

SALISBURY TOWNSHIP SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2007

SALISBURY TOWNSHIP SCHOOL DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of School Directors
Salisbury Township School District
Allentown, 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 Salisbury Township School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Salisbury Township School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salisbury Township School District as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2008, on our consideration of Salisbury Township 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Salisbury Township School District basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Salisbury Township School District. The combining and individual nonmajor fund financial statements and the schedule of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Truice, Anderson, Brunk and Company, P.C.

Emmaus, Pennsylvania
January 11, 2008

**SALISBURY TOWNSHIP SCHOOL DISTRICT
ALLENTOWN, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2007**

The discussion and analysis of Salisbury Township's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2007.

The intent of the discussion and analysis is to look at the school District's financial performance as a whole. The MD&A should be read in conjunction with the financial statements and footnotes to enhance the understanding of the District's financial performance.

THE SCHOOL DISTRICT

Salisbury Township School District is a School District of the Third Class, organized and existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth").

The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors.

FINANCIAL HIGHLIGHTS

The District's financial position, as reflected in total net assets increased by \$1,684,847. Net assets of governmental activities increased by \$1,666,809, whereas net assets of business-type activities increased by \$18,038.

Total revenues were \$30,264,974. General revenues accounted for \$24,512,135 or 81.0 percent of all revenues. Program specific revenues in the form of charges for services and grants accounted for \$5,752,839 or 19.0 percent of total revenues.

The school district had \$28,028,331 in expenses related to governmental activities; \$5,242,640 of these expenses was offset by program specific charges for services and grants. General revenue (primarily taxes and subsidies) of \$24,452,500 covered the expenses.

At June 30, 2007, unreserved, undesignated fund balance of the general fund was \$2,357,571 or 8.3% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the school district's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. These statements are organized so the reader can understand Salisbury Township School District as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

Government-wide Financial Statements

There are two (2) government-wide financial statements: The Statement of Net Assets and the Statement of Activities. These statements report information about the District as a whole using the accrual basis of accounting similar to that used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities, short term as well as long-term. The Statement of Activities reports all current year revenues and expenditures regardless of when cash is received or paid.

Together, the two government-wide statements report the District's net assets and how they have changed. The Statement of Activities reports how the changes in net assets have occurred during the current fiscal year. Over time, increases or decreases in the District's net assets are an indication of whether its financial health is improving or deteriorating, respectively. Evaluation of the overall economic health of the district would extend to other factors such as changes in the district's property tax base, student enrollment, facility conditions, required educational programs and performance of the students.

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

- **Governmental Activities** – All of the District's basic services are included here, such as instruction, support services, administration, operation and maintenance of plant, pupil transportation, and extracurricular activities. Property taxes and state and federal subsidies finance most of these activities.
- **Business-Type Activities** - The District operates a food service operation and charges fees to staff, students, and visitors to help cover its costs of operation.

Fund Financial Statements

The District's fund financial statements, which begin on page 12, provide detailed information about the most significant funds – not the District as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

Governmental funds – Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements on pages 13 and 15.

Salisbury Township School District
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Proprietary funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, these fund financial statements will essentially match the government-wide financial statements. The Food Service Fund is the District's proprietary fund.

Fiduciary funds - The District is the trustee, or fiduciary, for scholarship, student activity and agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on Page 20. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net assets were \$17,132,720 for 2007 and \$15,465,911 for 2006. A comparison of the School District's net assets for 2007 compared to 2006 is as follows:

Table A-1
Summary of Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Current and other assets	\$6,955,614	\$ 5,929,486	\$ 141,293	\$ 138,314	\$ 7,096,907	\$ 6,067,800
Capital assets	30,313,915	30,569,416	99,792	92,616	30,413,707	30,662,032
Total assets	\$37,269,529	\$ 36,498,902	\$ 241,085	\$ 230,930	\$ 37,510,614	\$ 36,729,832
Current and other liabilities	\$ 3,291,131	\$ 3,058,404	\$ 70,626	\$ 78,509	\$ 3,361,757	\$ 3,136,913
Noncurrent liabilities	16,845,678	17,974,587	-	-	16,845,678	17,974,587
Total liabilities	\$ 20,136,809	\$ 21,032,991	\$ 70,626	\$ 78,509	\$ 20,207,435	\$ 21,111,500
Net Assets						
Invested in capital assets, net of related debt	\$ 13,133,915	\$ 12,399,416	\$ 99,792	\$ 92,616	\$ 13,233,707	\$ 12,492,032
Restricted	830,810	1,031,205			830,810	1,031,205
Unrestricted (deficit)	3,167,995	2,035,290	70,667	59,805	3,238,662	2,095,095
Total net assets	\$ 17,132,720	\$ 15,465,911	\$170,459	\$ 152,421	\$ 17,303,179	\$ 15,618,332
Total Liabilities and Net Assets	\$ 37,269,529	\$ 36,498,902	\$ 241,085	\$ 230,930	\$ 37,510,614	\$ 36,729,832

The District's net assets are invested in capital assets (buildings, land and equipment). The restricted net assets are for future capital projects or other uses as planned by the district.

The results of this year's operations as a whole are reported in the Statement of Activities on pages 10-11. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues.

Salisbury Township School District
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Table A-2 takes the information from that statement, rearranges it slightly, so the reader can see the total revenues for the year.

Table A-2
Changes in Net Assets

Table A-2 Changes in Net Assets							
	Governmental Activities		Business-Type Activities		Total		
	2007	2006	2007	2006	2007	2006	
Revenues and other sources							
Program Revenues							
Charges for services	\$ 305,987	\$ 227,025	\$ 388,889	\$ 409,028	\$ 672,876	\$ 636,053	
Operating grants and contributions	4,917,389	5,246,582	143,310	150,835	5,060,699	5,397,417	
Capital grants and contributions	19,284	220,984			19,284	220,984	
General Revenues:							
Property Taxes	17,869,821	16,527,494			17,869,821	16,527,494	
Taxes levied for specific purposes	3,146,327	2,946,193			3,146,327	2,946,193	
Grants, subsidies and contributions, unrestricted	2,951,265	2,735,775			2,951,265	2,735,775	
Other	485,087	337,869	59,635	107,460	544,722	445,329	
Total Revenues and other sources	\$ 29,696,140	\$ 28,241,922	\$ 669,834	\$ 667,323	\$ 30,264,974	\$ 28,909,246	
Program expenses and other uses							
Instruction	\$ 15,289,621	\$ 14,961,841			\$ 15,289,621	\$ 14,961,841	
Support services							
Instructional student support	5,343,751	5,605,692			5,343,751	5,605,692	
Administrative and financial support services	1,971,434	1,855,853			1,971,434	1,855,853	
Operation and maintenance of plant services	2,293,947	2,180,452			2,293,947	2,180,452	
Pupil transportation	1,853,949	1,523,181			1,853,949	1,523,181	
Non-instructional services							
Student activities	675,870	797,384			675,870	797,384	
Community services							
Interest on long-term debt	546,489	523,803			546,489	523,803	
Unallocated depreciation expense	53,270	51,048			53,270	51,048	
Food services			551,796	581,792	551,796	581,792	
Total Expenses	\$ 28,026,331	\$ 27,499,064	\$ 661,796	\$ 681,792	\$ 28,688,127	\$ 28,080,846	
Increase (decrease) in net assets	\$ 1,666,809	\$ 742,868	\$ 18,038	\$ 85,631	\$ 1,684,847	\$ 828,399	

Governmental Activities

Governmental activities for 2007 resulted in an increase in net assets of \$1,666,809. The increase is primarily the result of the reduction from expenditures, the payment of bond principal on long term debt, and other adjustments, resulting from the conversion/reconciliation to government-wide financial statements (see page 15).

The School District's revenues consist of Local (taxes and other), 73 percent; and State and Federal revenues (subsidies and grants), 27 percent. Local taxation is the major funding source for the District. The School District's program expenses are 54 percent instruction, 41 percent support services, 3 percent noninstructional, and 2 percent interest.

The Salisbury Township School District is the liaison local education agency between the Commonwealth of Pennsylvania and KidsPeace, a private residential rehabilitative institution. The District receives state and federal "pass-through" funds that are transferred to KidsPeace for their use. For the year ended June 30, 2007, \$ 2,807,996 funds were received for and disbursed to KidsPeace.

This amount represents 9.5 percent of revenues and 10.0 percent of expenditures, which can distort the Districts revenue and expenditure percentages.

Salisbury Township School District
Allentown, Pennsylvania

If the "pass-through" funds are excluded from revenues and expenditures, revenues consist of local revenues 81% and state and federal revenues 19%; while program expenses are 61 percent instruction, 34 percent support services, 3 percent noninstructional, and 2 percent interest.

Business-Type Activities

The District's food service operation is the business-type of activity. Charges for services, along with federal and state subsidies fund 92 percent of the food service operation. The remainder is funded with support from the general fund. Costs have decreased 5 percent while operating revenues have decreased by 9 percent, causing an operating deficit.

SCHOOL DISTRICT'S FUNDS

Financial information related to the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$29.7 million and expenditures of \$28.8 million. The net increase in fund balance was \$.9 million. The general fund and combined non-major funds generated a net source of funds due to revenues exceeding expenditures.

General Fund Budget Highlights

The School District's budget is prepared on the modified accrual basis of accounting. The Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the districts. Grant expenditures are budgeted in the Budgetary Reserve line item and transferred to the appropriate expenditure function as the funds are released by the grantor agency. The most significant budget transfers occur from the budget reserve category to specific expenditure areas. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is shown on page 16.

Budgeted revenues and expenditures were less than the budget. The KidsPeace portion of the budget is the main reason that both were under budget. To accommodate the "pass-through" funds (the District has no knowledge of their determination), \$4,000,000 is budgeted in both revenues and expenditures. Actual revenues and expenditures for KidsPeace for 2006-2007 was \$2,807,996 and \$3,228,063 for 2005-2006.

General fund revenues exceed expenditures by \$1,360,064. When the "pass-through" funds are eliminated from the analysis, local revenues exceed budget. Interim real estate taxes, earned income tax, business privilege tax, delinquent real estate taxes and earnings on investments exceed the budget for local revenues. The district also received extraordinary special education funds from the state revenue source that exceeded budget.

Expenditures were under budget by \$1,508,285. The funds passed through to KidsPeace were under budget by \$1,192,004. A review of budget to actual expenditures indicates that other expenditures were under budget by \$316,281. Major areas under budget include regular education (health insurance), pupil health, business, and plant services. (See page 16).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had \$30,413,707 invested in land, buildings, and equipment. This represents the capital assets of both the governmental and business-type activities of the District. The investment is shown net of accumulated depreciation.

Debt Administration

At June 30, 2005, the School District had \$17,180,000 in General Obligation Bonds outstanding. Out of this amount, \$1,165,000 is payable in the 2007-2008 fiscal year. For additional information on long-term debt, see Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District does not expect significant growth in the near future given the residential nature of the District and the lack of developable land within the District. Act 1 of 2006 limits the ability of school districts to increase taxes. There are no alternative funding sources available to the district.

Health insurance cost increase are expected to be low for the 2008-2009 year, however, prior history indicates that they may rise well above the rate of inflation in the future. Contributions to the Pennsylvania School Employees Retirement System are projected to rise considerably in the future.

The Board of Education has been assessing the capital improvement needs for the District since early 2002. On August 30, 2004, the Board passed a resolution to issue debt at a future date with a maximum amount of \$17,720,000 at an interest rate not to exceed 7.8323978%. The purpose of this resolution is to provide the district flexibility with debt exemptions under Act 72 and subsequently Act 1 to complete capital improvements identified by the district.

The budget for the 2007-2008 year is \$1,402,034 more than the original budget for 2006-2007. This represents a 4.70% increase. The real estate tax increased 1.207 mills from 40.674 mills for a millage rate of 41.881 mills. This represents a 2.97 % increase. The millage rate increased at a lower rate than the total budget. This is attributed to an increased real estate tax base and projected revenues increasing at the local level.

Contacting the School District's Financial Management

Our financial report is designed to provide citizens, taxpayers, students, investors and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Susan H. Famularo, Business Administrator/Board Secretary at Salisbury Township School District, 1140 Salisbury Road, Allentown, Pennsylvania, 18103, or 610-797-2062 x1300.

SALISBURY TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 5,727,480	\$ 113,583	\$ 5,841,063
Taxes receivable	410,914	0	410,914
Internal balances	57,778	(57,778)	0
Intergovernmental receivables	356,698	3,795	360,493
Other receivables	350,949	0	350,949
Inventories	50,000	23,915	73,915
Prepaid expenses	1,795	0	1,795
Capital assets (net of accumulated depreciation)			
Land	492,022	0	492,022
Site improvements	342,135	0	342,135
Building & improvements	29,032,442	0	29,032,442
Furniture & equipment	439,301	99,792	539,093
Construction in progress	<u>8,015</u>	<u>0</u>	<u>8,015</u>
Total Assets	<u>37,269,529</u>	<u>183,307</u>	<u>37,452,836</u>
<u>LIABILITIES</u>			
Accounts payable	645,044	0	645,044
Accrued salaries and benefits	1,329,837	5,265	1,335,102
Accrued interest payable	151,250	0	151,250
Compensated absences payable	830,678	0	830,678
Deferred revenues	0	7,583	7,583
Bonds payable	<u>17,180,000</u>	<u>0</u>	<u>17,180,000</u>
Total Liabilities	<u>20,136,809</u>	<u>12,848</u>	<u>20,149,657</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	13,133,915	99,792	13,233,707
Restricted for capital projects	1,360,419	0	1,360,419
Designated for compensated absences	830,678	0	830,678
Unrestricted	<u>1,807,708</u>	<u>70,667</u>	<u>1,878,375</u>
Total Net Assets	<u>\$17,132,720</u> =====	<u>\$ 170,459</u> =====	<u>\$17,303,179</u> =====

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
<u>Governmental Activities</u>				
Depreciation - unallocated	\$ 53,270	\$ 0	\$ 0	\$ 0
Instruction	15,289,621	276,852	1,458,892	0
Instructional student support	5,343,751	0	2,865,427	0
Administrative and financial support services	1,971,434	0	0	0
Operation and maintenance of plant services	2,293,947	0	0	0
Pupil transportation	1,853,949	0	581,601	0
Student activities	675,870	29,135	11,469	0
Interest on long-term debt	<u>546,489</u>	<u>0</u>	<u>0</u>	<u>19,264</u>
Total Governmental Activities	<u>\$28,028,331</u>	<u>\$ 305,987</u>	<u>\$4,917,389</u>	<u>\$ 19,264</u>
<u>Business-type Activities</u>				
Food service	\$ 551,796	\$ 366,889	\$ 143,310	\$ 0
Total Business-type Activities	<u>551,796</u>	<u>366,889</u>	<u>143,310</u>	<u>0</u>
Total	<u>\$28,580,127</u>	<u>\$ 672,876</u>	<u>\$5,060,699</u>	<u>\$ 19,264</u>
	=====	=====	=====	=====

Property taxes, levied for general purposes, net
Taxes levied for specific purposes
Grants, subsidies and contributions not
restricted to specific programs
Investment earnings
Miscellaneous income
Transfers between governmental and business-type
activities
Total general revenues and transfers
Change in net assets
Net assets, July 1
Net assets, June 30

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
STATEMENTS OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2007

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (53,270)	\$ 0	\$ (53,270)
(13,553,877)	0	(13,553,877)
(2,478,324)	0	(2,478,324)
(1,971,434)	0	(1,971,434)
(2,293,947)	0	(2,293,947)
(1,272,348)	0	(1,272,348)
(635,266)	0	(635,266)
<u>(527,225)</u>	<u>0</u>	<u>(527,225)</u>
<u>\$ (22,785,691)</u>	<u>\$ 0</u>	<u>\$ (22,785,691)</u>
 <u>\$ 0</u>	 <u>\$ (41,597)</u>	 <u>\$ (41,597)</u>
 <u>\$ 0</u>	 <u>(41,597)</u>	 <u>(41,597)</u>
<u>\$ (22,785,691)</u>	<u>\$ (41,597)</u>	<u>\$ (22,827,288)</u>
 17,869,821	 0	 17,869,821
3,146,327	0	3,146,327
2,951,265	0	2,951,265
526,524	4,534	531,058
13,664	0	13,664
<u>(55,101)</u>	<u>55,101</u>	<u>0</u>
<u>24,452,500</u>	<u>59,635</u>	<u>24,512,135</u>
1,666,809	18,038	1,684,847
<u>15,465,911</u>	<u>152,421</u>	<u>15,618,332</u>
\$ 17,132,720	\$ 170,459	\$ 17,303,179
=====	=====	=====

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

SALISBURY TOWNSHIP SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2007

	<u>General</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 4,847,030	\$ 880,450	\$ 5,727,480
Taxes receivable	410,914	0	410,914
Due from other funds	87,242	0	87,242
Intergovernmental receivables	356,665	33	356,698
Other receivables	341,463	8,022	349,485
Inventories	50,000	0	50,000
Prepaid expenses	<u>1,795</u>	<u>0</u>	<u>1,795</u>
Total Assets	\$ 6,095,109 =====	\$ 888,505 =====	\$ 6,983,614 =====
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities:</u>			
Due to other funds	\$ 0	\$ 28,000	\$ 28,000
Accounts payable	615,349	29,695	645,044
Accrued salaries and benefits	1,329,837	0	1,329,837
Deferred revenues	<u>348,219</u>	<u>0</u>	<u>348,219</u>
Total Liabilities	<u>2,293,405</u>	<u>57,695</u>	<u>2,351,100</u>
 <u>Fund Balances:</u>			
Reserve for inventories	50,000	0	50,000
Specific fund balance reserves	563,454	830,810	1,394,264
Designated for compensated absences	830,679	0	830,679
Unreserved - undesignated	<u>2,357,571</u>	<u>0</u>	<u>2,357,571</u>
Total Fund Balances	<u>3,801,704</u>	<u>830,810</u>	<u>4,632,514</u>
 Total Liabilities and Fund Balances	\$ 6,095,109 =====	\$ 888,505 =====	\$ 6,983,614 =====

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
REVENUES			
Local sources	\$ 22,070,710	\$ 76,043	\$ 22,146,753
State sources	7,360,433	11,470	7,371,903
Federal sources	<u>197,181</u>	<u>0</u>	<u>197,181</u>
Total revenues	<u>29,628,324</u>	<u>87,513</u>	<u>29,715,837</u>
EXPENDITURES			
Instruction	14,428,789	0	14,428,789
Support services	11,354,340	0	11,354,340
Noninstructional services	202,822	457,320	660,142
Capital outlay	0	746,979	746,979
Debt service	<u>1,536,548</u>	<u>0</u>	<u>1,536,548</u>
Total expenditures	<u>27,522,499</u>	<u>1,204,299</u>	<u>28,726,798</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,105,825</u>	<u>(1,116,786)</u>	<u>989,039</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	0	705,760	705,760
Transfers out	<u>(745,760)</u>	<u>(15,101)</u>	<u>(760,861)</u>
Total other financing sources (uses)	<u>(745,760)</u>	<u>690,659</u>	<u>(55,101)</u>
Net change in fund balances	1,360,065	(426,127)	933,938
Fund Balances, July 1	<u>2,441,639</u>	<u>1,256,937</u>	<u>3,698,576</u>
Fund Balances, June 30	\$ 3,801,704 =====	\$ 830,810 =====	\$ 4,632,514 =====

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<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</u>
				<u>(Negative)</u>
REVENUES				
Local sources	\$ 21,142,611	\$ 21,142,611	\$ 22,070,710	\$ 928,099
State sources	8,423,197	8,423,197	7,360,433	(1,062,764)
Federal sources	<u>210,737</u>	<u>210,737</u>	<u>197,181</u>	<u>(13,556)</u>
Total revenues	<u>29,776,545</u>	<u>29,776,545</u>	<u>29,628,324</u>	<u>(148,221)</u>
EXPENDITURES				
Instruction	14,337,215	14,652,526	14,428,789	223,737
Support services	12,247,807	12,635,921	11,354,340	1,281,581
Noninstructional services	205,790	205,790	202,822	2,968
Debt service	<u>1,536,548</u>	<u>1,536,548</u>	<u>1,536,548</u>	<u>0</u>
Total expenditures	<u>28,327,360</u>	<u>29,030,785</u>	<u>27,522,499</u>	<u>1,508,286</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,449,185</u>	<u>745,760</u>	<u>2,105,825</u>	<u>1,360,065</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(745,758)	(745,760)	(745,760)	0
Budgetary reserve	<u>(703,427)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>(1,449,185)</u>	<u>(745,760)</u>	<u>(745,760)</u>	<u>0</u>
Net change in fund balances	0	0	1,360,065	1,360,065
FUND BALANCES, JULY 1	<u>1,839,855</u>	<u>1,839,855</u>	<u>2,441,639</u>	<u>601,784</u>
FUND BALANCES, JUNE 30	<u>\$ 1,839,855</u>	<u>\$ 1,839,855</u>	<u>\$ 3,801,704</u>	<u>\$ 1,961,849</u>
	=====	=====	=====	=====

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	<u>Food Service</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 113,583	\$ 0	\$ 113,583
Intergovernmental receivables	3,795	0	3,795
Other receivables	0	0	0
Inventories	<u>23,915</u>	<u>0</u>	<u>23,915</u>
Total Current Assets	<u>141,293</u>	<u>0</u>	<u>141,293</u>
<u>Noncurrent Assets:</u>			
Furniture and equipment (net)	<u>99,792</u>	<u>0</u>	<u>99,792</u>
Total Assets	<u>\$ 241,085</u>	<u>\$ 0</u>	<u>\$ 241,085</u>
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Due to other funds	\$ 57,778	\$ 0	\$ 57,778
Accounts payable	0	0	0
Accrued salaries and benefits	5,265	0	5,265
Deferred revenues	<u>7,583</u>	<u>0</u>	<u>7,583</u>
Total Current Liabilities	<u>70,626</u>	<u>0</u>	<u>70,626</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of debt	99,792	0	99,792
Unrestricted	<u>70,667</u>	<u>0</u>	<u>70,667</u>
Total Net Assets	<u>\$ 170,459</u> =====	<u>\$ 0</u> =====	<u>\$ 170,459</u> =====

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Food Service Fund</u>
Operating Revenues	
Food service revenue	\$ 366,889
Total Operating Revenues	<u>366,889</u>
Operating Expenses	
Salaries	230,140
Employee benefits	71,502
Purchased property services	14,376
Other purchased services	603
Supplies	226,116
Depreciation	7,925
Dues and fees	1,134
Other operating expenses	<u>0</u>
Total Operating Expenses	<u>551,796</u>
Operating (Loss)	<u>(184,907)</u>
Nonoperating Revenues	
Earnings on deposits	4,534
State sources	28,968
Federal sources	<u>114,342</u>
Total Nonoperating Revenue	<u>147,844</u>
Net (Loss) Before Operating Transfers	(37,063)
Operating Transfers In	<u>55,101</u>
Change in Net Assets	18,038
Net Assets, July 1	<u>152,421</u>
Net Assets, June 30	\$ 170,459 =====

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Food Service Fund</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash received from users	\$ 365,897
Cash payments to employees	(229,503)
Cash payments to suppliers	(240,450)
Cash payments for other operating expenses	(80,990)
Net Cash Used by Operating Activities	<u>(185,046)</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>	
Grants and subsidies received for non-operating activities:	
State	28,968
Federal	114,342
Operating transfers in	<u>55,101</u>
Net Cash Provided by Non-Capital Financing Activities	<u>198,411</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Capital outlay	<u>(15,101)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(15,101)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Earnings on deposits	<u>4,534</u>
Net Cash Provided by Investing Activities	<u>4,534</u>
Net Increase in Cash and Cash Equivalents	2,798
Cash and Cash Equivalents, July 1	<u>110,785</u>
Cash and Cash Equivalents, June 30	\$ 113,583 =====
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</u>	
Operating (Loss)	\$ (184,907)
Adjustments to reconcile operating (loss) to net cash used by operating activities:	
Depreciation	7,925
(Increase) decrease in accounts receivable	(992)
(Increase) decrease in inventory	811
Increase (decrease) in accounts payable	(9,525)
Increase (decrease) in accrued salaries	637
Increase (decrease) in deferred revenue	<u>1,005</u>
Total Adjustments	<u>(139)</u>
Net Cash Used by Operating Activities	\$ (185,046) =====
Non-cash investing, capital, and financing activities	None

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency</u>	<u>Activity</u>	<u>Total Fiduciary Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	<u>\$ 139,146</u>	<u>\$ 126,019</u>	<u>\$ 265,165</u>
Total Assets	<u>139,146</u>	<u>126,019</u>	<u>265,165</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>Liabilities:</u>			
Accounts payable	2,732	0	2,732
Due to other funds	1,464	0	1,464
Payroll deductions and withholdings	134,950	0	134,950
Due to student organizations	<u>0</u>	<u>126,019</u>	<u>126,019</u>
Total Liabilities	<u>139,146</u>	<u>126,019</u>	<u>265,165</u>
<u>Net Assets:</u>			
Unrestricted	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
	=====	=====	=====

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Agency</u>	<u>Activity</u>	<u>Total Fiduciary Funds</u>
ADDITIONS			
Contributions	\$ 15,000	\$ 0	\$ 15,000
Interest	<u>139</u>	<u>0</u>	<u>139</u>
Total additions	<u>15,139</u>	<u>0</u>	<u>15,139</u>
DEDUCTIONS			
Vision benefits	<u>15,139</u>	<u>0</u>	<u>15,139</u>
Total deductions	<u>15,139</u>	<u>0</u>	<u>15,139</u>
Change in net assets	0	0	0
Net Assets, July 1	<u>0</u>	<u>0</u>	<u>0</u>
Net Assets, June 30	\$ 0	\$ 0	\$ 0
	=====	=====	=====

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 Summary of Significant Accounting Policies

The accounting policies and accompanying financial statements of Salisbury Township School District (the District) conform to generally accepted accounting principles as applicable to governmental units. The District applies relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Principles Determining Scope of Reporting Entity

The Board of School Directors, a nine member group, has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Salisbury Township School District, in accordance with an act established by the Commonwealth legislature. The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the financial reporting entity was made by applying the criteria set forth by GASB Statement 14, as amended. The criteria for including a potential component unit within the financial reporting entity is the significance of the potential component unit's operational or financial relationship with the District. Based upon the application of these criteria, there are no component units to be included in the financial reporting entity of the District.

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities which report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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 or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 1 Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. Substantially all tax revenues, Federal and State aid

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

(except aid restricted for use in the Special Revenue Fund) and other operating revenues are accounted for in the General Fund. This fund also accounts for expenditures and transfers as appropriated in the budget which provides for the District's day-to-day operations.

The District reports the following major proprietary fund:

The Food Service Fund is the District's proprietary fund established to account for all revenues, food purchases, costs, and expenses for the food service.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods. The principal operating revenue of the District is the sale of food to students and other related organizations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District also reports the following fund types:

The agency and activity funds are established to administer resources received and held by the District in a fiduciary capacity for others. Use of these funds facilitates the discharge of responsibilities placed upon the District by virtue of law or other authority. These funds are established to account for the resources of student groups and payroll taxes which is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

Budgets and Budgetary Accounting

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

1) In accordance with State law and District procedures, prior to May 31, the District Superintendent and Business Manager submit to the Board of School Directors, with whom the legal level of budgetary control resides, a proposed budget for the fiscal year beginning the following July 1. The budget includes proposed expenditures and the means of financing them for the upcoming year. The only legally adopted budget is for the General Fund.

2) Public hearings are conducted to obtain taxpayer comment concerning the proposed budget.

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 1 Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

3) Prior to June 30, the budget is legally enacted through passage of a resolution. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.

4) Each month the administration prepares a detailed budget report. The report cites the past month and year-to-date activity, as well as encumbrances and unencumbered balances by account.

5) All modifications, transfers and amendments must be approved by the Board of School Directors.

6) Formal budgetary integration is employed as a management control device during the year for the General Fund.

7) The budget for the General Fund is adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is employed in governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Cash and Investments

Statutes allow the District to invest in obligations of the U.S. Treasury and U.S. Agencies, savings accounts or time deposits of institutions insured by FDIC and deposits in excess of insured amounts if collateralized by the depository.

Prepaid Expenses

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 1 Summary of Significant Accounting Policies (Continued)

Property Taxes Receivable

The property tax calendar for the fiscal year is as follows:

July 1	-	Levy Date
July 1 to August 31	-	2% Discount Period
September 1 to October 31	-	Face Payment Period
November 1 to December 31	-	10% Penalty Period
January 1	-	Lien Date

The tax rate for the year ended June 30, 2007, was \$40.674 per \$1,000 on a taxable valuation of \$430,085,850.

Inventory

Inventory in the General Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time the individual inventory items are purchased. Inventory of the Food Service Fund is valued at the lower of cost or market. Inventories are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation and Amortization

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the financial statements.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Vehicles	8
Furniture, machinery and equipment	10 - 20
Computers	5

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 1 Summary of Significant Accounting Policies (Continued)

Compensated Absences

Sick leave and severance allowances are recorded as expenditures in the year paid. Upon retirement, the District compensates professional employees for unused accumulated sick leave at the rate of \$30.00 per day, provided that the employee has completed 15 years of service within the District and has met the requirements of retirement with the Public School Employees' Retirement System. Upon retirement, the District compensates support and administrative employees for unused accumulated sick leave at the rate of \$20.00 per day, and \$40.00 for each year of service, provided that the employee has completed 15 years of service within the District and has met the requirements of retirement with the Public School Employees' Retirement System.

District employees who are required to work a twelve-month schedule are credited with vacation rates which vary with length of service and job classification. Vacations generally may not be accumulated into future periods.

Long-term Obligations

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using a method that approximates the effective interest method.

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

Fund Equity

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

Use of Estimates

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

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 1 Summary of Significant Accounting Policies (Continued)

Transfers

Legally authorized payments or authorizations to make payments from a fund receiving revenue to a fund through which the resources are to be expended are reported as operating transfers.

NOTE 2 Deposits and Investments

The District's current investment policy is to place as much of the available funds into interest bearing accounts as feasible. Current cash requirements are kept in bank demand deposits. As of June 30, 2007, no certificates of deposit were held. The District does not pool cash of the various funds.

Deposits

The District requires all deposits and investments to be covered by federal depository insurance or to be fully collateralized by the financial institution issuing the investment or acquiring the deposit. Deposits that are not fully insured by the Federal Deposit Insurance Corporation are collateralized using the pooled asset method to 100% of value as required by Pennsylvania law. The securities pledged as collateral are held by the trust department of a financial institution or by its agents in the financial institution's name.

The District's deposits are categorized to give an indication of the level of risk assumed by the District. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Uncollateralized.

As of June 30, 2007, the carrying amount of the District's deposits is \$1,239,768 and the bank balance is \$1,627,175. Of the bank balance, \$100,000 is covered by federal depository corporation insurance. Deposits, categorized by level of risk, are:

	<u>Categories</u>	<u>Bank</u>	<u>Carrying</u>
	<u>1</u>	<u>Balance</u>	<u>Amount</u>
Cash	\$ 100,000	\$ 1,627,175	\$ 1,239,768

Uncategorized

PA School District Liquid Asset Fund	818,977	808,113
PA Local Government Investment Trust	<u>4,058,751</u>	<u>4,058,347</u>
	\$ 6,504,903	\$ 6,106,228
	=====	=====

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 2 Deposits and Investments (Continued)

Deposits (Continued)

The District deposits cash in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT) which are governmental cash management pools. The purpose of the pools are to allow governmental units to maximize investment potential through cash pooling while providing security and liquidity. The investments of the pools are held in safekeeping by the investment custodians. Although the PSDLAF and PLGIT portfolios contain investments that are individually insured and guaranteed, the investment is not categorized as to credit risk, as required by Governmental Accounting Standards Board Statement No. 3.

Investments

Authorized types of investments for the District funds are as follows:

- a) United States Treasury Bills and Notes.
- b) Short-term obligations of the United States, its agencies or instrumentalities.
- c) Deposits in savings accounts or time deposits insured by the Federal Deposit Insurance Corporation or similar insurance and provided that approved collateral for public deposits is pledged by the depository for excess amounts over the insured maximum.
- d) Obligations of the United States and the Commonwealth of Pennsylvania or any of their agencies or instrumentalities backed by the full faith and credit of the United States, Commonwealth of Pennsylvania or political subdivisions.
- e) Shares of an investment company provided that the only investments of the company are in the investments listed in a) through d) above.

Investments made by the District are summarized on the next page. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the District or its agent in the District's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the District's name.

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 2 Deposits and Investments (Continued)

Investments, categorized by level of risk, are:

	<u>Categories</u>			<u>Fair</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>	<u>Amount</u>
None	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

NOTE 3 Taxes Receivable and Deferred Revenue

Property taxes are collected and remitted to the District by the local tax collector. Earned income, per capita, and business and occupational privilege taxes are collected and remitted to the District by an independent collection company.

In the governmental fund financial statements, property taxes receivable are recorded in the General Fund after the taxes are levied. At June 30, 2007, the receivables represent delinquent property taxes, as well as current earned income taxes and interim real estate taxes. Delinquent property taxes not paid within 60 days of June 30 are recorded as deferred revenue.

In the government-wide financial statements, taxes receivable and related revenue include all amounts due to the District regardless of when cash is received. Over time, substantially all property taxes are collected.

NOTE 4 Interfund Receivable and Payable Balances

The District had interfund receivable and payable balances in the following amounts at June 30, 2007:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 87,242	\$ 0
Athletic Fund	0	28,000
Food Service Fund	0	57,778
Payroll Fund	0	1,464
Total	\$ 87,242	\$ 87,242
	=====	=====

NOTE 5 Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are comprised of amounts due from the state and federal governments for grants and subsidies. Revenue is recorded as earned when eligibility requirements are satisfied. The receivable balance consists of the following at June 30, 2007:

Federal grant revenues	\$ 131,916
State subsidy revenues	228,577
Total	\$ 360,493
	=====

Grant revenues deferred in the financial statements represent inventory of the Food Service Fund from donated commodities received from the federal government.

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 6 Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>07/01/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/07</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 492,022	\$ 0	\$ 0	\$ 492,022
Capital assets, being depreciated:				
Site improvements	1,065,059	18,403	0	1,083,462
Buildings and improvements	47,334,535	959,110	0	48,293,645
Furniture and equipment	1,235,394	138,599	(9,085)	1,364,908
Construction in progress	314,349	1,048,634	(1,354,968)	8,015
Total capital assets being depreciated	49,949,337	2,164,746	(1,364,053)	50,750,030
Less accumulated depreciation for:				
Site improvements	(711,331)	(29,996)	0	(741,327)
Buildings and improvements	(18,300,971)	(960,232)	0	(19,261,203)
Furniture and equipment	(859,641)	(75,051)	9,085	(925,607)
Total accumulated depreciation	(19,871,943)	(1,065,279)	9,085	(20,928,137)
Total capital assets, being depreciated, net	30,077,394	1,099,467	(1,354,968)	29,821,893
Governmental activities capital assets, net	\$30,569,416 =====	\$1,099,467 =====	\$(1,354,968) =====	\$30,313,915 =====
	<u>Balance</u> <u>07/01/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/07</u>
<u>Business-type activities:</u>				
Capital assets, being depreciated:				
Furniture and equipment	\$ 416,461	\$ 15,101	\$ (1,580)	\$ 429,982
Less accumulated depreciation	(323,845)	(7,925)	1,580	(330,190)
Business-type activities capital assets, net	\$ 92,616 =====	\$ 7,176 =====	\$ 0 =====	\$ 99,792 =====

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 6 Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
Instruction	\$ 886,102	Food service	\$ 7,925
Instructional support	110,179		
Non-instructional services	15,728		
Unallocated	53,270		
Total	\$1,065,279		\$ 7,925
	=====		=====

NOTE 7 Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities only.

The following is a summary of the details of outstanding bonds as of June 30, 2007:

General Obligation Bonds Series AA of 1991: date of issue was November 1, 1991; registered bonds; original amount was \$3,985,000; yield to maturity varies from 6.55% to 6.75%; maturity date is September 1, 2009; no provision for redemption prior to maturity.

General Obligation Bonds Series of 2003: date of issue was October 15, 2003; registered bonds; original amount was \$8,120,000; yield to maturity varies from 1.65.% to 4.30%; maturity date is February 15, 2020. Bonds maturing on or after February 15, 2009 are subject to redemption prior to maturity, at the option of the School District, as a whole or, from time to time, in part, at any time on or after August 15, 2008 at a redemption price of 100% of principal amount, plus accrued interest to the date fixed for redemption.

General Obligation Bonds Series of 2006: date of issue was February 15, 2006; registered bonds; original amount was \$6,575,000; yield to maturity varies from 3.10.% to 3.50%; maturity date is November 15, 2014. Bonds maturing on or after November 15, 2011 are subject to redemption prior to maturity, at the option of the School District, as a whole or, from time to time, in part, at any time on or after May 15, 2011 at a redemption price of 100% of principal amount, plus accrued interest to the date fixed for redemption.

The following is a summary of bonds payable transactions of the District for the year ended June 30, 2007:

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 7 Long-Term Debt (Continued)

	<u>Balance</u> <u>07/01/06</u>	<u>Bonds</u> <u>Issued</u>	<u>Bonds</u> <u>Retired</u>	<u>Balance</u> <u>06/30/07</u>
11/01/91				
Series AA	\$ 3,560,000	\$ 0	\$ 980,000	\$ 2,580,000
10/15/03	8,115,000	0	5,000	8,110,000
02/15/06	<u>6,495,000</u>	<u>0</u>	<u>5,000</u>	<u>6,490,000</u>
Total	\$18,170,000	\$ 0	\$ 990,000	\$17,180,000
	=====	=====	=====	=====

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007-2008	\$ 1,165,000	\$ 543,530	\$ 1,708,530
2008-2009	1,205,000	537,107	1,742,107
2009-2010	1,205,000	524,223	1,729,223
2010-2011	1,230,000	495,182	1,725,182
2011-2012	1,270,000	454,859	1,724,859
2012-2013	1,305,000	412,352	1,717,352
2013-2014	1,355,000	367,110	1,722,110
2014-2015	1,385,000	337,163	1,722,163
2015-2016	1,435,000	291,610	1,726,610
2016-2017	1,490,000	234,210	1,724,210
2017-2018	1,550,000	173,865	1,723,865
2018-2019	1,615,000	109,540	1,724,540
2019-2020	<u>970,000</u>	<u>41,710</u>	<u>1,011,710</u>
Total	\$17,180,000	\$ 4,522,461	\$21,702,461
	=====	=====	=====

NOTE 8 Accumulated Compensated Absences

Early Retirement Incentive

The District offers early retirement incentive programs to teachers, administrative and supervisory personnel. Payment shall be made only after the sum is included in the adopted budget of the District. In the event that the retiree dies prior to payment, it will be made posthumously in accordance with retirement policy. At June 30, 2007, the potential liability to employees who have not exercised the early retirement option is \$30,450.

Severance Pay

The District pays teachers \$30 per day for unused vacation, sick, personal and emergency days. In addition, teachers receive a retirement payment in the amount of .75% of their final salary multiplied by the total years of service. Each payment is contingent upon the teacher serving at least fifteen years of service within the District.

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 8 Accumulated Compensated Absences (Continued)

Severance Pay (Continued)

The District pays manager, support, and administrative personnel \$20 per day for unused vacation, sick, personal and emergency days. In addition, these employees receive a retirement contribution not to exceed 2.0% of their salary.

In the governmental fund financial statements, these accumulated leaves are recorded as expenditures in the period taken or as an accrued expenditure in the fiscal year of separation. Termination compensation payable in future years is recorded in the government-wide financial statements.

NOTE 9 Retirement Plan

The District contributes to the Public School Employees' Retirement System (the System) which is a governmental cost sharing multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The System is authorized by the provisions of The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended). The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Barbara D. Flurie, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. This publication is also available on the PSERS website at <http://www.psers.state.pa.us/publications/cafr/index.htm>.

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of their qualifying compensation. Members joining the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001 contribute at 7.5 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Contributions required of employers are based upon an actuarial valuation. For the year ended June 30, 2007, the rate of employer's contribution was 6.46 percent of covered payroll.

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 9 Retirement Plan (Continued)

The 6.46 percent rate is composed of a pension contribution rate of 5.72 percent for pension benefits and .74 percent for healthcare insurance premium assistance. The District's contribution to the System for the year ended June 30, 2007 was \$778,699.

NOTE 10 Litigation

Various claims and lawsuits are pending against the District. Defenses are being conducted by counsel for the District or the insurance carrier, and losses, if any, are not anticipated to have a significant effect on the District's financial statements.

NOTE 11 Contingencies

The District participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs including the year ended June 30, 2007 have not yet been conducted. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTE 12 Deficit Fund Equity, Expenditures and Appropriations

No funds of the District have a deficit net assets at June 30, 2007. Additionally, for the year ended June 30, 2007, no funds had an excess of expenditures over appropriations.

NOTE 13 Joint Ventures

The District is a participating member of the Lehigh Career and Technical Institute (the Institute). The Institute is governed by a joint board consisting of school directors from each member district. The board of directors from each member district must approve the Institute's annual operating budget. Each member district participates in the operating, capital, debt service and other costs of the Institute based on the number of students attending the Institute from each district. For the year ended June 30, 2007, the District's share was \$802,867. The Institute issues separate financial statements which are available to the public.

The District also participates with the Lehigh Carbon Community College (the College) and the Carbon Lehigh Intermediate Unit (the Unit). The District's involvement is limited to District member representatives serving on committees

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2007

NOTE 13 Joint Ventures (Continued)

of the Boards of the College and the Unit as well as approving their annual budgets. The District shares in the operating, capital and other costs of the College and Unit, which amounted to \$214,147 and \$30,355 respectively, for the year ended June 30, 2007. The College and the Unit issue separate financial statements which are available to the public.

NOTE 14 Risk Management

Significant losses are covered by commercial insurance for all major programs. There has been no significant reduction in insurance coverages. Settlement amounts have not exceeded insurance coverages for the current year or the three prior years.

SALISBURY TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

<u>Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Date</u>	<u>Program or Award Amount</u>
U.S. Dept. of Agriculture					
Passed through the PA					
Dept. of Education:					
National School Lunch Program	I	10.555	N/A	7/1/06-6/30/07	N/A
National School Lunch Program	I	N/A	N/A	7/1/06-6/30/07	N/A
National School Lunch Program	I	10.555	N/A	7/1/05-6/30/06	N/A
National School Lunch Program	I	N/A	N/A	7/1/05-6/30/06	N/A
Passed through the PA					
Dept. of Agriculture:					
Value of USDA					
Donated Food	I	10.550	N/A	7/1/06-6/30/07	N/A
Total U.S. Dept. of Agriculture					
U.S. Dept. of Education					
Passed through the PA					
Dept. of Education:					
Title I Low Income	I	84.010	13-070370	7/1/06-6/30/07	\$ 105,333
Title I Low Income	I	84.010	13-060370	7/1/05-6/30/06	\$ 123,922
I.D.E.A.	D	84.027	N/A	7/1/06-6/30/07	\$ 318,835
I.D.E.A.	D	84.027	N/A	7/1/05-6/30/06	\$ 350,114
Title V Innov. Educ.	I	84.298	11-070370	7/1/06-6/30/07	\$ 1,790
Title V Innov. Educ.	I	84.298	11-060370	7/1/05-6/30/06	\$ 3,487
Title II Educ. Tech.	I	84.318	55-060370	7/1/05-6/30/06	\$ 2,064
Title III LEP	I	84.365	10-070370	7/1/06-6/30/07	\$ 22,479
Title III LEP	I	84.365	10-060370	7/1/05-6/30/06	\$ 11,410
Title II Improve Teach	I	84.367	20-070370	7/1/06-6/30/07	\$ 65,620
Title II Improve Teach.	I	84.367	20-060370	7/1/05-6/30/06	\$ 65,666

Total U.S. Dept. of Education

Total Federal Assistance

Source Codes: I - Indirect Funding F - Federal Share
D - Direct Funding S - State Share

Footnotes:

- (a) Total amount of commodities received.
- (b) Beginning inventory at July 1.
- (c) Total amount of commodities used.
- (d) Ending inventory June 30.

See notes to the Schedule of Expenditures of Federal Awards.

SALISBURY TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED JUNE 30, 2007

	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at 7/1/06</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at 6/30/07</u>
F \$ 86,573.18		\$ 0.00	\$ 89,576.10	\$ 89,576.10	\$ 3,002.92
S 13,943.20		0.00	14,410.00	14,410.00	466.80
F 2,135.04		2,135.04	0.00	0.00	0.00
S 311.20		311.20	0.00	0.00	0.00
(a)		(b)		(c)	(d)
<u>25,771.11</u>		<u>(6,577.94)</u>	<u>24,766.12</u>	<u>24,766.12</u>	<u>(7,582.93)</u>
<u>\$ 128,733.73</u>		<u>\$ (4,131.70)</u>	<u>\$ 128,752.22</u>	<u>\$ 128,752.22</u>	<u>\$ (4,113.21)</u>
\$ 80,782.57		\$ 0.00	\$ 105,333.00	\$ 105,333.00	\$ 24,550.43
8,261.42		8,261.42	0.00	0.00	0.00
239,126.25		0.00	318,835.00	318,835.00	79,708.75
268,705.02		268,705.02	0.00	0.00	0.00
954.64		0.00	1,635.36	1,635.36	680.72
929.83		35.95	893.88	893.88	0.00
1,513.60		542.40	971.20	971.20	0.00
12,845.00		0.00	19,328.03	19,328.03	6,483.03
1,325.92		651.23	674.69	674.69	0.00
48,129.84		0.00	65,620.00	65,620.00	17,490.16
<u>21,888.70</u>		<u>19,163.56</u>	<u>2,725.14</u>	<u>2,725.14</u>	<u>0.00</u>
<u>\$ 684,196.52</u>		<u>\$297,359.58</u>	<u>\$ 516,016.30</u>	<u>\$ 516,016.30</u>	<u>\$ 128,913.09</u>
\$ 813,196.52		\$293,227.88	\$ 644,768.52	\$ 644,768.52	\$ 124,799.88
=====		=====	=====	=====	=====
Total expenditures per above schedule					\$ 644,768.52
Less: State share of National School Lunch Program					<u>(14,410.00)</u>
Total Federal Expenditures					<u>\$ 630,358.52</u>
					=====
<u>Program selected for testing:</u>					
I.D.E.A.					\$ 318,835.00
					=====

SALISBURY TOWNSHIP SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2007

NOTE 1 Summary of Significant Accounting Policies

Basis of Accounting

The revenues and expenditures recognized on this schedule are recorded on the accrual basis of accounting.

Inventory

It is the policy of Salisbury Township School District to expense the value of all donated commodities used during the year. Recognition is given to inventories of donated goods on hand at year end on this schedule.

NOTE 2 Federal Revenue Summary

The following is a summary of federal revenue by CFDA number:

10.550	\$ 24,766.12
10.555	89,576.10
84.010	105,333.00
84.027	318,835.00
84.298	2,529.24
84.318	971.20
84.365	20,002.72
84.367	<u>68,345.14</u>
Total	\$ 630,358.52
	=====

NOTE 3 Schedule Presentation

The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

SALISBURY TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? NO

Reportable condition(s) identified
not considered to be material weaknesses? NONE

Noncompliance material to financial
statements noted? NO

Federal Awards

Internal control over major programs:

Material weakness(es) identified? NO

Reportable condition(s) identified
not considered to be material weaknesses? NONE

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

Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510(a)? NO

Major programs:

<u>CFDA No.</u>	<u>Name of Federal Program</u>
84.027	Individuals with Disabilities Education Act

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 300,000
=====

Auditee qualified as a low risk auditee? YES

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SALISBURY TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
YEAR ENDED JUNE 30, 2007

SUMMARY OF PRIOR AUDIT FINDINGS

NONE

FRANCE, ANDERSON, BASILE and COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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610-967-1200
610-966-6669 Fax

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Pennsylvania Institute of
Certified Public Accountants

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

To the Board of School Directors
Salisbury Township School District
Allentown, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salisbury Township School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Compliance and Other Matters

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

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

Truice, Anderson, Bunkle and Company, P.C.

Emmaus, Pennsylvania
January 11, 2008

FRANCE, ANDERSON, BASILE and COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Pennsylvania Institute of
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Salisbury Township School District
Allentown, Pennsylvania

Compliance

We have audited the compliance of Salisbury Township School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Salisbury Township School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Salisbury Township School District's management. Our responsibility is to express an opinion on Salisbury Township School District's compliance based on our audit.

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

In our opinion, Salisbury Township School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ending June 30, 2007.

Internal Control Over Compliance

The management of Salisbury Township School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Salisbury Township School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Salisbury Township School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

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

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

Lance Anderson, Bank and Company, P.C.
Emmaus, Pennsylvania
January 11, 2008

SALISBURY TOWNSHIP SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>Capital Projects</u>	<u>Capital Reserve</u>	<u>Athletic</u>	<u>Total Nonmajor Governmental Funds</u>
<u>ASSETS</u>				
Cash	\$ 404,165	\$ 403,949	\$ 72,336	\$ 880,450
Intergovernmental receivables	0	0	33	33
Other receivables	<u>0</u>	<u>8,022</u>	<u>0</u>	<u>8,022</u>
Total Assets	\$ 404,165 =====	\$ 411,971 =====	\$ 72,369 =====	\$ 888,505 =====
<u>LIABILITIES</u>				
Due to other funds	\$ 0	\$ 0	\$ 28,000	\$ 28,000
Accounts payable	<u>2,361</u>	<u>16,810</u>	<u>10,524</u>	<u>29,695</u>
Total Liabilities	<u>2,361</u>	<u>16,810</u>	<u>38,524</u>	<u>57,695</u>
<u>FUND BALANCES</u>				
Fund Balances:				
Reserved for capital projects	401,804	395,161	0	796,965
Reserved for athletics	<u>0</u>	<u>0</u>	<u>33,845</u>	<u>33,845</u>
Total Fund Balances	<u>401,804</u>	<u>395,161</u>	<u>33,845</u>	<u>830,810</u>
Total Liabilities and Fund Balances	\$ 404,165 =====	\$ 411,971 =====	\$ 72,369 =====	\$ 888,505 =====

SALISBURY TOWNSHIP SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Capital Projects	Capital Reserve	Athletic	Total Nonmajor Governmental Funds
REVENUES				
Local sources	\$ 33,448	\$ 10,840	\$ 31,755	\$ 76,043
State sources	0	0	11,470	11,470
Federal sources	0	0	0	0
Total revenues	33,448	10,840	43,225	87,513
EXPENDITURES				
Noninstructional services	0	0	457,320	457,320
Capital outlay	662,849	84,130	0	746,979
Debt service	0	0	0	0
Total expenditures	662,849	84,130	457,320	1,204,299
Excess (deficiency) of revenues over (under) expenditures	(629,401)	(73,290)	(414,095)	(1,116,786)
OTHER FINANCING SOURCES (USES)				
Transfers in	0	280,760	425,000	705,760
Transfers out	0	(15,101)	0	(15,101)
Total other financing sources (uses)	0	265,659	425,000	690,659
Net change in fund balances	(629,401)	192,369	10,905	(426,127)
Fund Balances, July 1	1,031,205	202,792	22,940	1,256,937
Fund Balances, June 30	\$ 401,804	\$ 395,161	\$ 33,845	\$ 830,810
	=====	=====	=====	=====

SALISBURY TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND DISBURSEMENTS -
ACTIVITY FUND ACCOUNTS
YEAR ENDED JUNE 30, 2007

	Balance 7/01/06	Receipts	Disbursements	Balance 6/30/07
<u>HIGH SCHOOL:</u>				
Baseball	\$ 1,316	\$ 2,723	\$ 1,520	\$ 2,519
Basketball - Girls	293	9	0	302
Business Club (FBLA)	1,139	4,497	3,599	2,037
Cheerleaders - Senior	149	378	517	10
Class of 2007	16,067	17,678	33,745	0
Class of 2008	28,320	20,747	12,527	36,540
Class of 2009	5,327	4,868	2,946	7,249
Class of 2010	0	28,460	23,688	4,772
Cross Country	0	120	120	0
Drama Club	1,860	7,657	8,859	658
Field Hockey	490	4,275	4,765	0
Glee Club	247	0	166	81
Golf	17	140	59	98
High School Activity	4,430	1,037	0	5,467
Key Club	1,881	16,137	16,209	1,809
Music Department	29	0	0	29
National Honor Society	560	16	72	504
Newspaper Club	785	326	21	1,090
Rifle Club	7	1,232	1,198	41
Soccer	1,341	13,755	10,484	4,612
Softball	896	220	173	943
Spring Fitness Fest	320	1,691	2,011	0
Stand Tall	2,119	60	910	1,269
Student Council	4,136	16,675	18,473	2,338
Student Store	4,048	3,677	5,455	2,270
Tennis	186	369	133	422
Track & Field	971	774	411	1,334
Wrestling	4,895	3,379	5,563	2,711
Yearbook	726	29,825	25,617	4,934
Total High School	<u>82,555</u>	<u>180,725</u>	<u>179,241</u>	<u>84,039</u>
<u>MIDDLE SCHOOL:</u>				
After School	2,706	4,639	2,422	4,923
Eighth Grade	0	49,538	47,750	1,788
Field Hockey	464	13	76	401
Girls Softball	954	31	0	985
Interact	2	4,667	4,667	2
Middle School Activity	11,031	19,057	23,771	6,317
Prosper Project	2,885	3,678	1,292	5,271
School Store	555	1,092	941	706
Seventh Grade	0	30,864	28,551	2,313
Sixth Grade	0	99,738	98,538	1,200
Ski Club	37	8,211	8,185	63
Student Council	10,528	2,565	9,441	3,652
Swimming	679	21	0	700
Yearbook	0	7,802	4,044	3,758
Total Middle School	<u>29,841</u>	<u>231,916</u>	<u>229,678</u>	<u>32,079</u>
Truman Elementary	6,420	3,055	5,312	4,163
Western Elementary	3,891	6,851	5,816	4,926
Interest	706	4,328	4,222	812
TOTAL	<u>\$123,413</u>	<u>\$ 426,875</u>	<u>\$ 424,269</u>	<u>\$126,019</u>
	=====	=====	=====	=====

SALISBURY TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF TAXATION
YEAR ENDED JUNE 30, 2007

Assessed Valuation of Taxable Real Estate	\$ 430,085,850
Number of Mills Levied	40.674
Rate of Per Capita Tax	\$ 15
Rate of Occupational Privilege Tax	\$ 10
Rate of Earned Income Tax	.5%
Business Privilege Tax Mills Levied	1.50