

**COLONIAL SCHOOL DISTRICT**  
**PLYMOUTH MEETING, PENNSYLVANIA**  
**AUDIT REPORT**  
**JUNE 30, 2006**

COLONIAL SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 12
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
- Statement of Net Assets	13
- Statement of Activities	14
Fund Financial Statements:	
- Balance Sheet - Governmental Funds	15
- Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	16
- Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
- Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to Statement of Activities	18
- Budgetary Comparison Statement - General Fund	19
- Statement of Net Assets - Proprietary Fund	20
- Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	21
- Statement of Cash Flows - Proprietary Fund	22
- Statement of Net Assets - Fiduciary Funds	23
- Statement of Changes in Net Assets - Fiduciary Funds	24
NOTES TO FINANCIAL STATEMENTS	25 - 39

COLONIAL SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
<b>SINGLE AUDIT</b>	
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 <i>Government Auditing Standards</i>	40 - 41
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	42 - 43
Schedule of Findings and Recommendations	44
Schedule of Expenditures of Federal Awards and Certain State Grants	45
Notes to Schedule of Expenditures of Federal Awards and Certain State Grants	46

## INDEPENDENT AUDITORS' REPORT

January 16, 2007

Board of School Directors  
Colonial School District  
Plymouth Meeting, 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 Colonial School District, Plymouth Meeting, Pennsylvania, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2005 financial statements and, in our report dated November 29, 2005, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Colonial School District, Plymouth Meeting, Pennsylvania, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund 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 16, 2007 on our consideration of Colonial School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted

Board of School Directors  
Colonial School District

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 Colonial School District's basic financial statements. The accompanying schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

**COLONIAL SCHOOL DISTRICT  
PLYMOUTH MEETING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - UNAUDITED  
JUNE 30, 2006**

Our discussion and analysis of the financial performance of Colonial School District (the "District") provides an overview of the District's financial activities for the fiscal year ended June 30, 2006.

**FINANCIAL HIGHLIGHTS**

In July of 2005, the District issued \$7.84 million of general obligation bonds to partially refinance bonds that were issued in 2002. This refinancing provided the District with debt payment savings of \$255,471.

In April of 2006, the District issued \$10 million of general obligation bonds to finance new capital projects located throughout the District. Some of the projects include classroom renovations and the courtyard enclosure at Colonial Elementary School; converting the building on Victory Fields to the Facilities Management Center; roof replacement at Ridge Park Elementary; technology and CCTV equipment upgrades; boiler replacements at Colonial, Ridge Park and Plymouth Elementary Schools; and artificial turf fields in the Plymouth-Whitemarsh High School Stadium and Victory Fields. Other projects include District-wide kitchen modernization, lighting upgrades and HVAC improvements.

The District enacted the Act 511 earned income tax in May 2005 with an effective date of July 1, 2005. Actual earned income tax revenues for first year of implementation were \$3,947,322 compared with the budgeted amount of \$3,900,000.

As of June 30, 2006, the general fund reported a positive fund balance of \$9.2 million, of which \$3.6 million was allocated to fund the 2006-2007 budget.

**REPORTING THE DISTRICT AS A WHOLE**

**The Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its overall activities. These statements include all the assets and liabilities of the District (except for fiduciary funds held in trust for student purposes) using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them during the fiscal year. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as the District's property tax base, current property tax laws, student enrollment growth and facility conditions in arriving at a conclusion regarding the overall health of the District.

**COLONIAL SCHOOL DISTRICT  
PLYMOUTH MEETING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
JUNE 30, 2006**

The District's property tax base growth has slowed considerably the past few year from a high of 5.1 percent in 2003-2004 to the 1.22 percent experienced 2005-2006. The Millennium Project, a collection of business and retail space, condominiums, apartments and extended stay suites, proposed for the Borough of Conshohocken will add to the District's tax base over the next eight to ten years. The Millennium Project is projected to have minimal impact on the District's enrollment. The current student population of 4,606 is estimated to increase by 300 students by the 2011-2012 school year.

The reader is invited to review additional tax, enrollment, budget and financial information at the District's business office located in the administrative offices which are housed in the Colonial Elementary School, or online at [www.colonialsd.org](http://www.colonialsd.org). Also available for review are official offering statements of recent District bond issues that contain related housing, commercial and demographic information about Colonial School District.

**ENTITY-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$12.3 million at the close of the most recent fiscal year. In the prior year, assets exceeded liabilities by \$9.1 million.

A portion of the District's total net assets (36 percent) reflects its investment in capital assets, net of related debt. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Statement of Net Assets contains information about what the District owns and owes, i.e., assets and liabilities; and what is left after assets are used to satisfy liabilities. The following table is a comparative analysis of fiscal year 2006 to 2005:

**STATEMENT OF NET ASSETS**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
<b>ASSETS:</b>						
Current and other assets	\$28,011,458	\$20,311,564	\$118,648	\$ 149,446	\$28,130,106	\$20,461,010
Capital assets	41,285,420	38,057,554	119,014	113,451	41,404,434	38,171,005
<b>TOTAL ASSETS</b>	<b>\$69,296,878</b>	<b>\$58,369,118</b>	<b>\$237,662</b>	<b>\$ 262,897</b>	<b>\$69,534,540</b>	<b>\$58,632,015</b>
<b>LIABILITIES AND NET ASSETS:</b>						
Current liabilities	\$11,219,659	\$11,254,052	\$ 37,225	\$ 54,955	\$11,256,884	\$11,309,007
Long-term liabilities	45,864,872	38,100,598	87,247	75,349	45,952,119	38,175,947
<b>Total Liabilities</b>	<b>57,084,531</b>	<b>49,354,650</b>	<b>124,472</b>	<b>\$130,304</b>	<b>57,209,003</b>	<b>49,484,954</b>

**COLONIAL SCHOOL DISTRICT  
PLYMOUTH MEETING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)  
JUNE 30, 2006**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
<b>Net Assets:</b>						
Invested in capital assets, Net of related debt	4,320,889	5,183,214	119,014	113,451	4,439,903	5,296,665
Restricted for capital	665,397	691,690	-	-	665,397	691,690
Restricted for athletics	25,997	29,722	-	-	25,997	29,722
Unrestricted	7,200,064	3,109,842	(5,824)	19,142	7,194,240	3,128,984
<b>Total Net Assets</b>	<b>12,212,347</b>	<b>9,014,468</b>	<b>113,190</b>	<b>132,593</b>	<b>12,325,537</b>	<b>9,147,061</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$69,296,878</b>	<b>\$58,369,118</b>	<b>\$237,662</b>	<b>\$262,897</b>	<b>\$69,534,540</b>	<b>\$58,632,015</b>

Unrestricted accumulated net assets represent resources to be used for unanticipated fluctuations in expenditures and/or revenues that can occur after the Board of School Directors approves an annual budget. Such fluctuations can result in expenditures that are greater than current year revenues. At such times, the District must rely on its accumulated fund balance (unrestricted accumulated net assets) to make up the difference. Additionally, for certain categories of expenditures, the District may realize cost-saving opportunities if it prepays these expenses. If these prepayments are greater than currently realized revenues, then the District must rely on its unrestricted accumulated net assets in order to realize these savings. Finally, financial analysts view maintenance of adequate unrestricted accumulated net assets as an important criterion when establishing the bond rating for a public school district.

Total net assets of the District's governmental activities increased by \$3.2 million, and unrestricted net assets reflect a positive balance of \$7.2 million.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities.

**STATEMENT OF ACTIVITIES  
(Amounts Expressed in Thousands)**

	Total Cost Of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
<b>PROGRAM EXPENSES</b>				
<b>Governmental Activities:</b>				
Instruction	\$ 44,569	\$ 38,643	\$ 42,103	\$ 36,403
Instructional student support	6,121	5,748	5,626	5,326
Administration	4,726	4,559	4,552	4,418
Maintenance	7,591	7,323	7,183	6,972
Pupil transportation	5,622	4,173	5,353	3,908
Student activities	1,205	1,112	1,143	1,055
Community services	25	(121)	31	(138)
Interest and fiscal charges	2,057	1,926	1,628	1,595
<b>Total Governmental Activities</b>	<b>\$ 71,916</b>	<b>\$ 63,363</b>	<b>\$ 67,619</b>	<b>\$ 59,539</b>
<b>Business-type Activities:</b>				
Food Service	\$ 1,734	\$ 152	\$ 1,643	\$ 133

**COLONIAL SCHOOL DISTRICT  
PLYMOUTH MEETING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)  
JUNE 30, 2006**

The increases in the net cost of services for instruction are due mainly to the increasing salary and benefit costs as well as increases in special education needs. Interest expense increased due to new bond issues and the structure of refunding bond issues, requiring an increase in annual debt service payments. Pupil transportation and maintenance experienced an increase in expenses related to rising fuel and energy costs.

**CHANGES IN NET ASSETS  
(Amounts Expressed in Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
<b>REVENUES</b>						
Program Revenues:						
Charges for services	\$ 700	\$ 875	\$ 1,190	\$ 1,143	\$ 1,890	\$ 2,018
Operating grants	7,852	7,205	392	367	8,244	7,572
<b>Total Program Revenues</b>	<b>8,552</b>	<b>8,080</b>	<b>1,582</b>	<b>1,510</b>	<b>10,134</b>	<b>9,590</b>
General Revenues:						
Property and other taxes	62,665	59,196	-	-	62,665	59,196
Grants and entitlements	2,562	2,511	-	-	2,562	2,511
Investment earnings	1,433	663	2	-	1,435	663
Miscellaneous	33	131	-	-	33	131
<b>Total General Revenues</b>	<b>66,693</b>	<b>62,501</b>	<b>-</b>	<b>-</b>	<b>66,695</b>	<b>62,501</b>
<b>TOTAL REVENUES</b>	<b>75,245</b>	<b>70,581</b>	<b>1,584</b>	<b>1,510</b>	<b>76,829</b>	<b>72,091</b>
<b>EXPENSES</b>						
Program Expenses:						
Instruction	44,569	42,103	-	-	44,569	42,103
Support Services:						
Instructional support staff	6,121	5,626	-	-	6,121	5,626
Administration	4,726	4,552	-	-	4,726	4,552
Maintenance	7,591	7,183	-	-	7,591	7,183
Pupil transportation	5,622	5,353	-	-	5,622	5,353
Student activities	1,205	1,143	-	-	1,205	1,143
Community services	25	31	-	-	25	31
Interest and fiscal charges	2,057	1,628	-	-	2,057	1,628
Food service	-	-	1,734	1,643	1,734	1,643
<b>TOTAL EXPENSES</b>	<b>71,916</b>	<b>67,619</b>	<b>1,734</b>	<b>1,643</b>	<b>73,650</b>	<b>69,262</b>
Excess (Deficiency) before transfers	3,329	2,962	(150)	(133)	3,179	2,829
Transfers	(131)	(602)	131	602	-	-
<b>CHANGE IN NET ASSETS</b>	<b>\$ 3,198</b>	<b>\$ 2,360</b>	<b>\$ (19)</b>	<b>\$ 469</b>	<b>\$ 3,179</b>	<b>\$ 2,829</b>

**Governmental Activities**

Program revenues accounted for \$8.6 million, or 11.4 percent of total revenues (\$75.2 million), and general revenues accounted for \$66.7 million, or 88.4 percent. Property and other tax revenue are up \$3.4 million due to the implementation of the Act 511 earned income tax which became effective July 1, 2005. Interest income exceeded the previous year by \$770 thousand due to the rise in interest rates. Transfer taxes also exceeded the prior fiscal year by \$218 thousand.

COLONIAL SCHOOL DISTRICT  
PLYMOUTH MEETING, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
JUNE 30, 2006

**Business-type Activities**

Business-type activities include the food service program. This program had a decrease in net assets of \$19 thousand for the fiscal year. In addition to a capital equipment contribution of \$17 thousand, the General Fund contributes a "nutritional subsidy" of \$50 thousand as the operation has moved to a more nutritious meal offering for students.

**REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS**

*Governmental funds* – Most of the 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 that are available for spending in future periods. These funds are reported using the modified accrual accounting method, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to spend 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 basic financial statements.

*Proprietary funds* – Proprietary funds use the accrual basis of accounting, the same as on the entity-wide statements; therefore, the statements will essentially match the business-type activities portion of the entity-wide statements.

*Fiduciary funds* - The District is the trustee, or fiduciary, for its scholarship program and other items listed as private-purpose trusts. In addition, the District accounts for funds held on behalf of students of the District. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. The District excludes these activities from its other financial statements because the assets cannot be used by the District to finance its operations.

**Fund Financial Statements**

The fund financial statements of the District's major funds provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The District's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

The District's governmental funds reported a combined fund balance of \$18.2 million, which is an increase from the previous year's total of \$10.2 million. The schedule below indicates the fund balance and the total change in fund balances from June 30, 2005 to 2006.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)
General Fund	\$ 9,163,796	\$ 5,973,777	\$ 3,190,019
Capital Projects Fund	8,365,294	3,528,820	4,836,474
Capital Reserve Fund	665,397	691,690	(26,293)
Nonmajor Governmental Fund	25,997	29,722	(3,725)
	<b>\$ 18,220,484</b>	<b>\$ 10,224,009</b>	<b>\$ 7,996,475</b>

**COLONIAL SCHOOL DISTRICT  
PLYMOUTH MEETING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)  
JUNE 30, 2006**

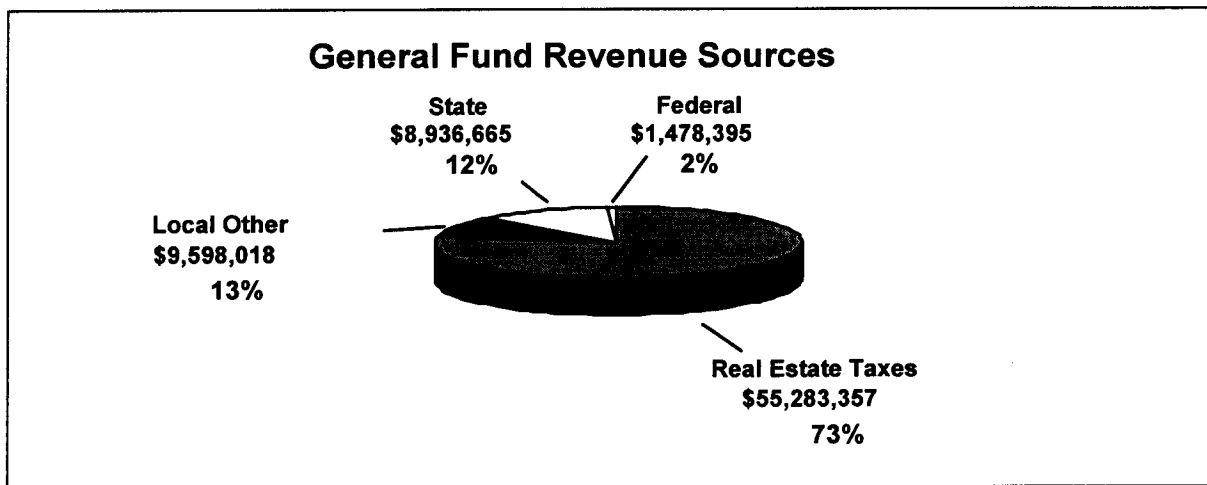
The capital projects fund increase in fund balance is a result of bond issue proceeds from new financing obtained during the year. Ultimately, the entire amount of the capital projects fund will be spent in accordance with provisions of the bond indenture. The capital reserve fund balance is maintained for future capital projects.

General Fund

**REVENUES**

	2006	2005	Variance	
	Actual	Actual	\$	%
Current Real Estate Taxes	\$ 54,512,698	\$ 54,213,949	\$ 298,749	0.6%
Interim Real Estate Taxes	770,659	552,731	217,928	39.4%
Earned Income Taxes	3,947,322	-	3,947,322	100.0%
Transfer Taxes	2,929,196	2,511,307	417,889	16.6%
Delinquent Taxes	633,931	1,860,130	(1,226,199)	65.9%
Other Local Revenue	2,087,569	1,644,911	442,658	26.9%
State Sources	8,936,665	8,264,111	672,554	8.1%
Federal Sources	1,478,395	1,398,037	80,358	5.7%
Total	<u>\$ 75,296,435</u>	<u>\$ 70,445,176</u>	<u>\$ 4,851,259</u>	<u>6.9%</u>

Total general fund revenues exceeded expenditures by \$3.2 million, thus accounting for the increase in the District's general fund balance. The tables and graphs that follow assist in illustrating the financial activities and balance of the general fund.

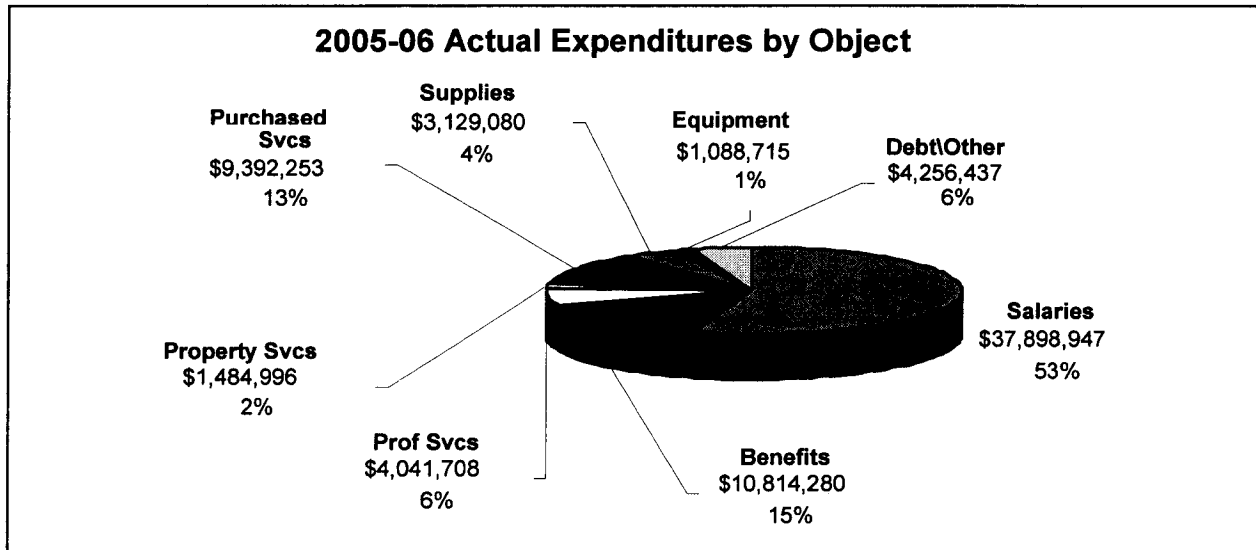


The District's reliance upon real estate tax revenues is demonstrated by the graph above that indicates 73 percent of total revenues for government activities comes from local taxes.

**COLONIAL SCHOOL DISTRICT  
PLYMOUTH MEETING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
JUNE 30, 2006**

As the graph below illustrates, the largest portions of general fund expenditures are for salaries and fringe benefits. The District is a service entity and, as such, is labor-intensive.



Object	Actual Expenditures		Variance	
	2005-06	2004-05	\$	%
100 Salaries	\$37,898,947	\$36,861,725	\$ 1,037,222	2.81%
200 Benefits	10,814,280	10,219,733	594,547	5.82%
300 Professional services	4,041,708	4,167,893	(126,185)	-3.03%
400 Purchased property services	1,484,996	1,392,037	92,959	6.68%
500 Purchased services	9,392,253	8,397,050	995,203	11.85%
600 Supplies	3,129,080	2,695,740	433,340	16.07%
700 Equipment	1,088,715	812,005	276,710	34.08%
800 Debt service interest and other	1,728,415	1,473,916	254,499	17.27%
900 Debt service principal and other	2,528,022	1,805,180	722,842	40.04%
<b>Total Expenditures by Object</b>	<b>\$72,106,416</b>	<b>\$67,825,279</b>	<b>\$ 4,281,137</b>	<b>6.31%</b>

Expenditures were up \$4.3 million, or 6.31 percent, over the prior year mostly due to salary and benefit increases. Also contributing to the increase were contracted costs for tuition paid to the vocational technical and other schools (Object 500); utility and fuel costs (Object 600); and debt service interest and principal (Objects 800 and 900).

**COLONIAL SCHOOL DISTRICT  
PLYMOUTH MEETING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)  
JUNE 30, 2006**

**General Fund Budget Information**

The District's budget is prepared in accordance with Pennsylvania law and is based on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

The final budget amounts for expenditures reflect required changes in functional categories due to spending patterns.

**EXPENDITURES:**

Function Code		Budgeted Amounts		Variance Positive (Negative)	
		Original	Final	\$	%
<b>Instruction:</b>					
1100	Regular programs	\$ 31,855,167	\$ 31,381,833	\$ 473,334	1.49%
1200	Special programs	8,594,491	8,988,881	(394,390)	-4.59%
1300	Vocational programs	2,020,220	2,020,220	-	0.00%
1400	Other instructional programs	2,842,026	2,766,370	75,656	2.66%
1600	Adult Education	64,052	63,802	250	0.39%
	<b>Total Instruction</b>	<b>45,375,956</b>	<b>45,221,106</b>	<b>154,850</b>	<b>0.34%</b>
<b>Support Services:</b>					
2100	Pupil personnel services	2,614,620	2,659,838	(45,218)	-1.73%
2200	Instructional staff support	2,959,389	2,865,073	94,316	3.19%
2300	Administrative services	3,275,259	3,325,209	(49,950)	-1.53%
2400	Pupil health	756,275	777,540	(21,265)	-2.81%
2500	Business services	926,297	932,737	(6,440)	-0.70%
2600	Operation and maintenance of plant services	7,440,503	7,537,712	(97,209)	-1.31%
2700	Student transportation services	5,748,889	5,750,584	(1,695)	-0.03%
2800	Information services	391,790	384,100	7,690	1.96%
2900	Other support services	92,200	92,200	-	0.00%
	<b>Total Support Services</b>	<b>24,205,222</b>	<b>24,324,993</b>	<b>(119,771)</b>	<b>-0.49%</b>
<b>Operation of Noninstructional Services:</b>					
3200	Student activities	1,082,019	1,169,638	(87,619)	-8.10%
3300	Community services	30,300	30,558	(258)	-0.85%
	<b>Total Operation of Noninstructional Services</b>	<b>1,112,319</b>	<b>1,200,196</b>	<b>(87,877)</b>	<b>-7.90%</b>
4000	Capital outlay	193,690	180,832	12,858	6.64%
5110	Debt service	4,273,346	4,262,346	11,000	0.26%
5180	Refund of prior year receipts	80,000	80,000	-	0.00%
5200	Transfers	97,467	168,527	(71,060)	-72.91%
5800	Budgetary reserve	100,000	-	100,000	100.00%
	<b>TOTAL EXPENDITURES</b>	<b>\$ 75,438,000</b>	<b>\$ 75,438,000</b>	<b>\$ -</b>	<b>0.00%</b>

**COLONIAL SCHOOL DISTRICT  
PLYMOUTH MEETING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)  
JUNE 30, 2006**

Using spending variances in excess of \$15,000 and using five percent as a spending tolerance, the most significant changes in the District's original vs. final budgeted expenditures were as follows:

<b>Expenditures</b>		Budgeted Amounts		Variance	
				Positive (Negative)	
Function		Original	Final	\$	%
3200	Student activities	\$ 1,082,019	\$ 1,169,638	\$ (87,619)	-8.10%
5200	Transfers	97,467	168,527	(71,060)	-72.91%
5800	Budgetary reserve	100,000	-	100,000	100.00%

Function	Description	Reason for Variance
3200	Student activities	Transfers for change in Activity Fund budgeting and increased costs for student activity, transportation and supplies.
5200	Transfers	Increase in transfers for Food Service Fund contribution for "nutritional" subsidy and indirect costs.
5800	Budgetary reserve	Transfers out for new boys' PIAA lacrosse team, multi-cultural programs, food service contribution and additional first grade at Plymouth Elementary School.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The District has \$41.4 million invested in capital assets net of depreciation; \$119 thousand of net assets was allocated to the Food Service Fund. Acquisitions for governmental activities totaled \$5.8 million, and depreciation expense for the year was \$2.6 million. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

**Debt**

In July of 2005, the District issued \$7.84 million of general obligation bonds to partially refinance bonds that were issued in 2002. This refinancing provided the District with debt payment savings of \$255,471.

In April of 2006, the District issued \$10 million of general obligation bonds to finance new capital projects located throughout the District. Some of the projects include classroom renovations and the courtyard enclosure at Colonial Elementary School; converting the building on Victory Fields to the Facilities Management Center; roof replacement at Ridge Park Elementary; technology and CITY equipment upgrades; boiler replacements at Colonial, Ridge Park and Plymouth Elementary Schools; and artificial turf fields in the Plymouth-Whitemarsh High School Stadium and Victory Fields. Other projects include District-wide kitchen modernization, lighting upgrades and HVAC improvements.

**COLONIAL SCHOOL DISTRICT  
PLYMOUTH MEETING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
JUNE 30, 2006**

At June 30, 2006, the District had \$46.5 million in outstanding bonds and notes payable. Detailed information regarding long-term debt and notes payable activity is included in the notes to the basic financial statements.

Under current state statutes, the District's general obligation bonded debt issues are subject to legal limitation based on 225 percent of the average revenues for the prior three years. At June 30, 2006, the District's general obligation debt was \$94 million below the legal limit.

**FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS**

The most significant factor that will have an impact on the future operations of the District will be the implementation of Act 1 of 2006 which became effective June 27, 2006. Future real estate tax increases will be limited to a state-wide index (3.4 percent for 2007-2008) unless approved by District voters in the form of a back-end referendum during the May primary. Programs which enhance the educational and extracurricular offerings in the District could be cut in an attempt to remain under the state-wide cap on real estate tax increases. This new law also accelerates the District's budget schedule by 90 days which will decrease the reliability of budgetary estimates and virtually eliminate all certainty when projecting state and federal revenues for the next fiscal year.

The District's property tax base growth has slowed considerably the past few years from a high of 5.1 percent in 2003-2004 to the 1.22 percent experienced in 2005-2006, placing the burden of future expenditure increases on taxpayers. Also, the District is experiencing an increase in the number of commercial property assessment appeals as the common level ratio has fallen to 53.4 percent of market value for 2007. Major real estate developments, such as the Millennium Project in Conshohocken and The Hill at Whitemarsh, could help to mitigate this problem during the next eight to ten years. The implementation of the Act 511 earned income tax during fiscal year 2005-2006 will also help to offset the lack of funding caused by the slower growth in the real estate market.

Certainly not to be overlooked is the lack of sufficient state funding to the District. The District has seen special education and transportation subsidies increase minimally as the costs for these mandated services have far exceeded the state revenue increases. The District receives an estimated 25 percent of the cost for these services in the form of state subsidies. Escalating health care premiums and the employer's share of retirement contributions will have a significant impact on future budgets. Future state legislation regarding school funding and real estate tax relief coupled with the financial burdens associated with the federal No Child Left Behind mandates will have a negative impact on its finances.

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Joseph P. Bickleman, Chief Financial Officer and Board Treasurer, at Colonial School District, 230 Flourtown Road, Plymouth Meeting, PA 19462, 610-834-1671 extension 2121.

COLONIAL SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2006  
 (With Summarized Comparative Data for June 30, 2005)

	<u>2006</u>	<u>2005</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,884,468	\$ 9,012,798	\$ 10,811,900
Investments	15,286,712	15,286,712	6,383,861
Taxes receivable	1,898,243	1,898,243	1,544,698
Internal balances	153,756	(153,756)	-
Due from other governments	1,032,706	51,689	726,827
Other receivables	391,372	43,900	441,485
Inventories	-	48,485	47,474
Other assets	21,250	21,250	269,555
Issuance costs	342,951	342,951	235,210
Land	6,543,005	6,543,005	6,543,005
Construction-in-progress	172,136	172,136	8,084,568
Site improvements	6,034,644	6,034,644	6,017,604
Buildings and improvements	51,250,050	51,250,050	38,144,639
Furniture and equipment	9,113,329	9,468,489	8,864,037
Accumulated depreciation	(31,827,144)	(32,063,890)	(29,482,848)
<b>TOTAL ASSETS</b>	<u>\$ 69,296,878</u>	<u>\$ 69,534,540</u>	<u>\$ 58,632,015</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 2,725,407	\$ 2,757,073	\$ 2,918,802
Accrued salaries and benefits	5,288,730	5,288,730	5,512,412
Other liabilities	51,397	51,397	28,238
Accrued interest	452,841	452,841	451,490
Deferred revenues	18,748	24,307	6,709
Judgment payable	250,000	250,000	-
Long-term liabilities			
Portion due or payable within one year:			
Bonds payable	2,310,000	2,310,000	2,215,000
Less: Bond discounts	(13,908)	(13,908)	(5,393)
Less: Deferred amounts on refunding	(110,146)	(110,146)	(96,800)
Note payable	25,000	25,000	23,000
Accumulated compensated absences/early retirement incentive	221,590	221,590	255,549
Portion due or payable after one year:			
Bonds payable	43,995,000	43,995,000	35,895,000
Less: Bond discounts	(191,717)	(191,717)	(71,450)
Less: Deferred amounts on refunding	(824,404)	(824,404)	(774,403)
Note payable	140,000	140,000	165,000
Accumulated compensated absences/early retirement incentive	2,745,993	2,833,240	2,961,800
<b>TOTAL LIABILITIES</b>	<u>57,084,531</u>	<u>57,209,003</u>	<u>49,484,954</u>
<b>NET ASSETS (DEFICIT):</b>			
Invested in capital assets, net of related debt	4,320,889	4,439,903	5,296,665
Restricted for capital	665,397	665,397	691,690
Restricted for athletics	25,997	25,997	29,722
Unrestricted	7,200,064	7,194,240	3,128,984
<b>TOTAL NET ASSETS</b>	<u>12,212,347</u>	<u>12,325,537</u>	<u>9,147,061</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 69,296,878</u>	<u>\$ 69,534,540</u>	<u>\$ 58,632,015</u>

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

COLONIAL SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006  
(with Summarized Comparative Data for the Year Ended June 30, 2005)

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Expenses	\$	\$	\$	\$
GOVERNMENTAL ACTIVITIES				
Instruction	\$44,569,486	\$ 502,987	-	\$(38,643,327)
Instructional student support	6,120,502	-	372,283	-
Administrative and financial support services	4,725,959	-	166,512	-
Operation and maintenance of plant services	7,590,802	-	267,450	-
Pupil transportation	5,622,124	-	1,448,689	-
Student activities	1,204,610	50,354	42,443	-
Community services	25,224	146,796	-	-
Interest on long-term debt	2,057,179	-	131,596	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>71,915,886</u>	<u>700,137</u>	<u>7,852,145</u>	<u>(63,363,604)</u>
BUSINESS-TYPE ACTIVITIES				
Food service	1,734,500	-	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	<u>1,734,500</u>	<u>1,190,288</u>	<u>392,079</u>	<u>(152,133)</u>
TOTAL PRIMARY GOVERNMENT ACTIVITIES	<u>\$73,650,386</u>	<u>\$1,890,425</u>	<u>\$8,244,224</u>	<u>(63,363,604)</u>
				<u>(59,672,331)</u>
				<u>(59,539,575)</u>
				<u>(132,756)</u>
				<u>(132,756)</u>
				<u>(59,672,331)</u>
				<u>(56,552,165)</u>
				<u>2,644,372</u>
				<u>2,511,457</u>
				<u>10</u>
				<u>662,807</u>
				<u>130,543</u>
				<u>-</u>
				<u>62,501,354</u>
				<u>2,829,023</u>
				<u>6,318,038</u>
				<u>\$ 9,147,061</u>
				<u>\$ 12,325,537</u>
				<u>55,638,307</u>
				<u>7,026,823</u>
				<u>2,561,534</u>
				<u>-</u>
				<u>1,399</u>
				<u>131,331</u>
				<u>132,730</u>
				<u>(19,403)</u>
				<u>132,593</u>
				<u>\$ 113,190</u>
				<u>\$12,212,347</u>
				<u>66,561,483</u>
				<u>3,197,879</u>
				<u>9,014,468</u>
				<u>9,147,061</u>
				<u>\$ 12,325,537</u>
				<u>55,638,307</u>
				<u>7,026,823</u>
				<u>2,561,534</u>
				<u>-</u>
				<u>1,433,153</u>
				<u>32,997</u>
				<u>(131,331)</u>
				<u>66,561,483</u>
				<u>3,197,879</u>
				<u>9,014,468</u>
				<u>9,147,061</u>
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				<u>9,014,468</u>
				<u>9,147,061</u>
				<u>\$ 113,190</u>
				<u>\$12,212,347</u>
				<u>66,561,483</u>

COLONIAL SCHOOL DISTRICT  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 JUNE 30, 2006  
 (with Summarized Comparative Data for June 30, 2005)

	Major Funds			Totals
	General Fund	Capital Reserve Fund	Capital Projects Fund	2006
<b>ASSETS</b>				
Cash and cash equivalents	\$ 7,358,496	\$ 665,640	\$ 834,335	\$ 8,884,468
Investments	6,500,467	-	8,786,245	15,286,712
Taxes receivable	1,898,243	-	-	1,898,243
Due from other funds	178,506	130	-	178,636
Due from other governments	1,032,706	-	-	1,032,706
Other receivables	391,372	-	-	391,372
Other assets	13,242	-	8,008	21,250
<b>TOTAL ASSETS</b>	<b><u>\$17,373,032</u></b>	<b><u>\$ 665,770</u></b>	<b><u>\$9,628,588</u></b>	<b><u>\$27,693,387</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 1,486,620	\$ 373	\$1,238,414	\$ 2,725,407
Due to other funds	-	-	24,880	24,880
Accrued salaries and benefits	5,288,730	-	-	5,288,730
Accumulated compensated absences/early retirement incentive	221,590	-	-	221,590
Judgment payable	250,000	-	-	250,000
Other liabilities	51,397	-	-	51,397
Deferred revenues	910,899	-	-	910,899
<b>TOTAL LIABILITIES</b>	<b><u>8,209,236</u></b>	<b><u>373</u></b>	<b><u>1,263,294</u></b>	<b><u>9,472,903</u></b>
<b>FUND BALANCES:</b>				
Reserved for capital	-	665,397	8,365,294	9,030,691
Reserved for athletics	5,576,820	-	-	5,576,820
Unreserved	3,586,976	-	-	3,586,976
Unreserved - designated: Subsequent year appropriations	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>9,163,796</u></b>	<b><u>665,397</u></b>	<b><u>8,365,294</u></b>	<b><u>18,220,484</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$17,373,032</u></b>	<b><u>\$ 665,770</u></b>	<b><u>\$9,628,588</u></b>	<b><u>\$27,693,387</u></b>
		<b><u>\$ 25,997</u></b>		<b><u>10,224,009</u></b>
				<b><u>\$20,090,428</u></b>

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

COLONIAL SCHOOL DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS  
JUNE 30, 2006

TOTAL GOVERNMENTAL FUND BALANCES \$ 18,220,484

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	6,543,005
Construction-in-progress	172,136
Site improvements	6,034,644
Buildings and improvements	51,250,050
Furniture and equipment	9,113,329
Accumulated depreciation	(31,827,744)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(46,305,000)
Note payable	(165,000)
Accumulated compensated absences/early retirement incentive	(2,745,993)
Accrued interest	(452,841)

Refunded and new debt and issuance costs resulted in deferred charges which will be amortized over the life of the new debt but do not represent current rights.

1,483,126

Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

892,151

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 12,212,347

These accompanying notes are an integral part of these financial statements.

COLONIAL SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2006  
 (With Summarized Comparative Data for the Year Ended June 30, 2005)

	Major Funds			Nonmajor Fund	Totals	
	General Fund	Capital Reserve Fund	Capital Projects Fund		2006	2005
REVENUES:						
Local sources	\$64,881,375	\$ 42,604	\$ 149,142	\$ 50,354	\$65,123,475	\$60,951,048
State sources	8,936,665	-	-	-	8,936,665	8,264,111
Federal sources	1,478,395	-	-	-	1,478,395	1,398,037
<b>TOTAL REVENUES</b>	<u>75,296,435</u>	<u>42,604</u>	<u>149,142</u>	<u>50,354</u>	<u>75,538,535</u>	<u>70,613,196</u>
EXPENDITURES:						
Current:						
Instruction	43,468,602	-	-	-	43,468,602	41,236,154
Support Services	23,202,040	6,730	139,450	-	23,348,220	22,319,367
Operation of noninstructional services	1,097,225	-	-	91,271	1,188,496	1,151,352
Capital outlay	151,961	62,167	5,147,035	-	5,361,163	8,626,292
Debt service	4,018,065	-	173,493	-	4,191,558	2,452,662
<b>TOTAL EXPENDITURES</b>	<u>71,937,893</u>	<u>68,897</u>	<u>5,459,978</u>	<u>91,271</u>	<u>77,558,039</u>	<u>75,785,827</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,358,542</u>	<u>(26,293)</u>	<u>(5,310,836)</u>	<u>(40,917)</u>	<u>(2,019,504)</u>	<u>(5,172,631)</u>
OTHER FINANCING SOURCES (USES):						
Issuance of debt - refunding	-	-	7,840,000	-	7,840,000	-
Issuance of debt	-	-	10,000,000	-	10,000,000	10,000,000
Payment of debt - refunding	-	-	(7,550,000)	-	(7,550,000)	(985,000)
Bond discount	-	-	(142,690)	-	(142,690)	(80,887)
Refund of prior year receipts	-	-	-	-	-	(109,973)
Sale of/compensation for capital assets	-	-	-	-	-	10
Transfers in	-	-	-	37,192	37,192	43,548
Transfers out	(168,523)	-	-	-	(168,523)	(613,180)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(168,523)</u>	<u>-</u>	<u>10,147,310</u>	<u>37,192</u>	<u>10,015,979</u>	<u>8,254,518</u>
NET CHANGE IN FUND BALANCES	3,190,019	(26,293)	4,836,474	(3,725)	7,996,475	3,081,887
FUND BALANCES, BEGINNING OF YEAR	5,973,777	691,690	3,528,820	29,722	10,224,009	7,142,122
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 9,163,796</u>	<u>\$ 665,397</u>	<u>\$ 8,365,294</u>	<u>\$ 25,997</u>	<u>\$18,220,484</u>	<u>\$10,224,009</u>

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

COLONIAL SCHOOL DISTRICT  
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2006

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 7,996,475

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$5,789,885) exceeded depreciation (\$2,562,019) in the period. 3,227,866

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. (292,057)

Revenues in the funds that provide current financial resources in the current year but are recorded as income in the statement of activities in prior years. (1,382)

Debt proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. This is the amount by which debt proceeds (\$17,840,000) exceeded debt repayments (\$9,668,000) in the period. (8,172,000)

Governmental funds report issuance costs, bond discounts and deferred amounts on refunding as expenditures. However these amounts are reported on the statement of net assets as deferred charges and are amortized over the life of the debt. This is the amount by which current year issuance costs, bond discounts and deferred amounts on refunding exceeded amortization. 299,870

In the statement of activities, certain operating expenses - compensated absences (vacations and sick leave) and special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts actually paid). This is the amount by which current period amounts paid exceeded current period amounts earned. 140,458

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (1,351)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 3,197,879

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

COLONIAL SCHOOL DISTRICT  
 BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	with Final Budget Positive (Negative)
<b>REVENUES</b>				
Local sources	\$62,447,406	\$62,447,406	\$64,881,375	\$ 2,433,969
State sources	8,433,733	8,433,733	8,936,665	502,932
Federal sources	1,439,861	1,439,861	1,478,395	38,534
<b>TOTAL REVENUES</b>	<u>72,321,000</u>	<u>72,321,000</u>	<u>75,296,435</u>	<u>2,975,435</u>
<b>EXPENDITURES</b>				
Instruction:				
Regular programs	31,855,167	31,381,833	30,764,505	617,328
Special programs	8,594,491	8,988,881	8,702,827	286,054
Vocational programs	2,020,220	2,020,220	2,020,220	-
Other instructional programs	2,842,026	2,766,370	1,921,773	844,597
Adult Education	64,052	63,802	59,277	4,525
<b>Total Instruction</b>	<u>45,375,956</u>	<u>45,221,106</u>	<u>43,468,602</u>	<u>1,752,504</u>
Support services:				
Pupil personnel services	2,614,620	2,659,838	2,545,816	114,022
Instructional staff services	2,959,389	2,865,073	2,625,345	239,728
Administrative services	3,275,259	3,216,736	3,216,736	108,473
Pupil health	756,275	777,540	728,979	48,561
Business services	926,297	932,737	894,057	38,680
Operation and maintenance of plant services	7,440,503	7,437,712	7,338,044	199,668
Student transportation services	5,748,889	5,750,584	5,413,373	337,211
Information services	391,790	384,100	352,308	31,792
Other support services	92,200	92,200	87,382	4,818
<b>Total Support Services</b>	<u>24,205,222</u>	<u>24,324,993</u>	<u>23,202,040</u>	<u>1,122,953</u>
Operation of noninstructional activities:				
Student activities	1,082,019	1,169,638	1,072,001	97,637
Community services	30,300	30,558	25,224	5,334
<b>Total Operation of Noninstructional Services</b>	<u>1,112,319</u>	<u>1,200,196</u>	<u>1,097,225</u>	<u>102,971</u>
Capital outlay	193,690	180,832	151,961	28,871
Debt service	4,273,346	4,262,346	4,018,065	244,281
<b>TOTAL EXPENDITURES</b>	<u>75,160,533</u>	<u>75,189,473</u>	<u>71,937,893</u>	<u>3,251,580</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,839,533)</u>	<u>(2,868,473)</u>	<u>3,358,542</u>	<u>6,227,015</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refund of prior year receipts	(80,000)	(80,000)	-	80,000
Transfers out	(97,467)	(168,527)	(168,523)	4
Budgetary reserve	(100,000)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(277,467)</u>	<u>(248,527)</u>	<u>(168,523)</u>	<u>80,004</u>
<b>NET CHANGE IN FUND BALANCE</b>	(3,117,000)	(3,117,000)	3,190,019	6,307,019
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>3,353,881</u>	<u>3,353,881</u>	<u>5,973,777</u>	<u>2,619,896</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 236,881</u>	<u>\$ 236,881</u>	<u>\$ 9,163,796</u>	<u>\$ 8,926,915</u>

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

COLONIAL SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - PROPRIETARY FUND  
JUNE 30, 2006  
(With Comparative Data for June 30, 2005)

	Major Fund	
	Food Service Fund	
	2006	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 128,330	\$ 148,229
Due from other governments	51,689	47,355
Other receivables	43,900	27,988
Inventories	<u>48,485</u>	<u>47,474</u>
Total Current Assets	<u>272,404</u>	<u>271,046</u>
<b>CAPITAL ASSETS</b>		
Furniture and equipment	355,160	330,574
Accumulated depreciation	<u>(236,146)</u>	<u>(217,123)</u>
Capital Assets, Net	<u>119,014</u>	<u>113,451</u>
<b>TOTAL ASSETS</b>	<u>\$ 391,418</u>	<u>\$ 384,497</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 31,666	\$ 24,982
Due to other funds	153,756	148,027
Deferred revenues	<u>5,559</u>	<u>3,546</u>
Total Current Liabilities	<u>190,981</u>	<u>176,555</u>
<b>NONCURRENT LIABILITIES</b>		
Accumulated compensated absences	<u>87,247</u>	<u>75,349</u>
Total Noncurrent Liabilities	<u>87,247</u>	<u>75,349</u>
<b>TOTAL LIABILITIES</b>	<u>278,228</u>	<u>251,904</u>
<b>NET ASSETS (DEFICIT)</b>		
Invested in capital assets, net of related debt	119,014	113,451
Unrestricted (Deficit)	<u>(5,824)</u>	<u>19,142</u>
Total Net Assets	<u>113,190</u>	<u>132,593</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 391,418</u>	<u>\$ 384,497</u>

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

COLONIAL SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2006  
(With Comparative Data for the Year Ended June 30, 2005)

	Major Fund	
	Food Service Fund	
	2006	2005
<b>OPERATING REVENUES</b>		
Food service revenues	<u>\$ 1,190,288</u>	<u>\$ 1,142,923</u>
<b>Total Operating Revenues</b>	<u>1,190,288</u>	<u>1,142,923</u>
<b>OPERATING EXPENSES</b>		
Salaries	694,247	665,954
Employee benefits	199,861	184,510
Supplies	698,275	681,431
Repairs and maintenance	39,214	15,564
Other operating expenses	83,880	79,109
Depreciation	<u>19,023</u>	<u>16,718</u>
<b>Total Operating Expenses</b>	<u>1,734,500</u>	<u>1,643,286</u>
<b>OPERATING LOSS</b>	<u>(544,212)</u>	<u>(500,363)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Earnings on investments	1,399	125
State sources	81,748	75,553
Federal sources	<u>310,331</u>	<u>292,054</u>
<b>Total Nonoperating Revenues</b>	<u>393,478</u>	<u>367,732</u>
<b>LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<u>(150,734)</u>	<u>(132,631)</u>
Transfers in	131,331	569,632
Capital contribution from capital reserve	<u>-</u>	<u>31,926</u>
<b>Total Transfers and Capital Contributions</b>	<u>131,331</u>	<u>601,558</u>
<b>CHANGE IN NET ASSETS</b>	(19,403)	468,927
<b>NET ASSETS), BEGINNING OF YEAR</b>	<u>132,593</u>	<u>(336,334)</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 113,190</u>	<u>\$ 132,593</u>

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

COLONIAL SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2006  
(With Comparative Data for the Year Ended June 30, 2005)

	Major Fund	
	Food Service Fund	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$1,176,389	\$1,141,323
Payments to suppliers	(640,217)	(628,732)
Payments to employees	(876,481)	(1,190,678)
Payments for other operating expenses	<u>(123,094)</u>	<u>(94,673)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><b>(463,403)</b></u>	<u><b>(772,760)</b></u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State sources	81,301	74,796
Federal sources	254,059	231,973
Transfers in	<u>131,331</u>	<u>569,632</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u><b>466,691</b></u>	<u><b>876,401</b></u>
<b>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets	<u>(24,586)</u>	<u>(39,568)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(24,586)</b></u>	<u><b>(39,568)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Earnings on investments	<u>1,399</u>	<u>125</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u><b>1,399</b></u>	<u><b>125</b></u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(19,899)</b>	<b>64,198</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u><b>148,229</b></u>	<u><b>84,031</b></u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><b>\$ 128,330</b></u>	<u><b>\$ 148,229</b></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (544,212)	\$ (500,363)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	19,023	16,718
Commodities used	52,385	53,713
(Increase) Decrease in:		
Other receivables	(15,912)	(5,146)
Inventories	(1,011)	(10,731)
Increase (Decrease) in:		
Accounts payable	6,684	9,717
Due to other funds	5,729	(340,637)
Accumulated compensated absences	11,898	423
Deferred revenues	<u>2,013</u>	<u>3,546</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><b>\$ (463,403)</b></u>	<u><b>\$ (772,760)</b></u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Noncash investing activity:		
Capital contribution from capital reserve	<u>\$ -</u>	<u>\$ 31,926</u>
Noncash noncapital financing activity:		
USDA donated commodities	<u>\$ 52,385</u>	<u>\$ 53,713</u>

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

COLONIAL SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Private- Purpose Trust</u>	<u>Agency</u>
<b>ASSETS</b>		
Cash	\$ 698	\$ 286,589
Investments	<u>24,513</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 25,211</u></b>	<b><u>\$ 286,589</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ 286,589
<b>NET ASSETS</b>		
Reserved for trust	<u>25,211</u>	<u>-</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 25,211</u></b>	<b><u>\$ 286,589</u></b>

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

**COLONIAL SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
 (With Comparative Data for the Year Ended June 20, 2005)

	Private-Purpose Trust	
	2006	2005
<b>ADDITIONS:</b>		
Local contributions	\$ <u>3,060</u>	\$ <u>4,945</u>
<b>TOTAL ADDITIONS</b>	<u>3,060</u>	<u>4,945</u>
<b>DEDUCTIONS</b>		
Fees paid and scholarships awarded	<u>3,201</u>	<u>5,090</u>
<b>TOTAL DEDUCTIONS</b>	<u>3,201</u>	<u>5,090</u>
<b>CHANGE IN NET ASSETS</b>	(141)	(145)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>25,352</u>	<u>25,497</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 25,211</u>	<u>\$ 25,352</u>

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

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Colonial School District ("The District") operates five elementary schools, one middle school and one senior high school to provide education and related services to the residents of Plymouth and Whitmarsh Townships and the Borough of Conshohocken. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member Board form of government.

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

Reporting Entity

GASB No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

*Entity-Wide Financial Statements*

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

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

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

***Fund Financial Statements***

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

***Governmental Funds***

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

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

The Capital Reserve and Capital Projects Funds are used to account for the acquisition, construction and renovation of major capital facilities and their related capital assets.

***Revenue Recognition***

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned.

Other miscellaneous receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

***Expenditure Recognition***

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Liabilities for compensated absences and special termination benefits are recognized as fund liabilities to the extent they mature each period. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

***Proprietary Fund***

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District does not attempt to allocate all "building-wide costs" to the proprietary fund. Thus, general fund expenditures which partially benefit the proprietary fund are not entirely recognized with the proprietary fund. Similarly, the proprietary fund does not recognize a cost for the building space it occupies.

## COLONIAL SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS (cont'd)

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

#### *Fiduciary Funds*

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organization and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of students of the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

#### Cash and Cash Equivalents

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

#### Receivables and Payables

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

The District does not record an allowance for uncollectible taxes because it is considered to be immaterial.

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property Taxes

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

July 1 - August 31	-	Discount period, 2% of gross levy
September 1 - October 31	-	Face Period
November 1 to collection	-	Penalty Period, 10% of gross levy
January 15	-	Lien Date

Real estate taxes for the District are collected from the Borough of Conshohocken and the Townships of Plymouth and Whitemarsh. The tax on real estate for public school purposes for fiscal 2005-2006 was 14.90 mills (\$14.90 per \$1,000 of assessed valuation) as levied by the Board. Assessed valuations of property are determined by the Montgomery County Board of Assessments. Taxes from the Board of Conshohocken are collected by an elected tax collector, while the District is responsible for the collection of taxes from the Townships of Plymouth and Whitemarsh.

Prepaid Items and Inventories

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

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

Capital Assets

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

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

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

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

Buildings and Improvements	50 years
Site Improvements	15-20 years
Furniture and Equipment	5-20 years
Vehicles	10 years
Library books	7 years

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days as stipulated in each bargaining unit's contract. The liability for these compensated absences is recorded as long-term debt in the entity-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Long-Term Obligations

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

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

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. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Use of Estimates in the Preparation of Financial Statements

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

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the general fund on the modified accrual basis of accounting. The general fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for all capital projects funds.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 15 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and include the effect of approved budget amendments.

NOTE 3 DEPOSITS AND INVESTMENTS

*Deposits*

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 20, 2006, the carrying amount of the District's deposits was \$9,300,085 and the bank balance was \$9,655,172. Of the bank balance, \$100,000 was

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 3 DEPOSITS AND INVESTMENTS (cont'd)

covered by federal depository insurance and \$3,239,645 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Treasurer's Program for Local Governments (INVEST). Although not registered with the Securities and Exchange commission and not subject to regulatory oversight, PSDLAF and INVEST act like money market mutual funds in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized rating organization and is subject to an independent annual audit.

*Investments*

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

As of June 30, 2006, the District had the following investments:

Certificates of deposit due within one year - collateral held by the pledging bank's agent in the District's name	\$ 11,310,438
PSDLAF	2,500,787
Pennsylvania Local Government Investment Trust (PLGIT)	<u>1,500,000</u>
Total	<u>\$ 15,311,225</u>

Interest Rate Risk

The District manages its exposure to fair value losses arising from increasing interest rates by investing in securities with maturity dates under one year. At June 30, 2006, the District's investments in certificates of deposit had maturity dates of less than one year.

Credit Risk

The District limits its investment choices to those with the highest credit ratings. As of June 30, 2006, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating organization.

NOTE 4 DEFERRED REVENUES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition of resources that have been received, but not yet earned.

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 4 DEFERRED REVENUES (cont'd)

At the end of the current fiscal year, deferred revenue reported in the general fund resulted from delinquent property taxes receivable and grants and entitlements received but not earned.

Deferred revenue in the proprietary funds and the entity-wide financial statements represents resources that have been received but not yet earned.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 6,543,005	\$ -	\$ -	\$ 6,543,005
Construction-in-progress	<u>8,084,568</u>	<u>5,068,285</u>	<u>12,980,717</u>	<u>172,136</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>14,627,573</u>	<u>5,068,285</u>	<u>12,980,717</u>	<u>6,715,141</u>
Capital assets being depreciated:				
Site improvements	6,017,604	17,040	-	6,034,644
Buildings and improvements	38,144,639	13,105,411	-	51,250,050
Furniture and equipment	<u>8,533,463</u>	<u>579,866</u>	-	<u>9,113,329</u>
<b>Total Capital Assets Being Depreciated</b>	<u>52,695,706</u>	<u>13,702,317</u>	-	<u>66,398,023</u>
Less accumulated depreciation for:				
Site improvements	1,526,688	94,391	-	1,621,079
Buildings and improvements	21,052,324	1,587,619	-	22,639,943
Furniture and equipment	<u>6,686,713</u>	<u>880,009</u>	-	<u>7,566,722</u>
<b>Total accumulated depreciation</b>	<u>29,265,725</u>	<u>2,562,019</u>	-	<u>31,827,744</u>
<b>Total Capital Assets Being Depreciated, Net</b>	<u>23,429,981</u>	<u>11,140,298</u>	-	<u>34,570,279</u>
<b>Governmental Activities Assets, Net</b>	<u>\$38,057,554</u>	<u>\$16,208,583</u>	<u>\$12,980,717</u>	<u>\$41,285,420</u>
<b>Business-type activities:</b>				
Capital assets being depreciated:				
Furniture and equipment	<u>\$ 330,574</u>	<u>\$ 24,586</u>	\$ -	<u>\$ 355,160</u>
<b>Total Capital Assets Being Depreciated</b>	<u>330,574</u>	<u>24,586</u>	-	<u>355,160</u>
Less accumulated depreciation for:				
Furniture and equipment	<u>217,123</u>	<u>19,023</u>	-	<u>236,146</u>
<b>Total accumulated depreciation</b>	<u>217,123</u>	<u>19,023</u>	-	<u>236,146</u>
<b>Business-type Activities, Net</b>	<u>\$ 113,451</u>	<u>\$ 5,563</u>	\$ -	<u>\$ 119,014</u>

COLONIAL SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 5 CAPITAL ASSETS (cont'd)

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

Governmental activities:	
Instruction	\$ 1,643,977
Instructional student support	223,143
Administrative and financial support services	172,099
Operation and maintenance of plant services	277,524
Pupil transportation	204,733
Student activities	<u>40,543</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,562,019</u>
Total Business-type Activities	<u>\$ 19,023</u>

NOTE 6 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

<u>Receivable From</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ 153,756	Food Service Fund	\$ 153,756
General Fund	24,880	Capital Projects Fund	24,880
Capital Reserve	<u>130</u>	General Fund	<u>130</u>
	<u>\$ 178,766</u>		<u>\$ 178,766</u>

Interfund balances between funds represent temporary loans recorded at year end subsequent to a final allocation of expenses. The balances generally are paid shortly after year end.

Interfund Transfers:

Transfer Out:	Transfer In:	
General Fund	Food Service Fund	\$ 131,331
General Fund	Nonmajor Fund	\$ 37,192

Transfers represent funds transferred from the general fund to subsidize food service operations and athletics.

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 7 GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
<b>Governmental Activities:</b>				
Bonds payable	\$38,110,000	\$17,840,000	\$ 9,645,000	\$46,305,000
Note payable	188,000	-	23,000	165,000
Deferred amount on refunding	(871,203)	(173,493)	(110,146)	(934,550)
Bond discounts	(76,843)	(142,690)	(13,908)	(205,625)
Accumulated compensated absences/early retirement incentive	<u>3,142,000</u>	<u>800,358</u>	<u>974,775</u>	<u>2,967,583</u>
<b>TOTALS</b>	<b><u>\$40,491,954</u></b>	<b><u>\$18,324,175</u></b>	<b><u>\$10,518,721</u></b>	<b><u>\$48,297,408</u></b>
<b>Business-type Activity:</b>				
Accumulated compensated absences	<u>\$ 75,349</u>	<u>\$ 22,578</u>	<u>\$ 10,680</u>	<u>\$ 87,247</u>

Payments of long-term debt from bonds payable are to be funded by the general fund, while long-term debt from compensated absences is paid out of the fund from which the liability was incurred.

General Obligation Bonds

Series of 2002, maturing through March 1, 2008, bearing interest ranging from 1.80% to 4.90%, interest payable semi-annually on March 1 and September 1. \$ 1,030,000

Series of 2002A, maturing through November 15, 2014, bearing interest ranging from 1.50% to 4.00%, interest payable semi-annually on May 15 and November 15. 8,545,000

Series of 2003, maturing through November 15, 2014, bearing interest ranging from 1.10% to 3.50%, interest payable semi-annually on May 15 and November 15. 8,900,000

Series of 2004, maturing through August 15, 2015, bearing interest ranging from 1.60% to 4.25%, interest payable semi-annually on February 15 and August 15. 9,995,000

Series of 2005, maturing through September 1, 2018, bearing interest ranging from 2.80% to 3.95%, interest payable semi-annually on March 1 and September 1. The Series of 2005 provided funds to advance refund a portion of the Series of 2002 and pay expenses related to the issuance of such bonds.

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 7 GENERAL LONG-TERM DEBT (cont'd)

The advance refunding resulted in an economic gain of \$249,460 and a reduction of \$255,471 in future debt service payments.

7,835,000

Series of 2006, maturing through February 15, 2025, bearing interest ranging from 3.40% to 4.25%, interest payable semi-annually on February 15 and August 15. The Series of 2006 provided funds to be used for renovations, repairs and improvements to the District's buildings and facilities and pay expenses related to the issuance of such bonds.

10,000,000

Total General Obligation Bonds

46,305,000

Note Payable:

Series of 2001, maturing through August 25, 2011, bearing interest at 3.8%, interest payable monthly.

165,000

TOTAL

\$ 46,470,000

Presented below is a summary of debt service and lease requirements to maturity by years:

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2007	\$ 2,335,000	\$ 1,598,655	\$ 3,933,655
2008	2,501,000	1,604,032	4,105,032
2009	2,567,000	1,530,417	4,097,417
2010	2,653,000	1,447,449	4,100,449
2011	2,749,000	1,358,366	4,107,366
2012-2016	15,270,000	5,257,230	20,527,230
2017-2021	12,505,000	2,286,296	14,791,296
2022-2025	<u>5,890,000</u>	<u>651,943</u>	<u>6,541,943</u>
	<u>\$ 46,470,000</u>	<u>\$ 15,734,388</u>	<u>\$ 62,204,388</u>

Advance Refunding

The District has defeased certain outstanding bond issues. The defeased bonds are not included in the District's financial statements as they are being held in escrow by the paying agent until final maturity. The principal balance of the defeased bonds outstanding are as follows:

	<u>Final Maturity</u>	<u>Interest</u>	<u>Principal Outstanding</u>
General Obligation Bond Series of 2002	09/01/2007	3.00% - 4.90%	<u>\$ 7,425,000</u>

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 8 PENSION PLAN

Plan Description

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

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Individual employees contribute between 5.25 and 7.5 percent of salary depending on their membership status. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2006, the rate of employer contribution was 4.69 percent of covered payroll. The District's contributions to PSERS for the years ended June 30, 2004, 2005 and 2006 were \$1,325,790, \$1,529,334 and \$1,776,303, respectively, equal to the required contribution for each year. The Commonwealth contributes to PSERS by reimbursing the District 50 percent of its contribution each year.

NOTE 9 OPERATING LEASES

The District currently is obligated under operating lease agreements for copiers. The following is a summary of the minimum rental costs for the remaining term:

Year Ending June 30,

2007	\$ 330,724
2008	330,724
2009	166,720
2010	166,720
2011	<u>166,720</u>
Total	<u>\$1,161,608</u>

Rental expense including short-term rentals for the year ended June 30, 2006 was \$353,103.

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 10 SPECIAL TERMINATION BENEFITS

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

In order for an employee to retire and participate in a district-sponsored ERIP, the District must first decide whether or not to offer a special termination plan in the year the employee is retiring; the retiring employee must meet certain age and district service year requirements; a specified minimum number of employees must opt into the ERIP; and the retiring employee must be eligible to receive other pension benefits provided through the PSERS, described in Note 8. The District's current ERIP plan provides for the payment of specific dollars to be applied toward the healthcare premiums of the participating retiree and spouse for a limited number of years.

As of June 30, 2006, the District had one ERIP plan in effect. The number of participants and the present value of those benefits as of June 30, 2006 are summarized below:

<u>ERIP Began</u>	<u>Participants</u>	<u>Healthcare Premium</u>
July 1, 2005	35	<u>\$ 835,408</u>

NOTE 11 JOINT VENTURE

The District is a participating member of the Center For Technical Studies (the Vo-Tech). The board of directors from each member district must approve the Vo-Tech's annual budget. Each member pays an allocated share of operating costs of the Vo-Tech based on the number of students attending from each district. For fiscal year ended June 30, 2006, the District's share of operating costs was \$2,020,220. The financial statements of the Vo-Tech are available from the Center for Technical Studies located at Plymouth Road and New Hope Street, Norristown, PA 19401.

The District has entered into a lease agreement with the Vo-Tech to provide rental payments to retire the Vo-Tech's outstanding debt obligations. The lease agreement provides that in the event the Vo-Tech either retires all of its outstanding obligations which were issued to finance school facilities construction or acquisition, or accumulate sufficient reserves to cover such obligations prior to the expiration of the applicable schedules, there will be no subsequently scheduled rental payments made.

COLONIAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (cont'd)

NOTE 11 JOINT VENTURE (cont'd)

Future rental payments are as follows:

Year Ending June 30,

2007	\$ 548,236
2008	547,781
2009	549,339
2010	549,311
2011	548,170
2012-2016	2,747,150
2017-2021	2,744,499
2022-2024	<u>1,646,400</u>
Total	9,880,886
Less: Interest requirements	<u>(3,398,886)</u>
Outstanding rental payments	<u>\$ 6,482,000</u>

NOTE 12 CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The 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 District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Litigation

Certain litigation claims are pending against the District. In the opinion of District management and legal counsel, the potential losses, if any, on such claims are not yet determinable.

NOTE 13 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages during the 2005-2006 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**SINGLE AUDIT**

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

January 16, 2007

Board of School Directors  
Colonial School District  
Plymouth Meeting, Pennsylvania

We have audited the financial statements of Colonial School District, Plymouth Meeting, Pennsylvania as of and for the year ended June 30, 2006, and have issued our report thereon dated January 16, 2007.

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 Colonial School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of Colonial School District, Plymouth Meeting, Pennsylvania, in a separate letter dated January 16, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Colonial School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Board of School Directors  
Colonial School District

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

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

January 16, 2007

Board of School Directors  
Colonial School District  
Plymouth Meeting, Pennsylvania

Compliance

We have audited the compliance of Colonial School District, Plymouth Meeting, Pennsylvania, 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 its major federal program for the year ended June 30, 2006. Colonial School District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Colonial School District's management. Our responsibility is to express an opinion on Colonial 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 Nonprofit 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 Colonial 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 Colonial School District's compliance with those requirements.

In our opinion, Colonial School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Colonial School District, Plymouth Meeting, Pennsylvania, 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 Colonial School District's internal control over compliance with requirements that could

Board of School Directors  
Colonial School District

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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

COLONIAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART A - SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Colonial School District.
2. No reportable conditions relating to the audit of the financial statements are reported in the "Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards."
3. No instances of noncompliance relating to the financial statements of Colonial School District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133."
5. The auditors' report on compliance for the major federal award programs for Colonial School District expresses an unqualified opinion.
6. The auditee is considered to be a low-risk auditee. The dollar threshold for determining a Type A program is \$300,000.
7. The program tested as a major program was:

<u>Program Name</u>	<u>CFDA #</u>
I.D.E.A.	84.027

**PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**PART C - FINDINGS RELATED TO FEDERAL AWARDS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.



COLONIAL SCHOOL DISTRICT

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

NOTE A SCOPE OF SCHEDULE

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

NOTE B BASIS OF ACCOUNTING

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

NOTE C NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.550, Value of USDA Commodities, represent surplus food consumed by the District during the 2005-2006 fiscal year.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2006 was \$25,596.