

Pittsburgh

3800 McKnight E. Drive, Suite 3805
Pittsburgh, PA 15237
412.367.7102 Fax 412.367.7103

Zelenkofske Axelrod LLC

Members of the Board
Brownsville Area School District
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress, and budgetary comparison information on pages 3 through 8 and 51 through 52 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 BROWNSVILLE AREA SCHOOL DISTRICT's financial statements as a whole. The nonmajor fund financial statements on pages 54 through 55 are presented for purposes of additional analysis and are not a required part of the financial statements. The nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Zelenkofske Axelrod LLC

ZELENKOFSCHE AXELROD LLC

December 7, 2012
Pittsburgh, Pennsylvania

Brownsville Area School District
Management's Discussion and Analysis
June 30, 2012

The discussion and analysis of the Brownsville Area School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended **June 30, 2012**. The intent of this discussion and analysis is to review the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements to help their understanding of the School District's financial position.

FINANCIAL HIGHLIGHTS

The trends indicated that for the fiscal year 2011-2012 the School District would experience continued increases in health care costs, special education costs and transportation costs. There are also required increases in the Public School Employees' Retirement System (PSERS) rate. The anticipated increase in the employer portion of the retirement rate, which is shared between the state and the school district, will increase from the current rate of 8.65% to 24.5% within the next five years.

The School District is in ongoing negotiations with the teachers union whose collective bargaining agreement expired August 31, 2010.

OVERVIEW OF FINANCIAL STATEMENTS

Government-Wide Financial Statements

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

The two government-wide financial statements report the School District's net assets and how they have changed. Net assets, the School District's assets less the School District's liabilities, are one way to measure the School District's financial position.

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

To assess the overall health of the School District, you need to consider additional non-financial factors, such as changes in the School District's population, change in the tax base, and performance of students.

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

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

Fund Financial Statements

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

Brownsville Area School District
Management's Discussion and Analysis (Continued)
June 30, 2012

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

Proprietary Fund – This fund is used to account for the School District's activities that are similar to private business operations or where the reporting is on determining net income, financial position, change in financial position, and the significant portion of funding through user charges. When the School District charges customers for services it provides, whether to outside customers or other units in the School District, these services are generally reported as proprietary funds. The food-service fund is the School District's proprietary fund and is the same as the business-type activities that is reported in the government-wide statements but provides more detail and additional information such as cash flow.

Fiduciary Fund – The School District is trustee, or fiduciary, for certain student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance the School District's operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT

The School District's total net assets were a deficit of \$4,388,457 at June 30, 2012.

Condensed Statement of Net Assets (Deficit) Fiscal Years Ended June 30,

	Governmental Activities	Business-Type Activities	2012 Total	2011 Total
Current and other assets	\$ 12,696,186	\$ 136,832	\$ 12,833,018	\$ 12,952,101
Capital assets	17,977,215	36,395	18,013,610	18,519,159
Total Assets	<u>\$ 30,673,401</u>	<u>\$ 173,227</u>	<u>\$ 30,846,628</u>	<u>\$ 31,471,260</u>
Current and other liabilities	\$ 2,008,517	\$ 576,531	\$ 2,585,048	\$ 4,059,151
Long-term liabilities	33,053,341	-	33,053,341	34,052,996
Total liabilities	<u>35,061,858</u>	<u>576,531</u>	<u>35,638,389</u>	<u>38,112,147</u>
Net Assets:				
Invested in capital assets, net of related debt	(11,442,574)	36,395	(11,406,179)	(10,777,513)
Restricted for Program purposes	8,193,093	-	8,193,093	8,223,053
Unrestricted	(1,138,976)	(439,699)	(1,578,675)	(4,086,427)
Total Net Assets (Deficit)	<u>\$ (4,388,457)</u>	<u>\$ (403,304)</u>	<u>\$ (4,791,761)</u>	<u>\$ (6,640,887)</u>

Brownsville Area School District
Management's Discussion and Analysis (Continued)
June 30, 2012

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

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

The next table takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year.

Changes in Net Assets (Deficit)
Fiscal Years Ended June 30, 2012

	Governmental Activities	Business-Type Activities	2012 Total	2011 Total
Revenues:				
Charges for Services	\$ 165,259	\$ 293,242	\$ 458,501	\$ 721,334
Operating grants and contributions	7,458,225	845,844	8,304,069	9,733,343
General revenues:				
Taxes	5,928,116	-	5,928,116	4,724,688
Unrestricted grants, subsidies, and contributions	11,618,273	-	11,618,273	10,282,105
Investment earnings	11,509	1	11,510	18,385
Miscellaneous	42,914	-	42,914	13,698
Total Revenues	<u>25,224,296</u>	<u>1,139,087</u>	<u>26,363,383</u>	<u>25,493,553</u>
Expenses:				
Instruction	14,642,025	-	14,642,025	16,124,493
Support	7,007,655	-	7,007,655	7,338,211
Noninstructional services	207,141	-	207,141	361,981
Miscellaneous	16,363	-	16,363	145,199
Interest on long-term debt	1,522,323	-	1,522,323	1,549,420
Loss on disposal of assets	-	-	-	477,663
Food services	-	1,117,750	1,117,750	1,070,038
Total expenses	<u>23,395,507</u>	<u>1,117,750</u>	<u>24,513,257</u>	<u>27,067,005</u>
Change in Net Assets	<u>\$ 1,828,789</u>	<u>\$ 21,337</u>	<u>\$ 1,850,126</u>	<u>\$ (1,573,452)</u>

Brownsville Area School District
Management's Discussion and Analysis (Continued)
June 30, 2012

GENERAL FUND BUDGET

For the 2010-2011 fiscal year, the administration did not authorize revisions to the original budget. A schedule showing the School District's budget amounts compared with amounts actually paid and received is provided on Page 51 in the required supplemental information.

CAPITAL ASSET AND DEBT ACTIVITY

At June 30, 2012, the School District's governmental activities were invested in a broad range of capital assets, including land, site improvement, building, and furniture/equipment.

<u>Capital Assets (Net of Depreciation)</u>	<u>Land</u>	<u>Building and Improvements</u>	<u>Vehicles/ Equipment</u>	<u>June 30, 2012 Total</u>	<u>June 30, 2011 Total</u>
Governmental activities	\$ 701,440	\$ 16,488,043	\$ 787,732	\$ 17,977,215	\$ 18,479,636
Business-type activities	\$ -	\$ -	\$ 36,395	\$ 36,395	\$ 39,523

See financial statement Note 3E.

DEBT ACTIVITY

As of July 1, 2011, the School District had total outstanding principal of \$34,535,500. During the year, the School District made payments against principal of \$1,115,500 resulting in ending outstanding debt as of June 30, 2012, of \$33,420,000. Future debt service payment, including principal and interest, will be approximately \$2.5 million per year.

	Outstanding Debt June 30, 2012					Amounts due within one year
	Beginning Balance	Additions	Retirements	Ending Balance		
Series 2003	\$ 2,470,000	\$ -	\$ (325,000)	\$ 2,145,000	\$	320,000
Series 2005	9,170,000	-	(135,000)	9,035,000		145,000
Series 2006	8,830,000	-	(25,000)	8,805,000		25,000
Series 2007	8,460,000	-	(35,000)	8,425,000		35,000
Series 2008	625,500	-	(120,500)	505,000		134,500
Series 2009	980,000	-	(100,000)	880,000		100,000
Series A of 2009	4,000,000	-	(375,000)	3,625,000		390,000
Total	\$ 34,535,500	\$ -	\$ (1,115,500)	\$ 33,420,000	\$	1,149,500

Other obligations include accrued vacation pay and sick leave for specific employees of the School District. See financial statement note 3G.

Brownsville Area School District
Management's Discussion and Analysis (Continued)
June 30, 2012

GOVERNMENTAL FUND REVENUES

Governmental fund revenues by source at June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Revenues:		
Local sources	\$ 6,199,212	\$ 4,915,474
State revenue sources	16,068,640	14,749,572
Federal revenue sources	2,704,252	4,335,104
Disposal of Fixed Assets	-	3,869
Operating transfers in	-	453,146
	<hr/>	<hr/>
Total revenues	<u>\$24,972,104</u>	<u>\$24,457,165</u>

There are several factors relating to increases/decreases in revenues from 2012 to 2011. Tax revenue increased approximately \$1 million due to a tax millage increase and increases in assessed values and new properties coming into the tax rolls. Operating transfers decreased due to there being no transfers between funds in 2012. Grant revenues fluctuated due to ending of the federal stimulus program and an increase in the basic education subsidy from the state.

GOVERNMENTAL FUND EXPENDITURES

Governmental fund expenditures by function at June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Expenditures:		
Instruction	\$13,852,543	\$15,225,967
Support services	7,088,590	7,303,034
Noninstructional services	310,155	374,039
Debt Service	2,525,600	2,051,910
Miscellaneous	16,363	145,199
Operating transfers out	-	453,146
	<hr/>	<hr/>
Total expenditures	<u>\$23,793,251</u>	<u>\$25,553,295</u>

The decrease in expenditures was due to several factors. First, Instruction expenditures decreased by approximately \$1.4 million as a result of the ending of the federal stimulus program, which was providing grant funds to pay teacher salaries. Second, operating transfers out decreased by approximately \$450k as a result of there being no transfers between funds in 2012. Support services expenditures decreased due to an effort by the District to reduce expenditures as the debt service payments increased in 2012.

Brownsville Area School District
Management's Discussion and Analysis (Continued)
June 30, 2012

GOVERNMENTAL FUND BALANCES AND PROPRIETARY FUND NET ASSETS

Ending balances for governmental funds and net assets for proprietary funds at June 30, 2012 and 2011 were as follows:

<u>Fund</u>	<u>2012 Governmental Funds</u>	<u>2011 Governmental Funds</u>	<u>2012 Proprietary Funds</u>	<u>2011 Proprietary Funds</u>
General Fund	\$ 2,080,458	\$ 871,645	\$ -	\$ -
Construction Fund	8,088,289	8,096,846	-	-
Other Governmental Funds	104,804	126,207	-	-
Cafeteria Fund	-	-	(403,304)	(424,641)
Total	<u>\$ 10,273,551</u>	<u>\$ 9,094,698</u>	<u>\$ (403,304)</u>	<u>\$ (424,641)</u>

The increase in fund balance is due to a tax increase and an effort to lower expenditures. The increase in the Cafeteria Fund is due to an effort to reduce expenditures for the cafeteria program.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET

The School District does not expect significant growth in enrollment in the near future.

As a result of the ongoing economic recession it is anticipated that there will be less state funding available for school districts in the future. Coupled with anticipated increases in retirement contributions, special education and transportation the district is anticipating a need to cut expenses. As a result of cuts in state funding and the expiration of federal stimulus funds the district was faced with tough decisions at budget time. The district eliminated over \$1,000,000 in expenditures with no increase to local revenue in order to balance the budget. For the 2012-2013 school year reductions were made to staffing through attrition and not filling vacated positions and the furlough of personnel. Other reductions were accomplished without affecting our education programs.

The budget for the 2012-2013 is \$24,519,320, an increase of \$475,242, and does not include any tax increases, but rather a decrease in the millage rate for Washington County to adjust for an increase in the tax base. The millage for 2012-2013 is 16.57 mills for Fayette County and 86.47 mills for Washington County, a decrease of 6.74 mills for Washington County.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the School District's finances, comply with finance related laws and regulations, and demonstrate the School District's commitment to public accountability. If you have any questions about this report or would like additional information, contact the School District's Business Office at the Brownsville Area School District, 5 Falcon Drive, Brownsville, Pennsylvania, 15417.

BROWNSVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

Assets	Primary Government		
	Governmental Activities	Business-type Activities	Total
Cash and Cash Equivalents	\$ 2,486,568	\$ 97,730	\$ 2,584,298
Investments	7,575,470	-	7,575,470
Accounts Receivable	404,839	-	404,839
Taxes Receivable	1,188,407	-	1,188,407
Due From Other Governments	483,888	8,287	491,975
Prepaid Assets	6,898	-	6,898
Deferred Issuance Costs on Bonds, Net	550,316	-	550,316
Inventory	-	30,815	30,815
Capital Assets: (Net)			
Depreciable	17,275,775	36,395	17,312,170
Non-depreciable	701,440	-	701,440
Total Assets	<u>\$ 30,673,401</u>	<u>\$ 173,227</u>	<u>\$ 30,846,628</u>
Liabilities			
Current Liabilities:			
Accounts Payable	\$ 249,279	\$ 3,124	\$ 252,403
Accrued Expenses	991,744	-	991,744
Internal Balances	(557,111)	557,111	-
Accrued Interest Payable on Debt	175,105	-	175,105
Unearned Revenues	-	16,296	16,296
Current Portions of Long-Term Liabilities:			
Loans and Notes Payable	1,149,500	-	1,149,500
Non-Current Portions of Long-Term Liabilities:			
Loans and Notes Payable	31,698,358	-	31,698,358
Unfunded other postemployment benefits	646,149	-	646,149
Compensated Absences	708,834	-	708,834
Total Liabilities	<u>35,061,858</u>	<u>576,531</u>	<u>35,638,389</u>
Net Assets			
Investment in Capital Assets, Net of Related Debt	(11,442,574)	36,395	(11,406,179)
Restricted Net Assets			
Program Purposes	8,193,093	-	8,193,093
Unrestricted	(1,138,976)	(439,699)	(1,578,675)
Total Net Assets (Deficit)	<u>\$ (4,388,457)</u>	<u>\$ (403,304)</u>	<u>\$ (4,791,761)</u>

The accompanying notes are an integral part of the financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	
				Governmental Activities	Business-Type Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 14,642,025	\$ 104,531	\$ 4,308,379	\$ (10,231,115)	\$ -
Support Services	7,007,655	15,909	2,120,788	(4,870,958)	-
Noninstructional Services	207,141	44,819	567,442	405,120	405,120
Miscellaneous	16,363	-	-	(16,363)	-
Interest on Long-Term Debt	1,522,323	-	463,616	(1,058,707)	-
Total Governmental Activities	23,395,507	165,259	7,458,225	(15,772,023)	-
Business-Type Activities:					
Food Service	1,117,750	293,242	845,844	-	21,336
Total Business-Type Activities	1,117,750	293,242	845,844	-	21,336
Total Primary Government	24,513,257	458,501	8,304,069	(15,772,023)	21,336
					<u>(15,750,687)</u>
General Revenues:					
Taxes				5,928,116	-
Grants, subsidies, and contributions not restricted				11,618,273	-
Investment Earnings				11,509	1
Miscellaneous				42,914	-
Loss on disposal of assets				-	-
Total General Revenues and Transfers				17,600,812	1
Change in Net Assets				1,828,789	21,337
Net Assets (Deficit) - Beginning				(6,217,246)	(424,641)
Net Assets (Deficit) - Ending				\$ (4,388,457)	\$ (403,304)
					<u>\$ (4,791,761)</u>

The accompanying notes are an integral part of the financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Construction	Total Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 2,369,749	\$ 69	\$ 116,750	\$ 2,486,568
Investments	-	7,575,470	-	7,575,470
Receivables:				
Taxes	1,188,407	-	-	1,188,407
Other governmental grants	483,688	-	-	483,688
Other	404,839	-	-	404,839
Due from other funds	567,111	512,750	-	1,069,861
Prepaid assets	6,898	-	-	6,898
Total assets	5,010,692	8,088,289	116,750	13,215,731
<u>Liabilities</u>				
Accounts Payable	237,333	-	11,946	249,279
Accrued liabilities	991,744	-	-	991,744
Due to other funds	512,750	-	-	512,750
Deferred revenues	1,188,407	-	-	1,188,407
Total liabilities	2,930,234	-	11,946	2,942,180
<u>Fund Balances</u>				
Nonspendable	6,898	-	-	6,898
Restricted	-	8,088,289	104,804	8,193,093
Unassigned	2,073,560	-	-	2,073,560
Total fund balances	2,080,458	8,088,289	104,804	10,273,551
Total liabilities and fund balances	\$ 5,010,692	\$ 8,088,289	\$ 116,750	\$ 13,215,731

The accompanying notes are an integral part of the financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balances of governmental funds	\$ 10,273,551
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$32,911,246 and the accumulated depreciation is \$14,934,031.	17,977,215
Property taxes receivable will be collected, but are not available soon enough to pay for current year's expenditures, and therefore are deferred in the Governmental Funds.	1,188,407
Bond Premium and issuance costs are deferred and amortized in the Statement of Activities. These costs were reported in full in the Funds when the debt was first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	550,316
Unfunded other postemployment benefits are not reported in the Governmental Funds.	(646,149)
Long-term liabilities such as Debt, Accrued Interest, and Compensated Absences are not due and payable in the current period and accordingly are not reported as fund liabilities. Both current and long-term liabilities are reported in the Statement of Net Assets.	
Long-term Debt	\$ (33,420,000)
Unamortized loss on debt refundings	572,142
Accrued interest	(175,105)
Compensated absences	(708,834)
	<u>(33,731,797)</u>
Total net assets of governmental activities	<u>\$ (4,388,457)</u>

The accompanying notes are an integral part of the financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Construction	Total Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local Revenue Sources	\$ 6,190,687	\$ 7,806	\$ 719	\$ 6,199,212
State Revenue Sources	16,066,640	-	-	16,066,640
Federal Revenue Sources	2,704,252	-	-	2,704,252
Total Revenues	24,961,579	7,806	719	24,972,104
Expenditures				
Current operating:				
Instruction	13,852,643	-	-	13,852,643
Support Services	7,066,468	-	22,122	7,088,590
Noninstructional Services	310,155	-	-	310,155
Miscellaneous	-	16,363	-	16,363
Debt service				
Principal	1,115,500	-	-	1,115,500
Interest	1,410,100	-	-	1,410,100
Total Expenditures	23,754,766	16,363	22,122	23,793,251
Excess (deficiency) of revenues over expenditures	1,206,813	(8,557)	(21,403)	1,176,853
Other financing sources (uses)				
Sale of Fixed Assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	1,206,813	(8,557)	(21,403)	1,176,853
Fund balance, beginning of year	871,645	8,096,848	126,207	9,094,698
Fund balance, end of year	\$ 2,080,458	\$ 8,088,289	\$ 104,804	\$ 10,273,551

The accompanying notes are an integral part of the financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2012

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

Net Change in fund balances - total governmental funds \$ 1,178,853

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital outlays	231,903	
Depreciation expense	<u>(734,324)</u>	(502,421)

Payments of long-term debt and certain expenditures of debt issuance are expensed when paid in the Governmental Funds, but are amortized or recorded as a reduction of long term liabilities in the Statement of Net Assets.

Debt principal repayments	1,115,500	
Change in accrued interest	4,147	
Amortization of loss on debt refundings	(46,734)	
Amortization of bond discount and issuance costs	<u>(69,636)</u>	1,003,277

Governmental Funds do not report the change in Other postemployment benefit liability. (103,112)

Real estate taxes reported in the funds include receipt of prior year delinquent taxes and do not include revenue attributable to the current year's delinquent tax receivable. This amount is the net effect of these differences.

Current year	1,188,407	
Prior year	<u>(936,215)</u>	<u>252,192</u>

Changes in net assets of governmental activities \$ 1,828,789

The accompanying notes are an integral part of the financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

	Business-Type Activities - Enterprise Fund Cafeteria Fund
<hr/>	
Assets	
Current Assets:	
Cash and cash equivalents	\$ 97,730
Due from other governments	8,287
Inventories	<u>30,815</u>
Total current assets	<u>136,832</u>
Noncurrent assets:	
Capital Assets (net of accumulated depreciation of \$117,929)	<u>36,395</u>
Total noncurrent assets	<u>36,395</u>
Total assets	<u>\$ 173,227</u>
<hr/>	
Liabilities	
Current liabilities:	
Accounts payable	\$ 3,124
Unearned revenue	16,296
Due to other funds	<u>557,111</u>
Total current liabilities	<u>576,531</u>
Total liabilities	<u>576,531</u>
<hr/>	
Net Assets	
Invested in Capital Assets, net of Related Debt	36,395
Unrestricted	<u>(439,699)</u>
Total net assets (deficit)	<u>(403,304)</u>
Total liabilities and net assets	<u>\$ 173,227</u>

The accompanying notes are an integral part of the financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET DEFICIT
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Fund Cafeteria Fund
Operating Revenues	
Receipts from Providing Services	\$ 293,242
Total Operating Revenues	<u>293,242</u>
Operating Expenses	
Food Service	1,114,622
Depreciation and amortization	<u>3,128</u>
Total Operating Expenses	<u>1,117,750</u>
Operating Loss	(824,508)
Nonoperating Revenues (Expenses)	
Interest Income	1
Grants	<u>845,844</u>
Total Nonoperating Revenues (Expenses)	<u>845,845</u>
Changes in Net Assets	21,337
Net Deficit - Beginning of Year	<u>(424,641)</u>
Net Deficit - End of Year	<u>\$ (403,304)</u>

The accompanying notes are an integral part of the financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

	Business-Type Activities - <u>Enterprise Fund</u> <u>Cafeteria Fund</u>
Cash flows from operating activities	
Cash received from customers	\$ 293,953
Cash paid to employees	(612,600)
Cash paid to suppliers	<u>(497,712)</u>
Net cash used in operating activities	<u>(816,359)</u>
Cash flows from investing activities	
Interest income	<u>1</u>
Net cash provided by investing activities	<u>1</u>
Cash flows from non-capital financing activities	
Grant payments received	<u>816,140</u>
Net cash provided by non-capital financing activities	<u>816,140</u>
Net decrease in cash and cash equivalents	(218)
Beginning cash and cash equivalents	<u>97,948</u>
Ending cash and cash equivalents	<u>\$ 97,730</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (824,508)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation and amortization	3,128
Donated goods	49,821
(Increase) decrease in assets	
Account receivable	710
Inventories	669
Increase (decrease) in liabilities	
Accounts payable	<u>(46,179)</u>
Net cash used in operating activities	<u>\$ (816,359)</u>

The accompanying notes are an integral part of the financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Other Agency Funds
<u>Assets</u>	
Cash and Cash Equivalents	\$ 45,456
Total Assets	<u>\$ 45,456</u>
<u>Liabilities</u>	
Liabilities	
Funds Held in Fiduciary Capacity	\$ 45,456
Total Liabilities	<u>\$ 45,456</u>

The accompanying notes are an integral part of the financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: ORGANIZATION

The Brownsville Area School District (the School District) is a Third Class school district located mostly in Fayette County, Pennsylvania. It encompasses an area of approximately 56 square miles and includes Brownsville Borough, Brownsville Township, Luzerne Township, Redstone Township, and West Brownsville Borough. West Brownsville Borough is in Washington County. Additionally, a portion of West Brownsville Borough is in the California Area School District.

The School District provides basic educational services to approximately 2,000 students in three elementary buildings and one middle school/senior high school building. All buildings are publicly owned.

A. REPORTING ENTITY:

The Board of School Directors has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the School District. The School District receives funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the School District is not included in any governmental "reporting entity" since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

The School District has investigated the existence of agencies that should be evaluated for possible inclusion in the financial statements of the School District. The School District has determined through this investigation that there are no agencies to be evaluated. Thus, the School District's financial statements do not include any other agency as part of the reporting entity.

B. JOINTLY GOVERNED ORGANIZATIONS:

Intermediate Unit I:

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

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 1: ORGANIZATION (CONTINUED)

B. JOINTLY GOVERNED ORGANIZATIONS (CONTINUED):

Fayette County Area Vocational Technical School:

The School District is one of four member school districts of the Fayette County Area Vocational Technical School (FCAVTS). The FCAVTS's Joint Operating Committee is made up of three school board members from each of the four member districts. These board members are appointed to this position by their Board of Directors. This committee makes business-related decisions pertaining to the FCAVTS. No member of this committee exercises specific control over the fiscal policies or operations of FCAVTS. The FCAVTS provides vocational-technical training and education to participating students of the member districts. The School District's share of annual operating costs for FCAVTS fluctuates based on the number of participating students from the School District each year.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the School District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its business-type activities and to its enterprise fund provided they do not conflict with or contradict GASB pronouncements. The School District follows accounting practices prescribed by the *Manual of Accounting and Financial Reporting for Pennsylvania Public Schools*, issued by the Pennsylvania Department of Education, which are in conformity with the above-mentioned GAAP. Following are the more significant of the School District's accounting policies.

A. BASIS OF PRESENTATION:

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

1. Government-Wide Financial Statements:

The government-wide financial statements include the statement of net assets and the statement of activities and display information about the School District as a whole. These statements include the financial activities of the School District, except for fiduciary funds. The statements distinguish governmental activities that are supported by taxes and other intergovernmental revenues from business-type activities that are financed in whole or in part with fees charged for services.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. BASIS OF PRESENTATION (CONTINUED):

1. Government-Wide Financial Statements (Continued):

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at fiscal year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported as general revenues.

2. Fund Financial Statements:

Fund financial statements, which include governmental, proprietary, and fiduciary funds, are designed to present financial information of the School District at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. FUND ACCOUNTING:

1. Governmental Fund Types:

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, liabilities, fund balances/net assets, and revenues and expenditures or expenses, as appropriate. There are three categories of funds: governmental, proprietary, and fiduciary. The School District maintains the following funds:

a. General Fund:

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

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. FUND ACCOUNTING (CONTINUED):

1. Governmental Fund Types (Continued):

b. Special Revenue Funds:

Special revenue funds are used to account for financial resources that are legally restricted to expenditures for specified purposes.

c. Capital Project Funds:

Capital project funds are used to account for financial resources related to general fixed asset acquisitions, construction, and improvements. The School District accounts for its Capital Projects and Construction Funds as Capital Projects Funds.

The Construction Fund is funded by bond proceeds and will be used for capital projects for the School District that are allowed under the bond indenture.

The Capital Projects Fund is used to account for financial resources designated for major improvements and repairs to existing structures.

d. Debt Service Funds:

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

e. Permanent Funds:

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs. The School District accounts for its scholarship fund as a permanent fund.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. FUND ACCOUNTING (CONTINUED):

2. Proprietary Fund Types:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The following is the School District's proprietary type fund:

a. Enterprise Fund:

The enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the Board of School Directors has decided that the revenues earned, costs incurred, and net income are necessary to management accountability. The School District accounts for food service as an enterprise fund.

3. Fiduciary Fund Types:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District maintains one agency fund, the activity fund, which is used to account for the assets which belong to various student groups.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. MEASUREMENT FOCUS:

Measurement focus is commonly used to describe the types of transactions and events that are reported in the operating statements.

1. Government-Wide Financial Statements:

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. As a general rule, the effect of inter-fund activity has been eliminated from government-wide financial statements.

2. Fund Financial Statements:

The governmental funds are accounted for using a flow of current financial resources measurement focus. Accordingly, only current assets and current liabilities are included on the governmental fund balance sheets, and the fund balances reflect spendable or appropriable resources. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

The proprietary funds are accounted for using a flow of economic resources measurement focus, as in the government-wide financial statements. All assets and liabilities (current and noncurrent) associated with the operation of the funds are included on the statement of net assets. The statement of changes in revenues, expenses, and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the School District finances and meets the cash flow needs of its proprietary funds. Depreciation of proprietary fund equipment is charged as expense against current operations using the straight-line method. Accumulated depreciation is reported on the proprietary fund statement on net assets.

The fiduciary fund is also accounted for using a flow of economic resources measurement focus, as in the government-wide financial statements.

The School District Reports the following major governmental funds:

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

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. MEASUREMENT FOCUS (CONTINUED)

2. Fund Financial Statements (Continued):

The Construction Fund is used by the School District for major capital projects and is funded by general obligation bonds.

D. BASIS OF ACCOUNTING:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

1. Government-Wide Financial Statements:

Government-wide financial statements are reported using the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the cash flows.

2. Fund Financial Statements:

In the fund financial statements, governmental funds are reported using the modified accrual basis of accounting and the proprietary funds are reported using the accrual basis of accounting. With the modified accrual basis, revenues are recognized when they are both measureable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. For this purpose, the School District generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Major revenue sources susceptible to accrual include: property taxes, income taxes, intergovernmental revenues, investment income, rent, and certain miscellaneous revenues. In general, other revenues are recognized when cash is received. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be earned by the School District; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. BUDGETS AND BUDGETARY ACCOUNTING:

An operating budget is adopted each year for the general fund on a modified accrual basis of accounting.

The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

The School District is required to prepare an operating budget for the succeeding fiscal year.

The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. The budget data reflected in the combined financial statements include the original budgeted amounts filed with the Pennsylvania Department of Education and the final appropriation amounts passed by the Board of School Directors during the fiscal year.

Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board of Education, which authorizes the School District to make expenditures. Appropriations lapse at the end of the fiscal period.

Included with the general fund budget are program budgets as prescribed by the state and federal agencies funding the program. These budgets are approved on a program-by-program basis by the state or federal funding agency.

Budgets for enterprise and agency funds are not adopted.

F. ASSETS, LIABILITIES, AND NET ASSETS OR FUND BALANCE:

1. Cash and Equivalents:

For purposes of the statement of cash flows, the School District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are carried at cost plus accrued interest, if any, which approximates fair value.

2. Investments:

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

BROWNSVILLE AREA SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. ASSETS, LIABILITIES, AND NET ASSETS OR FUND BALANCE (CONTINUED):

3. Real Estate Taxes:

Real estate taxes are collected from property owners within the five municipalities comprising the School District. The tax on real estate for public school purposes for fiscal year 2012 was 16.57 mills (\$16.57 per \$1,000.00 of assessed valuation) as levied by the Board of School Directors. The real estate tax rate for West Brownsville Borough in Washington County was 93.21 mills (\$93.21 per \$1,000.00 of assessed valuation). Assessed valuations of property are determined by Fayette County and Washington County, respectively; and the elected tax collectors are responsible for collection.

August 1	-	Levy date
August-September	-	2% discount period
October – November	-	Face payment period
After November 30	-	5% penalty period
December 31	-	Returned to County

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

4. Inventory:

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased. Inventories in the general fund are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets. Currently, the general fund does not have an inventory balance.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. ASSETS, LIABILITIES, AND NET ASSETS OR FUND BALANCE (CONTINUED):

4. Inventory (Continued):

Food service inventory includes government donated commodities which are valued at estimated fair market value. An annual physical inventory of food and supplies is taken by food service and reported in the enterprise fund.

5. Prepaid Items:

Payments made to vendors for services that will benefit periods beyond the current fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and expenditure/expense is reported in the year which services are consumed.

6. Capital Assets:

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

All capital assets should be capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets should be recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of \$1,500.

All capital assets, except land and construction in progress, are depreciated. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the Board of School Directors, no salvage value is taken into consideration for depreciation purposes. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 – 20 years
Buildings and building improvements	15 – 50 years
Vehicles	7 – 10 years
Equipment	5 – 10 years

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. ASSETS, LIABILITIES, AND NET ASSETS OR FUND BALANCE
(CONTINUED):

7. Accrued Liabilities and Long-Term Obligations:

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary funds are reported on the proprietary fund financial statements. Contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

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

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

8. Unearned/Deferred Revenues:

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (i.e., receivables for delinquent taxes which were levied in the current and prior years but will not be available to pay liabilities of the current period. They will be recognized as revenues in the year collected.) Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned (i.e., advance payments received by the School District under grants for specific programs. These advance payments will be recognized as revenues when the related expenditures are incurred).

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. ASSETS, LIABILITIES, AND NET ASSETS OR FUND BALANCE
(CONTINUED):

9. Compensated Absences:

It is the School District's policy to permit employees to accumulate unused sick leave and, upon termination, pay employees based upon an amount per unused sick day. Liabilities for accumulated leaves and termination compensation are recognized in the year that the rights to such benefits are earned. The liability to present employees is based upon current contract arrangements. The entire compensated absence liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as expenditures to the extent payments come due each period as a result of employee resignations and retirements. Following is a summary of the School District's compensated absence policies:

a. Vacation:

School District employees who are required to work on a twelve-month schedule are credited with vacation rates which vary with length of service or job classification. Unused vacation days for administrators and secretaries are added to sick days. Vacation days of other twelve-month employees are noncumulative.

b. Sick Leave:

Teachers and twelve-month employees are credited with ten to twelve days of sick leave annually, as set forth in their contracts, to an unlimited maximum. Upon retirement, administrators (Act 93 employees) are paid \$150 per day up to a maximum of 200 days for unused sick days. Upon retirement, teachers are paid \$80 for each accumulated, unused sick day up to a maximum of 200 days. School District administrative office secretaries are paid \$30 for each accumulated, unused sick day up to a maximum of 200 days. Service Employees International Union (SEIU) employees are paid \$20 for each accumulated, unused sick day up to a maximum of 200 days.

c. Personal Days:

In addition to vacation and sick leave, School District employees are entitled to three to five personal days, varying according to job classification, which may be added to sick days if not used. Teachers also have the option to receive payment for unused personal days at the rate of \$42 per unused day.

Compensated absences had a balance of \$708,834 as of June 30, 2012.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. ASSETS, LIABILITIES, AND NET ASSETS OR FUND BALANCE (CONTINUED):

10. Interfund Transactions:

Interfund balances between governmental and business-type activities on the government-wide statements are reported as "internal balances." On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets.

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the enterprise fund. Interfund transfers within governmental activities and within business-type activities are eliminated on the government-wide statement of activities.

11. Net Assets:

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

12. Fund Balance Reserves:

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable:* This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The School District had \$6,898 of nonspendable resources in the General Fund as of June 30, 2012.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

G. ASSETS, LIABILITIES, AND NET ASSETS OR FUND BALANCE
(CONTINUED):

12. Fund Balance Reserves (Continued):

- *Restricted:* This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School District had restricted resources of \$8,193,093 as of June 30, 2012.

- *Committed:* This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School District did not have any committed resources as of June 30, 2012.

- *Assigned:* This classification includes amounts that are constrained by the School District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to the School District's management. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The School District did not have any assigned resources as of June 30, 2012.

- *Unassigned:* This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts. The School District had \$2,073,560 of unassigned resources in the General Fund as of June 30, 2012.

The School District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. ASSETS, LIABILITIES, AND NET ASSETS OR FUND BALANCE
(CONTINUED):

13. Operating Revenues and Expenses:

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the School District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

14. Adoption of Governmental Accounting Standards Board Statements

The School District adopted the provisions of GASB Statement No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employers Plans*." The adoption of this statement had no effect on the financial reporting information for the School District.

The School District adopted the provisions of GASB Statement No. 60, "*Accounting and Financial Reporting for Service Concession Agreements*". The adoption of this statement had no effect on the financial reporting information for the School District.

The School District adopted the provisions of GASB Statement No. 64, "*Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*". The adoption of this statement had no effect on the financial reporting information for the School District.

15. Pending Changes in Accounting Principles

In December 2010 the GASB issued Statement No. 61, "*The Financial Reporting Entity: Omnibus*". The School District is required to adopt Statement No. 61 for its fiscal year 2013 financial statements.

In December 2010 the GASB issued Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*." The School District is required to adopt Statement No. 62 for its fiscal year 2013 financial statements.

In June 2011, the GASB issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The School District is required to adopt Statement No. 63 for its fiscal year 2013 financial statements.

In March 2012, the GASB issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The School District is required to adopt statement No. 65 for its fiscal year 2014 financial statements.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. ASSETS, LIABILITIES, AND NET ASSETS OR FUND BALANCE (CONTINUED):

15. Pending Changes in Accounting Principles (Continued)

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 An Amendment of GASB Statements No. 10 and No. 62*. The School District is required to adopt statement No. 66 for its fiscal year 2014 financial statements.

In June of 2012, The GASB issued Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The School District is required to adopt statement No. 67 for its fiscal year 2014 financial statements.

In June of 2012, The GASB issued Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The School District is required to adopt statement No. 68 for its fiscal year 2015 financial statements.

G. USE OF ESTIMATES:

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

NOTE 3: DETAILED NOTES ON ALL FUNDS:

A. CASH AND INVESTMENTS:

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest funds in the following types of investments:

1. U.S. treasury bills; short-term securities (have a maturity of less than 13 months) of the U.S. Government, its agencies, or its instrumentalities; and obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith of and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

A. CASH AND INVESTMENTS (CONTINUED):

2. Shares of investment companies, provided they meet certain stringent requirements and that the underlying investments held by the companies are limited to the categories of securities listed above.
3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

The deposit and investment policy of the School District adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the School District.

1. Deposits:

a. Custodial Credit Risk:

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$2,529,745 of the School District's bank balance of \$2,781,382 was exposed to custodial credit risk as uninsured and collateral was held by the pledging bank's trust department and not in the School District's name.

2. Investments:

a. Interest Rate Risk:

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

b. Credit Risk/Concentration of Credit Risk:

The School District's policy does not limit its investment choices to certain credit rating, nor does it place a limit on the amount that may be invested in any one issuer.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

A. CASH AND INVESTMENTS (CONTINUED):

2. Investments (Continued):

b. Credit Risk/Concentration of Credit Risk (Continued):

Investment Type	Fair Value	Less Than 1 Year
U.S. Government Agencies	\$ 4,451,024	\$ 4,451,024
Corporate Issues	3,124,446	3,124,446
 Total	 \$ 7,575,470	 \$ 7,575,470

Because the money market mutual fund as of June 30, 2012, was comprised entirely of short-term U.S. Government Investments, it is presented as an investment with a maturity of less than 13 months.

Investment Type	Credit Quality Rating	Percent of Investment Type
U.S. Government Securities	AAA	100%
Corporate Bonds	AAA	64%
Corporate Bonds	Unrated	36%

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. TAXES RECEIVABLE AND DEFERRED REVENUES:

The balances at June 30, 2012, were as follows:

	<u>Gross Taxes Receivable</u>	<u>Tax Revenues Recognized</u>	<u>Deferred Taxes</u>
Real estate taxes	\$ 1,188,407	\$ -	\$ 1,188,407

C. DUE FROM OTHER GOVERNMENTS:

Amounts due from other governments represent receivables for revenues earned by the School District or collections made by other governmental units on behalf of the School District. At June 30, 2012, the following amounts were due from other governmental units:

<u>Due From</u>	<u>General Fund</u>	<u>Enterprise Fund</u>
Federal	\$ 331,333	\$ 8,287
State	<u>152,355</u>	<u>-</u>
Total	<u>\$ 483,688</u>	<u>\$ 8,287</u>

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

D. INTERFUND TRANSACTIONS:

The composition of interfund balances is as follows:

	Due from	Due to
General Fund	\$ 557,111	\$ 512,750
Construction Fund	512,750	-
Enterprise Fund	<u>-</u>	<u>557,111</u>
Total	<u>\$ 1,069,861</u>	<u>\$ 1,069,861</u>

E. CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities for the fiscal year ended June 30, 2012, is listed below.

GOVERNMENTAL ACTIVITIES	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 701,440	\$ -	\$ -	\$ 701,440
Total Capital Assets, Not Being Depreciated	<u>701,440</u>	<u>-</u>	<u>-</u>	<u>701,440</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	27,971,000	114,930	-	28,085,930
Equipment and Vehicles	4,006,903	116,973	-	4,123,876
Total Capital Assets, Being Depreciated	<u>31,977,903</u>	<u>231,903</u>	<u>-</u>	<u>32,209,806</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(11,002,229)	(595,658)	-	(11,597,887)
Equipment and Vehicles	(3,197,478)	(138,666)	-	(3,336,144)
Total Accumulated Depreciation	<u>(14,199,707)</u>	<u>(734,324)</u>	<u>-</u>	<u>(14,934,031)</u>
Total Capital Assets, Being Depreciated, Net	<u>17,778,196</u>	<u>(502,421)</u>	<u>-</u>	<u>17,275,775</u>
Governmental Activities Capital Assets, Net	<u>\$ 18,479,636</u>	<u>\$ (502,421)</u>	<u>\$ -</u>	<u>\$ 17,977,215</u>

BROWNSVILLE AREA SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2012

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 686,370
Instructional student support	36,038
Student activities	<u>11,916</u>
Total	<u>\$ 734,324</u>

BUSINESS TYPE ACTIVITIES	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Equipment	\$ 154,324	\$ -	\$ -	\$ 154,324
Total Capital Assets, Being Depreciated	<u>154,324</u>	<u>-</u>	<u>-</u>	<u>154,324</u>
Less Accumulated Depreciation	(114,801)	(3,128)	-	(117,929)
Total Capital Assets, Being Depreciated, Net	<u>39,523</u>	<u>(3,128)</u>	<u>-</u>	<u>36,395</u>
Business Type Activities Capital Assets, Net	<u>\$ 39,523</u>	<u>\$ (3,128)</u>	<u>\$ -</u>	<u>\$ 36,395</u>

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. GENERAL LONG-TERM DEBT:

Changes in the School District's long-term debt during fiscal year 2012 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Amounts due within one year
Series 2003	\$ 2,470,000	\$ -	\$ (325,000)	\$ 2,145,000	\$ 320,000
Series 2005	9,170,000	-	(135,000)	9,035,000	145,000
Series 2006	8,830,000	-	(25,000)	8,805,000	25,000
Series 2007	8,460,000	-	(35,000)	8,425,000	35,000
Series 2008	625,500	-	(120,500)	505,000	134,500
Series 2009	980,000	-	(100,000)	880,000	100,000
Series A of 2009	<u>4,000,000</u>	<u>-</u>	<u>(375,000)</u>	<u>3,625,000</u>	<u>390,000</u>
Total	\$ <u>34,535,500</u>	\$ <u>-</u>	\$ <u>(1,115,500)</u>	<u>33,420,000</u>	\$ <u>1,149,500</u>
Less: Deferred Loss on Refunding (NOTE 3N)				(572,142)	
Less: Amount due within on year				<u>(1,149,500)</u>	
Total Long-term Debt				<u>\$ 31,698,358</u>	

Governmental Activities

	Principal Requirements	Interest Requirements	Total Debt Service Requirements
Year Ended December 31:			
2013	\$ 1,149,500	\$ 1,376,139	\$ 2,525,639
2014	1,188,000	1,338,085	2,526,085
2015	1,237,000	1,295,021	2,532,021
2016	1,315,500	1,246,892	2,562,392
2017	1,425,000	1,191,922	2,616,922
2018-2022	6,675,000	5,061,304	11,736,304
2023-2027	5,865,000	3,861,641	9,726,641
2028-2032	7,245,000	2,476,656	9,721,656
2033-2036	<u>7,320,000</u>	<u>680,791</u>	<u>8,000,791</u>
Total	\$ <u>33,420,000</u>	\$ <u>18,528,451</u>	\$ <u>51,948,451</u>

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

G. STATE PUBLIC SCHOOL BUILDING AUTHORITY, SCHOOL REVENUE BONDS, SERIES OF 2003:

The Series of 2003 Bonds, in the amount of \$20,400,000 were used for the purpose of providing funds for (a) refunding the School District's outstanding General Obligation Note, Series of 2000; (b) fund a capitalized interest fund; (c) fund the costs of construction of renovations and improvements to various capital facilities of the School District, including, particularly the Redstone Elementary/Middle School Complex and high school building; and (d) pay certain costs associated with issuance of the 2003 Bonds.

The bonds bear interest at rates ranging from 2.000% to 4.750% payable semi-annually on May 15 and November 15. Bonds maturing on or after November 15, 2014, are subject to optional redemption prior to maturity by the Authority at the direction of the School District on or after November 15, 2013.

H. GENERAL OBLIGATION BONDS, SERIES OF 2005:

The General Obligation Bonds, Series of 2005, in the aggregate principal amount of \$9,665,000, are dated November 15, 2005. Interest, at rates ranging from 3.000% to 4.500%, is payable May 15 and November 15 with the first interest payable on May 15, 2006. The Bonds are subject to optional redemption on and after November 15, 2010, at 100% of the principal amount.

The Series of 2005 Bonds were issued for (a) the construction of a new elementary school and demolition of an existing school building and may include construction, renovation, improvement, relocation, and/or repair of athletic facilities and maintenance facilities of the District; (b) capitalized interest; (c) currently refunding the outstanding portion of the School District's

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

I. GENERAL OBLIGATION BONDS, SERIES OF 2005 (CONTINUED):

General Obligation Note, Series of 2004 in the amount of \$32,351, plus accrued interest; and (d) paying the cost of issuing these bonds.

Under terms of agreement with the purchaser of the Bonds, a Sinking Fund with U.S. Bank, National Association located in Pittsburgh, Pennsylvania, was established into which funds from general revenues of the School District are to be deposited in amounts sufficient for the payment of interest and principal.

J. GENERAL OBLIGATION BONDS, SERIES 2006:

The General Obligation Bonds, Series 2006, in the aggregate principal amount of \$9,000,000, are dated January 15, 2006. Interest, at rates ranging from 3.200% to 4.500%, is payable May 15 and November 15 with the first interest payable on May 15, 2006. The Bonds are subject to optional redemption on and after November 15, 2013, at 100% of the principal amount.

The Series of 2006 Bonds were issued to (a) prepay a portion (\$8,395,000) of the School District's General Obligation Bond, Series of 2003, on an advance refunding basis, which note was issued to secure the State Public School Building Authority's School Revenue Bonds, Series of 2003 and (b) paying the cost of issuing these bonds.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

J. GENERAL OBLIGATION BONDS, SERIES 2006 (CONTINUED):

Under terms of agreement with the purchaser of the Bonds, a Sinking Fund with U.S. Bank, National Association located in Pittsburgh, Pennsylvania, was established into which funds from general revenues of the School District are to be deposited in amounts sufficient for the payment of interest and principal.

K. GENERAL OBLIGATION BONDS, SERIES OF 2007:

The General Obligation Bonds, Series of 2007, in the aggregate principal amount of \$8,580,000, are dated April 1, 2007. Interest, at rates ranging from 3.550% to 4.000%, is payable May 15 and November 15 with the first interest payable on May 15, 2007. The Bonds are subject to optional redemption on and after November 15, 2014, at 100% of the principal amount.

The Series of 2007 Bonds were issued to (a) prepay a portion (\$7,940,000) of the School District's General Obligation Bond, Series of 2003, on an advance refunding basis, which note was issued to secure the State Public School Building Authority's School Revenue Bonds, Series of 2003 and (b) paying the cost of issuing these bonds.

Under terms of agreement with the purchaser of the Bonds, a Sinking Fund with U.S. Bank, National Association located in Pittsburgh, Pennsylvania, was established into which funds from general revenues of the School District are to be deposited in amounts sufficient for the payment of interest and principal.

L. GENERAL OBLIGATION NOTES, SERIES OF 2008

The General Obligation Notes, Series of 2008, in the aggregate principal amount of \$825,600, are dated November 1, 2008. Interest at 4.10% is payable May 1 and November 1 with principle payments on November 1 and the first interest payable on May 1, 2009.

The Series of 2008 Notes were issued to (a) repay the outstanding portion (\$815,000) of the Series of 1997 Bonds and (b) to pay the cost of issuing these bonds.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

M. GENERAL OBLIGATION NOTES, SERIES OF 2009

In December of 2009 the School District issued General Obligation Notes, Series of A of 2009, with a tax exempt portion of \$980,000 and a federally taxable portion of \$4,000,000. The notes are dated December 1, 2009 and mature on November 15, 2009, with interest only payments on May 15th and interest and principle payments on November 15th of each year. The notes have interest rates varying from 1.81% to 5%. The proceeds are to be used to refund a portion of the Series of 2003 and Series of 2005 Bonds, to pay the various costs of issuance of the bonds, and to fund unfunded debt incurred as a result of a shortfall of budgeted revenues and insufficient cash reserves.

N. Defeased Bonds – General Obligation Bonds, Series of 2003

A portion of the proceeds of the General Obligation Bonds, Series of 2006 and 2007, were used for the prepayment on an advance refunding basis of \$8,395,000 and \$7,940,000, respectively, aggregate principal amount of the School District's General Obligation Note Series 2003, which was issued pursuant to a Loan Agreement dated as of March 15, 2003, between the State Public School Authority and the School District to secure the Authority's School Revenue Bonds, Series of 2003, issued by the Authority, on behalf the School District, pursuant to a Trust Indenture dated as of March 15, 2003, between the Authority and J.P. Morgan Trust Company, National Association.

Series 2006 refunded (a) \$180,000 of the principal payment due on the 2003 Note in 2006, (b) \$645,000 of the principal payment due on the 2003 Note in 2026, and (c) \$7,570,000 of principal payments due on the 2003 Note in the years 2027 through 2032.

Series 2007 refunded (a) \$7,530,000 of the principal payments dues on the 2003 Note in the years 2017 through 2025 and (b) \$410,000 of the principal payment due on the 2003 Note in 2026.

The Refunded Notes are being prepaid in order to effectuate the refunding of an equal amount of the 2003 Bonds maturing (or subject to mandatory redemption) on the same dates and in the same amounts as the payments on the Refunded Notes (the Refunded Bonds). Such funds will be irrevocably deposited under the terms of the Escrow Agreements be the Bank of New York Trust Company, N.A. (the Escrow Agent) and the School District, and applied toward the purchase of Government Obligations.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

NOTE 3: DETAILED NOTES ON ALL FUNDS (CONTINUED):

N. Defeased Bonds – General Obligation Bonds, Series of 2003 (Continued)

The Government Obligations will mature at such times and be in such amounts to provide funds from the maturing principal, interest income, and any cash balances, sufficient to (a) prepay the Refunded Notes on November 15, 2013 (the Redemption Date) and (b) pay interest on the Refunded Notes as the same becomes due to and including the Redemption Date. Pursuant to the terms of the indenture, such payments will be applied to (a) redeem the Refunded Bonds on the Redemption Date and (b) pay the interest on the Refunded Bonds as the same becomes due to and including the Redemption Date.

With the execution of these documents and the deposit of these funds, the Escrow Agent has accepted responsibility for the retirement of this portion of the outstanding Series 2003 Bonds. Accordingly, this portion of the Series of 2003 Bonds and the above-mentioned escrow account are no longer considered an integral part of the School District's operations and have been excluded from these financial statements.

As a result of these advance refundings, the difference between the reacquisition price of the old debt and the net carrying amount of the old debt is required to be deferred and amortized as an element of interest expense over the life of the new debt. This amount is reported as a reduction against the refunding debt liability on the statement of net assets.

	<u>Series 2003</u>
Total Deferred Interest on Refunding	\$ 618,876
Current Year Interest Expense	<u>(46,734)</u>
	<u>\$ 572,142</u>

NOTE 4: OTHER INFORMATION:

A. CONTINGENT LIABILITIES:

1. Grant Programs:

The School District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items on noncompliance which would result in the disallowance of program expenditures.

2. Litigation:

In the normal course of operations, the School District may be involved in various civil disputes. Management is unaware of any such litigation that could result in a material adverse effect on the School District's financial position as of June 30, 2012.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 4: OTHER INFORMATION (CONTINUED):

B. POST RETIREMENT HEALTHCARE BENEFITS:

Upon retirement, most employees may continue to belong to the Blue Cross/ Blue Shield Health Care Insurance until age 65. Effective September 1, 1997, Bargaining Unit employees who retired and have not yet reached the age of 65 may retain Blue Cross/ Blue Shield benefits until age 65 by continuing to pay the group rate to the School District. For prior retirees, the School District pays varying amounts toward their Blue Cross/ Blue Shield coverage depending on the contract in effect when they retired. For the year ended June 30, 2012 the cost to the School District was \$334,412.

Annual OPEB Cost and Net OPEB Obligation

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

	Governmental <u>Activities</u>
Annual Required Contribution	\$ 449,057
Interest on Net OPEB Obligation	21,722
ARC Adjustment	<u>(33,255)</u>
Annual OPEB Cost	437,524
Contributions made	<u>334,413</u>
Net Increase in Net OPEB Obligation	103,111
Net OPEB Obligation, beginning of year	<u>543,038</u>
Net OPEB Obligation, end of year	<u>\$ 646,149</u>

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 4: OTHER INFORMATION (CONTINUED):

B. POST RETIREMENT HEALTHCARE BENEFITS (CONTINUED):

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 is as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
6/30/2010	\$ 501,607	60%	\$ 439,805
6/30/2011	440,255	77%	543,038
6/30/2012	437,524	76%	646,149

Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$5,468,325 and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,468,325, which is 44.23% of the covered payroll of \$12,355,332 as of June 30, 2010.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

In the July 1, 2010 actuarial valuation, the Entry Age Normal cost method expressed as a level dollar was used. The actuarial assumptions included a 4% investment rate of return, which is the expected long-term investment yield on investments that are expected to be used to finance the payments of benefits. The UAAL is being amortized using the level dollar method over a period of 30 years on a closed basis.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 4: OTHER INFORMATION (CONTINUED):

C. ON-BEHALF OF PAYMENTS FOR FRINGE BENEFITS:

In accordance with GASB Statement No. 24, the School District recognizes as revenues and expenditures funds received from the Commonwealth of Pennsylvania for the payment of fringe benefits.

During the year ended June 30, 2012, the School District recognized as revenues and expenditures \$423,471 of Social Security/Medicare and expense of \$668,334 of pension contributions received from the Commonwealth of Pennsylvania.

D. HEALTH INSURANCE CONSORTIUM:

In an effort to reduce the cost of providing health insurance benefits for its employees, the School District joined in the Intermediate Unit 1 Health Consortium Trust (the Trust) (a public entity risk pool). The Trust's general objectives are (1) to formulate, develop, and administer on behalf of its subscribers, a program of insurance; (2) to obtain lower costs for the coverage; (3) to reward subscribers for lower usage of the coverage; (4) to establish a continuing voice with the Blue Cross/ Blue Shield; and (5) to manage the Trust's healthcare dollar most effectively. The School District is effectively purchasing a policy through the Trust. The School District has no exposure beyond the amount paid for the policy.

There has been no significant reduction in coverage from the previous three years.

During the year ended June 30, 2012, the School District paid \$2,422,712 into the health consortium for health insurance benefits for its employees, which included administration fees.

E. RISK MANAGEMENT:

The School District is exposed to various risks of loss related to limited torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Settled claims have not exceeded coverage in any of the last three years, and there has been no significant reduction in coverage from the prior fiscal year.

BROWNSVILLE AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

NOTE 4: OTHER INFORMATION (CONTINUED):

F. DEFINED BENEFIT PENSION PLAN:

Plan Description

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

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

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

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

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

Funding Policy

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

Contribution Rates

Member Contributions: The average contribution rate payable by the members is 7.37%. Effective January 1, 2002, the employee contribution rate for members who elected to have prior school service and intervening military service converted to Class T-D service increased by 1.25% to 7.50%. Anyone who enrolls after June 30, 2001 and before July 1, 2011 is automatically a member of Class T-D. The average member contribution rate of 7.37% is a pay-weighted average of member rates that vary based on date of hire and based on Class T-D membership. Any employee who becomes a member after June 30, 2011 would become a Class T-E member or, alternatively, elect to become a Class T-F member. The base contribution rate for Class T-E members is 7.50% of compensation. The base contribution rate for Class T-F members is 10.30% of compensation. Class T-E and Class T-F members are subject to a "shared-risk" employee contribution rate.

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2012, the rate of employer's contribution was 8.65 percent of covered payroll. The 8.65 percent rate is composed of a pension contribution rate of 8.00 percent for pension benefits and .65 percent for healthcare insurance premium assistance. The Contribution made by the School District for the 2011-2012 fiscal year was \$662,402 from the General Fund.

**REQUIRED
SUPPLEMENTAL
INFORMATION**

BROWNSVILLE AREA SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive (Negative)</u>
Revenues				
Local Revenue Sources	\$ 5,498,419	\$ 5,498,419	\$ 6,190,687	\$ 692,268
State Revenue Sources	15,917,543	15,917,543	16,068,640	151,097
Federal Revenue Sources	<u>2,628,116</u>	<u>2,628,116</u>	<u>2,704,252</u>	<u>76,136</u>
Total Revenues	<u>24,044,078</u>	<u>24,044,078</u>	<u>24,963,579</u>	<u>919,501</u>
Expenditures				
Current operating:				
Instruction	13,989,947	13,989,947	13,852,543	137,404
Support Services	7,132,584	7,132,584	7,066,468	66,116
Noninstructional Services	291,199	291,199	310,155	(18,956)
Miscellaneous	-	-	-	-
Debt service	<u>2,530,348</u>	<u>2,530,348</u>	<u>2,525,600</u>	<u>4,748</u>
Total Expenditures	<u>23,944,078</u>	<u>23,944,078</u>	<u>23,754,766</u>	<u>189,312</u>
Excess (deficiency) of revenues				
over expenditures	<u>100,000</u>	<u>100,000</u>	<u>1,208,813</u>	<u>1,108,813</u>

BROWNSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2012

Schedule of Funding Progress for Post Employment Benefits other than Pensions

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2008	\$ -	\$ 6,993,568	\$ 6,993,568	0.00%	\$ 11,103,763	62.98%
7/1/2010	-	5,468,325	\$ 5,468,325	0.00%	12,355,332	44.26%

**OTHER
SUPPLEMENTAL
INFORMATION**

BROWNSVILLE AREA SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 94,998	\$ 21,752	\$ 116,750
Total assets	<u>\$ 94,998</u>	<u>\$ 21,752</u>	<u>\$ 116,750</u>
<u>Liabilities</u>			
Accounts payable	\$ 9,946	\$ 2,000	\$ 11,946
Total liabilities	<u>9,946</u>	<u>2,000</u>	<u>11,946</u>
<u>Fund Balance</u>			
Restricted	<u>85,052</u>	<u>19,752</u>	<u>104,804</u>
Total fund balance	<u>85,052</u>	<u>19,752</u>	<u>104,804</u>
Total liabilities and fund balance	<u>\$ 94,998</u>	<u>\$ 21,752</u>	<u>\$ 116,750</u>

BROWNSVILLE AREA SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
Revenues			
Local Sources	\$ 701	\$ 18	\$ 719
Total Revenues	<u>701</u>	<u>18</u>	<u>719</u>
Expenditures			
Current operating:			
Support services	<u>20,086</u>	<u>2,036</u>	<u>22,122</u>
Total Expenditures	<u>20,086</u>	<u>2,036</u>	<u>22,122</u>
Excess (deficiency) of revenues over expenditures	<u>(19,385)</u>	<u>(2,018)</u>	<u>(21,403)</u>
Other financing sources (uses)			
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(19,385)	(2,018)	(21,403)
Fund balance, beginning of year	<u>104,437</u>	<u>21,770</u>	<u>126,207</u>
Fund balance, end of year	<u>\$ 85,052</u>	<u>\$ 19,752</u>	<u>\$ 104,804</u>