

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 9, 2010

NEW ISSUE—BOOK-ENTRY ONLY

RATING: Standard & Poor's: _____

In the opinion of Bond Counsel, under existing Pennsylvania laws, the Bonds are exempt from present Pennsylvania personal property taxes and the interest on the Bonds is exempt from present Pennsylvania Personal Income Tax. Conditioned upon compliance by the School District with all covenants and agreements contained in the Resolution and other documents relating to issuance of the Bonds, in the opinion of Bond Counsel interest on the Bonds will not be includible in gross income under the Internal Revenue Code of 1986, as amended, (the "Code") under present statutes, regulations and decisions; provided, however, that such interest may, in whole or in part, constitute directly or indirectly, a tax preference item for purposes of computing the alternative minimum tax for corporations.

The School District has designated each of the Bonds as a "qualified tax-exempt obligation," for purposes of and with the effect contemplated by Section 265(b) of the Code (relating to expenses and interest incurred to realize tax-exempt income by certain financial institutions).

\$7,350,000*

**Montgomery Area School District
Lycoming County, Pennsylvania
General Obligation Bonds, Series A of 2010**

Dated: Date of Delivery

Interest Due: March 1 and September 1

Principal Due: March 1, as shown on inside cover

First Interest Payment: March 1, 2011

The General Obligation Bonds, Series A of 2010 (the "Bonds") in the aggregate principal amount of \$7,350,000* will be issued in registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds will be registered in the name of Cede & Co., as the registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof only under the book-entry system maintained by DTC through its brokers and dealers who are, or act through, DTC Participants. The purchasers of the Bonds will not receive physical delivery of the Bonds. For so long as any purchaser is the beneficial owner of a Bond, that purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein. If, under the circumstances described herein, Bonds are ever issued in certificated form, the Bonds will be subject to registration of transfer, exchange and payment as described herein.

The Bonds are general obligations of the Montgomery Area School District, Lycoming County, Pennsylvania (the "School District"), payable from its tax and other general revenues. The School District has covenanted that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from the sinking fund established under the Resolution or any other of its revenues or funds the principal of every Bonds and the interest thereon on the dates, at the place and in the manner stated in the Bonds. For such budgeting, appropriation, and payment the School District irrevocably has pledged its full faith, credit and available taxing power within the limits provided by law (See "Security" and "Taxing Powers of the School District" *infra*).

Interest on each of the Bonds is payable initially on March 1, 2011, and thereafter semiannually on March 1 and September 1 of each year until the maturity date of such Bond or, if such Bond is subject to redemption prior to maturity, until the date fixed for redemption thereof, if payment of the redemption price has been duly made or provided for. The School District has appointed Manufacturer and Traders Trust Company (the "Paying Agent"), as paying agent and sinking fund depository for the Bonds. So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, payments of the principal of and interest on the Bonds, when due for payment, will be made directly to DTC by the Paying Agent, and DTC will in turn remit such payments to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds. If the use of the Book-Entry System for the Bonds is ever discontinued the Bonds will be payable, when due, upon surrender of such Bond to the Paying Agent at its specified corporate trust office in Harrisburg, Pennsylvania (or any successor paying agent at its designated office(s)) and interest on such Bond will be payable by check made out and mailed to the person(s) in whose name(s) such Bond is registered as of the Record Date with respect to the particular interest payment date (See "THE BONDS," *infra*).

The Bonds maturing on and after March 1, 2016 are subject to redemption prior to maturity as described herein.

Proceeds of the Bonds will be used to currently refund all of the School District's General Obligation Bonds, Series of 2006 and pay the costs of issuing the Bonds.

The Bonds are authorized investment for fiduciaries in the Commonwealth of Pennsylvania pursuant to the Pennsylvania Probate, Estate and Fiduciaries Code, Act of June 30, 1972, No. 164, P.L. 508, as amended and supplemented.

MATURITIES, AMOUNTS, RATES AND PRICES/YIELDS

{As shown on Inside Cover}

The Bonds are offered when, as and if issued, and subject to the approving legal opinion of Mette, Evans and Woodside, Harrisburg, Pennsylvania, Bond Counsel, to be furnished upon delivery of the Bonds. Certain matters will be passed upon for the School District by Brett O. Feese, Esquire, of Muncy, Pennsylvania, School District Solicitor. Public Financial Management, Inc., of Harrisburg, Pennsylvania, will serve as the Financial Advisor to the School District. It is expected that the Bonds will be available for delivery in New York, New York, on or about September 15, 2010.

Public Financial Management, Inc.

Financial Advisor to the School District

Dated: _____

*Estimated, subject to change.

\$7,350,000*
Montgomery Area School District
Lycoming County, Pennsylvania
General Obligation Bonds, Series A of 2010

Dated: Date of Delivery

Interest Due: March 1 and September 1

Principal Due: March 1, as shown below

First Interest Payment: March 1, 2011

MATURITIES, AMOUNTS, RATES AND PRICES/YIELDS

<u>March 1</u>	<u>Amounts</u>	<u>Rates</u>	<u>Prices/Yields</u>
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			

(A portion of the Bonds may be structured as Term Bonds, See "Invitation to Bid")

*Estimated, subject to change.

MONTGOMERY AREA SCHOOL DISTRICT

Lycoming County, Pennsylvania

BOARD OF SCHOOL DIRECTORS

Bonnie R. Taylor.....	President
Adam R. Diggan.....	Vice President
Steve W. Rupert.....	Secretary*
Gary L. Yocum, Sr.....	Treasurer
D. Todd Baker.....	Member
Jody L. Budman.....	Member
Christopher J. Johnson.....	Member
Augustine F. Spizzirri.....	Member
Paul E. Stryker, Jr.....	Member
Gabriel P. Blasi.....	Member

*Non-voting member

SUPERINTENDENT

DAPHNE L. ROSS

BUSINESS MANAGER

STEVE W. RUPERT

SCHOOL DISTRICT SOLICITOR

BRETT O. FEESE, ESQUIRE

Muncy, Pennsylvania

BOND COUNSEL

METTE, EVANS & WOODSIDE

Harrisburg, Pennsylvania

FINANCIAL ADVISOR

PUBLIC FINANCIAL MANAGEMENT, INC.

Harrisburg, Pennsylvania

PAYING AGENT

MANUFACTURERS AND TRADERS TRUST COMPANY

Harrisburg, Pennsylvania

SCHOOL DISTRICT ADDRESS

120 Penn Street

Montgomery, Pennsylvania 17752

No dealer, broker, salesman or other person has been authorized by the School District to give information or to make any representations, other than those contained in this Preliminary Official Statement, and if given or made, such other information or representations must not be relied upon. This Preliminary Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from the School District and from other sources which are believed to be reliable but the School District does not guarantee the accuracy or completeness of information from sources other than the School District. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Preliminary Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

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PRELIMINARY OFFICIAL STATEMENT

\$7,350,000*

**Montgomery Area School District
Lycoming County, Pennsylvania
General Obligation Bonds, Series A of 2010**

INTRODUCTION

This Preliminary Official Statement, including the cover and inside cover pages hereof and Appendices hereto, is furnished by Montgomery Area School District, Lycoming County, Pennsylvania (the "School District"), in connection with the offering of its \$7,350,000* aggregate principal amount General Obligation Bonds, Series A of 2010, dated as of the date of delivery, which is expected to be September 15, 2010 (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the Board of School Directors of the School District adopted on July 20, 2010 (the "Resolution"), and pursuant to the Local Government Unit Debt Act of the Commonwealth of Pennsylvania as amended (the "Commonwealth"), 53 Pa. C.S. Chs. 80-82 (the "Act").

PURPOSE OF THE ISSUE

Proceeds of the Bonds will be used to currently refund all of the School District's General Obligation Bonds, Series of 2006 currently outstanding in the aggregate principal amount of \$7,170,000 (the "2006 Bonds") and pay the costs of issuing the Bonds.

Upon issuance of the Bonds, a portion of the proceeds of the Bonds will be irrevocably deposited with Manufacturers and Traders Trust Company, the Paying Agent for the 2006 Bonds, in an amount sufficient to redeem the 2006 Bonds at a redemption price of 100% of principal amount plus accrued interest, pursuant to the optional redemption provisions applicable to the 2006 Bonds, on or about September 15, 2010.

Sources and Uses of Bond Proceeds

The following is a summary of the sources and uses of the proceeds from the issuance of the Bonds.

Sources:

Bond Proceeds

Net Original Issue Premium.....

Use of Funds:

Amount Required to Call the 2006 Bonds

Net Original Issue Discount.....

Cost of Issuance⁽¹⁾

⁽¹⁾Includes legal, financial advisor, printing, rating, municipal bond insurance premium, CUSIP, paying agent and miscellaneous costs.

*Estimated, subject to change.

THE BONDS

Description

The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof, will be in the aggregate principal amount of \$7,350,000*, will be dated as of the date of delivery, which is expected to be September 15, 2010 and will bear interest at the rates and mature in the amounts and at the times set forth on the inside cover page of this Preliminary Official Statement. Interest on the Bonds will be payable initially March 1, 2011, and thereafter, semiannually on March 1 and September 1.

When issued, the Bonds will be registered in the name of Cede & Co., as nominee for the Depository Trust Company ("DTC"), New York, New York. Purchasers of the Bonds (the "Beneficial Owners") will not receive any physical delivery of bond certificates, and beneficial ownership of the Bonds will be evidenced only by book entries. See "BOOK – ENTRY ONLY SYSTEM" herein.

Payment of Principal and Interest

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, payments of principal of, and interest on the Bonds, when due, are to be made to DTC and all such payments shall be valid and effective to satisfy fully and to discharge the obligations of the School District with respect to, and to the extent of, principal and interest so paid.

If the use of the Book-Entry Only System for the Bonds is discontinued for any reason, bond certificates will be issued to the Beneficial Owners of the Bonds and payment of principal and interest on the Bonds shall be made as described in the following paragraphs:

The principal of the Bonds, when due upon maturity or upon any earlier redemption, will be paid to the registered owners of the Bonds, or registered assigns, upon surrender of the Bonds to Manufacturers and Traders Trust Company (the "Paying Agent"), acting as paying agent and sinking fund depository for the Bonds, at its specified corporate trust office in Harrisburg, Pennsylvania (or to any successor paying agent at its designated office(s)).

Interest is payable to the registered owner of a Bond from the interest payment date next preceding the date of registration and authentication of the Bond, unless: (a) such Bond is registered and authenticated as of an interest payment date, in which event such Bond shall bear interest from said interest payment date, or (b) such Bond is registered and authenticated after a Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such Bond shall bear interest from such interest payment date, or (c) such Bond is registered and authenticated on or prior to the Record Date preceding March 1, 2011, in which event such Bond shall bear interest from the date of delivery, which is expected to be September 15, 2010, or (d) as shown by the records of the Paying Agent, interest on such Bond shall be in default, in which event such Bond shall bear interest from the date to which interest was last paid on such Bond. Interest shall be paid initially March 1, 2011, and thereafter, semiannually on March 1 and September 1 of each year, until the principal sum is paid. Interest on each Bond is payable by check drawn on the Paying Agent, which shall be mailed to the registered owner whose name and address shall appear, at the close of business on the fifteenth day of February and August, respectively (the "Record Date"), on the registration books maintained by the Paying Agent, irrespective of any transfer or exchange of the Bond subsequent to such Record Date and prior to such interest payment date, unless the School District shall be in default in payment of interest due on such interest payment date. In the event of any such default, such defaulted interest shall be payable to the person in whose name the Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Paying Agent to the registered owner of such Bond not less than fifteen (15) days preceding such special record date. Such notice shall be mailed to the person in whose name such Bond is registered at the close of business on the fifth (5th) day preceding the date of mailing.

If the date for payment of the principal or interest on any Bonds of or interest on any Bonds on an interest payment date, at maturity, or at redemption shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the Commonwealth of Pennsylvania are authorized by law or executive order to close, then the date for payment of such principal or interest shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions in the Commonwealth of Pennsylvania are authorized to close, and payment on such date shall have the same force and effect as if made on the nominal date established for such payment.

*Estimated, subject to change.

Transfer, Exchange and Registration of Bonds

Subject to the provisions described below under “Book-Entry Only System,” Bonds are transferable or exchangeable by the registered owners thereof upon surrender of Bonds to the Paying Agent, accompanied by a written instrument or instruments in form, with instructions satisfactory to the Paying Agent, duly executed by the registered owner of such Bond or his attorney-in-fact or legal representative. The Paying Agent shall enter any transfer of ownership of Bonds in the registration books and shall authenticate and deliver at the earliest practicable time in the name of the transferee or transferees a new fully registered bond or bonds of authorized denominations of the same series, maturity and interest rate for the aggregate principal amount which the registered owner is entitled to receive. The School District and the Paying Agent may deem and treat the registered owner of any Bond as the absolute owner thereof (whether or not a Bond shall be overdue) for the purpose of receiving payment of or on account of principal and interest and for all other purposes, and the School District and the Paying Agent shall not be affected by any notice to the contrary.

Bonds are transferable or exchangeable by the registered owners thereof upon surrender of Bonds to the Paying Agent, at its specified corporate trust office accompanied by a written instrument or instruments in form, and with instructions, satisfactory to the Paying Agent, duly executed by the registered owner of such Bond or his attorney-in-fact or legal representative. The Paying Agent shall enter any transfer of ownership of Bonds in the registration books and shall authenticate and deliver at the earliest practicable time in the name of the transferee or transferees a new fully registered bond or bonds of authorized denominations, maturity and interest rate for the aggregate principal amount which the registered owner is entitled to receive. The School District and the Paying Agent may deem and treat the registered owner of any Bond as the absolute owner thereof (whether or not a Bond shall be overdue) for the purpose of receiving payment of or on account of principal and interest and for all other purposes, and the School District and the Paying Agent shall not be affected by any notice to the contrary.

State Enforcement of Debt Service Payments

Section 633 of the Pennsylvania School Code of 1949, as amended by Act 154 of 1998, presently provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness at date of maturity or date of mandatory redemption, or any interest due on such indebtedness on any interest payment date, in accordance with the schedule under which the bonds were issued, the Secretary of Education shall notify such board of school directors of its obligation and shall withhold out of any State appropriation due such school district an amount equal to the sum of the principal amount maturing or subject to mandatory redemption and interest owing by such school district, and shall pay over the amount so withheld to the bank or other person acting as sinking fund depository for such bond issue. These withholding provisions are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation.

There can be no assurance, however, that any payments pursuant to this provision will be made by the date on which such payments are due to the Bondholders.

The effectiveness of Section 633 may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors' rights generally.

Security

The Bonds will be general obligations of the School District, payable from its tax and other general revenues which presently include ad valorem taxes which may be levied on all taxable property within the School District without limitation as to rate or amount. The School District has covenanted that it will provide in its budget for each fiscal year, and will appropriate from its general revenues in each such fiscal year, the amount of the debt service on the Bonds for such fiscal year, and will duly and punctually pay or cause to be paid from its Sinking Fund, as hereinafter defined, or from any of its revenues or funds, the principal of every maturity of the Bonds and the interest thereon at the dates and place and in the manner stated on the Bonds, and for such budgeting, appropriation, and payment the School District irrevocably has pledged its full faith, credit and taxing power (see “Defaults and Remedies”). However, the School District's taxing power for debt service on the Bonds may become subject to limitations if the School District implements a new tax system pursuant to Act No. 50 of 1998 and Act No. 72 of 2004 (see “Act 72 of 2004 (The Homeowner Tax Relief Act)” on pages 10, 11, 12 and 13 as follows). The School Code presently provides for the withholding and application of subsidies in the event of failure to pay debt service (see “State Enforcement of Debt Service Payments” herein).

Sinking Fund

A sinking fund for the payment of debt service on the Bonds, designated "Sinking Fund - General Obligation Bonds, Series A of 2010" (the "Sinking Fund"), created under the Resolution shall be held by the Paying Agent as sinking fund depository. The School District shall deposit in the Sinking Fund a sufficient sum not later than the date when interest and/or principal is to become due on the Bonds so that on each payment date the Sinking Fund will contain an amount which, together with any other funds available therein, is sufficient to pay in full interest and/or principal then due on the Bonds.

The Paying Agent, as sinking fund depository, is authorized without further order from the School District to pay from the Sinking Fund the principal of and interest on the Bonds, as and when due and payable.

BOOK-ENTRY ONLY SYSTEM

The information in this section has been obtained from materials provided by DTC for such purpose. The School District (herein referred to as the "Issuer") and the Underwriter do not guaranty the accuracy or completeness of such information, and such information is not to be construed as a representation of the School District or the Underwriter.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or in such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for the Bonds of each maturity will be issued in principal amount equal to the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTC is owned by the users of its subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's highest rating, "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. ***Beneficial Owners will not receive certificates representing their ownership interests in the Bonds except in the event that use of the book-entry system for the Bonds is discontinued.***

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners to Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices of Beneficial

Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds (or all Bonds of a particular series or subseries and maturity) are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue (or maturity) to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC, the Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the redemptions proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

DTC may discontinue its services as a securities depository for the Bonds at any time by giving reasonable notice to the Issuer or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

So long as a nominee of DTC is the registered owner of the Bonds, references herein to the Bondholders or the holders or owners of the Bonds shall mean DTC and shall not mean the Beneficial Owners of the Bonds. The School District and the Paying Agent will recognize DTC or its nominee as the holder of all of the Bonds for all purposes, including the payment of the principal or redemption price of and interest on the Bonds, as well as the giving of notices and any consent or direction required or permitted to be given to or on behalf of the Bondholders under the Resolution. Neither the School District nor the Paying Agent will have any responsibility or obligation to Participants or Beneficial Owners with respect to payments or notices to Bondholders.

NEITHER THE SCHOOL DISTRICT NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY TO ANY BENEFICIAL OWNER BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

The Issuer and the Paying Agent cannot give any assurances that DTC or the Participants will distribute payments of the principal or redemption price of and interest on the Bonds paid to DTC or its nominee, as the registered owner of the Bonds, or any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Preliminary Official Statement.

REDEMPTION OF BONDS

Mandatory Redemption

Bidders may elect to structure the issue to include term bonds, which term bonds, if selected by the bidder, will be subject to mandatory redemption prior to maturity, in the years and amounts as shown in the Invitation to Bid, upon payment of the principal amount of Bonds to be redeemed, together with accrued interest to the date fixed for redemption, or upon maturity, as applicable. Bonds to be redeemed shall be selected by lot by the Paying Agent.

In lieu of such Mandatory Redemption, the Paying Agent, on behalf of the School District, may purchase from money in the Sinking Fund, at a price not to exceed the principal amount plus accrued interest, or the School District may tender to the Paying Agent, all or part of the Bonds subject to being drawn for redemption in any such year.

Optional Redemption

The Bonds stated to mature on and after March 1, 2016 are subject to redemption prior to maturity, at the option of the School District, as a whole or, from time to time, in part, on September 1, 2015 or on any date thereafter, or from time to time in part, in each case upon payment of a redemption price of 100% of the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all Bonds of any maturity are to be redeemed, the Bonds of such maturity to be redeemed shall be drawn by lot by the Paying Agent.

Notice of Redemption

Notice of any redemption shall be given by mailing a copy of the redemption notice not less than thirty (30) days nor more than forty-five (45) days prior to the date fixed for redemption addressed to each of the registered owners of Bonds to be redeemed, in whole or in part at the addresses shown on the registration books; provided, however, that failure to give such notice by mailing, or any defect therein or in the mailing thereof shall not affect the validity of any proceeding for redemption of any Bonds called for redemption.

On the date designated for redemption, and money for payment of the principal and accrued interest being held by the Paying Agent, interest on the Bonds and portions thereof so called for redemption shall cease to accrue and such Bonds and portions thereof shall cease to be entitled to any benefit or security under the Resolution, and registered owners of such Bonds or portions thereof so called for redemption shall have no rights with respect to such Bonds, except to receive payment of the principal of and accrued interest on such Bonds to the date fixed for redemption.

If the redemption date for any Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the Commonwealth of Pennsylvania are authorized by law or executive order to close, then the date for payment of the principal and interest upon such redemption shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the nominal date of redemption.

Manner of Redemption

If a Bond is of a denomination larger than \$5,000, a portion of such Bond may be redeemed. For the purposes of redemption, a Bond shall be treated as representing that number of Bonds which is obtained by dividing the principal amount thereof by \$5,000, each \$5,000 portion of such Bonds being subject to redemption. In the case of partial redemption of a Bond, payment of the redemption price shall be made only upon surrender of such Bond in exchange for Bonds of authorized denominations in aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

THE SCHOOL DISTRICT

Introduction

The Montgomery Area School District is located in Lycoming County in north central Pennsylvania, approximately 15 miles southeast of Muncy, Pennsylvania. The School District covers 87 square miles and is comprised of the Borough of Montgomery, Brady Township, Clinton Township, and Washington Township. The 2000 population served by the School District was 7,749.

Administration

The School District has a nine member Board of School Directors (the "School Board") elected for four-year terms. The Superintendent is the chief administrative officer of the School District, with overall responsibility for all aspects of operations, including education and finance. The Business Manager is responsible for budget and financial operations. The Board of School Directors selects both officials.

School Facilities

The School District presently operates two elementary schools, a middle school and a high school, all as described in the following table.

TABLE 1
MONTGOMERY AREA SCHOOL DISTRICT
SCHOOL FACILITIES

Building	Original Construction	Addition/ Renovation	Grades	Rated Pupil Capacity	2009-10 Enrollmen t
<i>Elementary:</i>					
Elimsport Elementary School.....	1958	1984/1999	K-5	125	93
Montgomery Elementary School.....	1958	1984	K-5	450	333
<i>Secondary:</i>					
Montgomery Middle School.....	1958	1984	6-8	300	195
Montgomery High School	1929	1984/2000	9-12	350	280

Source: School District officials.

Enrollment Trends

The following Table 2 presents recent trends in school enrollment and projections of enrollment for the next 5 years, as prepared by the School District's administrative officials.

TABLE 2
MONTGOMERY AREA SCHOOL DISTRICT
ENROLLMENT TRENDS

Actual Enrollments				Projected Enrollments			
School Year	Elementary/ Middle	Secondary	Total	School Year	Elementary	Secondary	Total
2005-06	638	317	955	2010-11	620	277	897
2006-07	631	309	940	2011-12	617	276	893
2007-08	646	303	949	2012-13	619	276	895
2008-09	661	289	950	2013-14	615	275	890
2009-10	621	280	901	2014-15	612	273	885

Source: School District officials.

SCHOOL DISTRICT FINANCES

Introduction

The School District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by the Superintendent and Business Manager and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1.

Financial Reporting

The School District keeps its books and prepares its financial reports according to a modified accrual basis. Major accrual items are payroll, taxes and pension fund contributions payable, loans receivable from other funds, and revenues receivable from other governmental units. Its financial statements are audited annually by a firm of independent certified public accountants, as required by Commonwealth law. The firm of Rogers, Huber & Associates, of Muncy, Pennsylvania serves as School District auditor.

Budgeting Process as modified by the 2006 Taxpayer Relief Act

In General. School districts budget and expend funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by school district administrative officials on a uniform form furnished by such Department and submitted to the board of school directors for approval prior to the beginning of the fiscal year on July 1.

Procedures for Adoption of the Annual Budget. Under the Taxpayer Relief Act (hereinafter defined) all school districts of the first class A, second class, third class and fourth class (except as described below) must adopt a preliminary budget proposal (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the primary election immediately preceding the fiscal year. The preliminary budget proposal must be printed and made available for public inspection at least 20 days prior to its adoption. The board of school directors may hold a public hearing on the budget; if they do not the board must give at least 10 days public notice of its intent to adopt such budget.

If the adopted preliminary budget includes an increase in the rate of any tax levy, the preliminary budget must be submitted to the Pennsylvania Department of Education (PDE) no later than 85 days prior to the date of the primary election immediately preceding the fiscal year. PDE is to compare the proposed percentage increase in the rate of any tax with the school district's Index (*see "The Taxpayer Relief Act (Act 1 of 2006)"* herein) and within 10 days, but not later than 75 days prior to the upcoming election, inform the school district whether the proposed percentage increase is less than or equal to the Index. If PDE determines that a proposed tax increase will exceed the Index, the school district must reduce the proposed tax increase, or seek voter approval for the tax increase at the upcoming primary election or seek approval to utilize one of the referendum exceptions authorized under The Taxpayer Relief Act.

With respect to the utilization of any of the Taxpayer Relief Act referendum exceptions for which PDE approval is required (*see "The Taxpayer Relief Act (Act 1 of 2006)"* herein), the school district must publish notice of its intent to seek PDE approval not less than one week before submitting its request for approval to PDE and, if PDE determines to schedule a public hearing on the request, a notice of the date, time and place of such hearing. PDE is required by the Taxpayer Relief Act to rule on the school district's request and inform the school district of its decision no later than 55 days prior to the upcoming primary election so that, if PDE denies the school district's request and the school district seeks to exceed the Index, the school district must submit a referendum question to the local election officials at least 50 days before the upcoming election.

To use any of the referendum exceptions for which court approval is required under the Taxpayer Relief Act, the school district must petition the court of common pleas no later than 75 days prior to the upcoming election, after giving one week's public notice of the intent to file such petition. The court may schedule a hearing on the petition, and the school district must prove by clear and convincing evidence that it qualifies for the exception sought. The Taxpayer Relief Act requires that the court rule on the petition and inform the school district of its decision no later than 55 days prior to the upcoming election. Such Act provides that the court in approving the petition shall determine the dollar amount for which the exception is granted, the tax rate increase required to fund the exception and the appropriate duration of the tax increase. If the court denies the school district's petition, such Act permits the school district to submit a referendum question to the local election officials at least 50 days before the upcoming election, if it so chooses.

If a school district seeks voter approval to increase taxes at a rate higher than the applicable Index, whether or not it first seeks approval to utilize one of the referendum exceptions available under the Taxpayer Relief Act, and the referendum question is not approved by a majority of the voters voting on the question, the board of school directors may not approve an increase in the tax rate greater than the applicable Index.

Simplified Procedures in Certain Cases. The above budgetary procedures will not apply to a school district if the board of school directors adopts a resolution no later than 110 days prior to the election immediately preceding the upcoming fiscal year declaring that it will not increase any tax at a rate that exceeds the Index and that a tax increase at or below the rate of the Index will be sufficient to balance its budget. In that case, the Taxpayer Relief Act requires only that the proposed annual budget be prepared at least 30 days, and made available for public inspection at least 20 days, prior to its adoption, and that at least ten (10) days' public notice be given of the board's intent to adopt the annual budget. No referendum exceptions are available to a school district adopting such a resolution.

Summary and Discussion of Financial Results

The School District adopted a budget for 2010-11 on June 17, 2010.

The School District prepared annual fund balance analyses for discussion and approval by the Board. The Board's fund balance objective is to maintain a fund balance that will provide financial stability and to provide sufficient funds to pay current expenditures.

A summary of general fund balance sheet and changes in fund balances is presented in Tables 3 and 4. Table 5 shows revenues and expenditures for the past 4 years, estimated 2009-10 and the 2010-11 Budget.

TABLE 3
MONTGOMERY AREA SCHOOL DISTRICT
SUMMARY OF COMPARATIVE GENERAL FUND BALANCE SHEET*
(Years ending June 30)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
ASSETS					
Cash and Cash Equivalents.....	\$1,649,682	\$1,959,302	\$2,687,848	\$2,771,516	\$2,961,576
Taxes Receivable (Net).....	267,390	245,222	240,466	221,398	160,021
Interfund Receivable.....	0	0	143,046	239,445	247,714
Intergovernmental Receivable	509,093	512,124	373,755	394,190	419,928
Inventories	26,341	4,446	13,176	4,309	10,186
Other Receivables.....	0	0	0	0	0
Other	0	0	0	1,541	0
TOTAL ASSETS	<u>\$2,452,506</u>	<u>\$2,721,094</u>	<u>\$3,458,291</u>	<u>\$3,632,399</u>	<u>\$3,799,425</u>
LIABILITIES					
Interfund Payables	\$1,272	\$0	\$1,499	\$0	\$0
Accounts Payable	201,183	124,667	134,401	186,769	231,771
Accrued Salaries and Benefits	520,313	524,334	539,892	566,169	599,649
Payroll Deductions and Withholdings ..	31,411	120	0	978	383
Deferred Revenues.....	269,203	245,222	240,466	221,398	165,342
Other	11,717	6,906	9,705	15,546	9,702
TOTAL LIABILITIES	<u>\$1,035,099</u>	<u>\$901,249</u>	<u>\$925,963</u>	<u>\$990,860</u>	<u>\$1,006,847</u>
FUND EQUITIES					
Reserve for Inventories.....	\$26,341	\$4,446	\$13,176	\$4,309	\$10,186
Standard Fund Balance	0	0	0	0	150,000
Unreserved Fund Balance.....	<u>1,391,066</u>	<u>1,815,399</u>	<u>2,519,152</u>	<u>2,637,230</u>	<u>2,632,392</u>
TOTAL FUND EQUITIES	<u>\$1,417,407</u>	<u>\$1,819,845</u>	<u>\$2,532,328</u>	<u>\$2,641,539</u>	<u>\$2,792,578</u>
TOTAL LIABILITIES AND FUND EQUITIES	<u>\$2,452,506</u>	<u>\$2,721,094</u>	<u>\$3,458,291</u>	<u>\$3,632,399</u>	<u>\$3,799,425</u>

*Totals may not add due to rounding.

Source: School District Annual Financial Reports

TABLE 4

**MONTGOMERY AREA SCHOOL DISTRICT GENERAL FUND
SUMMARY OF CHANGES IN FUND BALANCE***

	Actual				Estimated	Budgeted
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010⁽¹⁾</u>	<u>2011⁽²⁾</u>
Beginning Fund Balance	\$1,417,409	\$1,819,848	\$2,532,329	\$2,641,542	\$2,792,580	\$2,941,879
Prior Period Adjustments	0	0	0	0	0	0
Revenues over						
(under) Expenditure	<u>402,440</u>	<u>712,481</u>	<u>109,212</u>	<u>151,039</u>	<u>149,299</u>	<u>(100,000)</u>
Ending Fund Balance	<u><u>\$1,819,848</u></u>	<u><u>\$2,532,329</u></u>	<u><u>\$2,641,542</u></u>	<u><u>\$2,792,580</u></u>	<u><u>\$2,941,879</u></u>	<u><u>\$2,841,879</u></u>

*Totals may not add due to rounding.

⁽¹⁾ Estimated, subject to change and final audit.

⁽²⁾ Budget, as adopted June 17, 2010. See "Summary and Discussion of Financial Results" herein.

Source: School District Annual Financial Reports and Budget.

Revenue

The School District received \$10,882,601 in revenue in 2005-06 and estimated \$12,540,085 in 2009-10. Local sources contributed to a decreasing share of total revenue from 39.34 percent to an estimated 36.08 percent over this period. Revenue from State sources contributed an increased share of total revenue from 56.98 percent to an estimated 61.05 percent over this period. Federal and other sources contributed a decreasing from 3.68 percent to an estimated 2.68 percent over this period.

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TABLE 5
MONTGOMERY AREA SCHOOL DISTRICT
SUMMARY OF SCHOOL DISTRICT GENERAL FUND
REVENUES *
(For years ending June 30)

	Actual				Estimated	Budget
REVENUE:	2006	2007	2008	2009	2010⁽¹⁾	2011⁽²⁾
Local Sources:						
Real Estate Taxes	\$2,503,533	\$2,578,143	\$2,746,564	\$2,519,225	\$2,488,973	\$2,493,429
Interim Real Estate Taxes	15,409	12,501	14,602	14,196	0	10,000
Total Act 511 Taxes	1,145,358	1,152,916	1,294,437	1,251,622	1,185,555	1,203,000
Payment in Lieu of Taxes	14,478	39,382	46,352	46,394	46,350	46,350
Public Utility Realty Tax	5,380	6,047	5,708	5,257	6,001	5,000
Delinquency on Taxes Levied	178,122	171,952	190,828	161,252	123,301	160,000
Earnings from Temporary Deposits	70,760	121,210	113,997	47,769	7,286	10,000
Revenues from Student Activities	19,350	25,438	19,327	20,003	19,715	26,500
Federal Revenue Received-other PA Schools	164,169	121,718	144,411	133,354	256,585	218,905
All Other Services Provided Other Govts and LEAs	88,829	173,109	209,823	167,034	123,775	0
Refunds and Other Misc. Revenue	82,500	0	0	34,924	0	0
Rentals	600	400	300	866	400	400
Contributions	25,158	25,383	85,745	90,050	90,000	90,000
Revenues from Intermediate Sources-Federal/State	0	0	0	30,000	0	0
Tuition from Patrons	5,082	0	1,876	19,879	0	275,000
Other Sources	5,562	22,574	7,215	8,456	8,964	10,000
Total Local Sources	\$4,324,290	\$4,450,773	\$4,881,185	\$4,550,281	\$4,356,905	\$4,548,584
State Sources:						
Basic Instructional Subsidy	\$4,495,600	\$4,696,256	\$4,801,452	\$4,945,496	\$5,185,463	\$4,572,430
Charter Schools	3,506	1,526	3,341	56,867	45,679	97,500
Rentals and Sinking Fund Payments	70,348	253,152	273,180	257,374	256,340	263,392
Special Education	520,494	534,682	552,361	561,862	569,403	568,894
Vocational Education	114,538	122,425	107,558	132,416	51,143	51,465
Transportation	241,523	263,629	337,554	331,257	302,013	306,678
Revenue for Social Security	238,338	235,512	246,581	258,815	271,181	234,113
Revenue for Retirement	146,032	215,824	224,046	158,595	152,010	263,970
Health Services	19,087	18,487	18,469	18,701	18,057	16,163
Tuition for Orphans & Children in Private Homes	79,351	79,032	71,681	67,893	84,610	81,000
State Property Tax Reduction Allocation	0	0	0	313,437	0	318,764
Pre-K Counts	0	0	392,500	392,500	0	392,500
Extra Grants	182,103	211,273	214,872	153,062	395,533	139,104
Classrooms for the Future	0	0	102,358	45,413	0	0
Other Sources	11,174	11,354	10,806	5,997	318,748	1,673
Total State Sources	\$6,122,095	\$6,643,154	\$7,356,759	\$7,699,684	\$7,650,180	\$7,307,646
Federal Sources:						
Total Federal Sources	\$435,665	\$350,426	\$355,123	\$361,016	\$533,000	\$1,122,864
Other Sources:						
Total Other Sources	\$550	\$1,566	\$500	\$225	\$0	\$165,000
TOTAL REVENUE	\$10,882,601	\$11,445,919	\$12,593,568	\$12,611,206	\$12,540,085	\$13,144,094

*Totals may not add due to rounding.

⁽¹⁾ Estimated, subject to change and final audit.

⁽²⁾ Budget as adopted June 17, 2010. See "Summary and Discussion of Financial Results" herein.

Source: School District Annual Financial Reports and Budget.

TABLE 5
MONTGOMERY AREA SCHOOL DISTRICT
SUMMARY OF SCHOOL DISTRICT GENERAL FUND
EXPENDITURES*
(For years ending June 30)

	Actual				Estimated	Budget
EXPENDITURES:	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010⁽¹⁾</u>	<u>2011⁽²⁾</u>
Instruction	\$6,211,204	\$6,026,335	\$7,005,443	\$6,637,723	\$7,222,932	\$7,089,558
Pupil Personnel	337,608	316,794	357,032	395,291	394,778	415,539
Instructional Staff	450,956	408,066	474,746	471,643	622,865	491,224
Administration	656,327	649,192	714,626	731,763	623,139	682,604
Pupil Health	87,302	90,499	98,283	95,727	78,684	84,103
Business	184,404	194,187	207,107	209,107	216,105	228,181
Operation and Maintenance	972,706	1,141,803	1,262,918	1,274,374	1,289,707	1,494,043
Student Transportation	381,364	429,671	455,426	460,949	457,398	471,296
Central & Other Support Services	58,804	55,215	60,693	60,959	748	60,500
Operation of Non-instructional Services	318,078	324,927	373,256	406,458	387,392	388,326
Debt Service	0	0	8,085	0	1,035,883	1,116,720
Community Services & Student Activities	0	0	0	366,026	0	0
Fund Transfers	821,408	1,096,749	1,466,740	1,342,719	0	0
Refund of Prior Year Receipts	0	0	0	7,428	0	0
Budgetary Reserve	0	0	0	0	0	722,000
TOTAL EXPENDITURES	<u>\$10,480,161</u>	<u>\$10,733,438</u>	<u>\$12,484,356</u>	<u>\$12,460,167</u>	<u>\$12,390,786</u>	<u>\$13,244,094</u>
 SURPLUS (DEFICIT) OF						
REVENUES OVER EXPENDITURES	<u>\$402,440</u>	<u>\$712,481</u>	<u>\$109,212</u>	<u>\$151,039</u>	<u>\$149,299</u>	<u>(\$100,000)</u>

*Totals may not add due to rounding.

⁽¹⁾Budget, as adopted June 18, 2009.

Source: School District Annual Financial Reports and Budget.

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TAXING POWERS OF THE SCHOOL DISTRICT

In General

Subject to certain limitations imposed by the Taxpayer Relief Act, Act No. 1 of the Special Session of 2006 (see below), the School District is empowered by the School Code and other statutes to levy the following taxes:

1. A basic annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.
2. An unlimited ad valorem tax on the property taxable for school purposes to provide funds:
 - a. for minimum salaries and increments of the teaching and supervisory staff;
 - b. to pay rentals due any municipality authority or non-profit corporation or due the State Public School Building Authority;
 - c. to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the school district; and
 - d. to pay for the amortization of a bond or note issue which provided a school building prior to the first Monday of July, 1959.
3. An annual per capita tax on each resident or inhabitant over 18 years of age of not more than \$5.00.
4. Additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended ("The Local Tax Enabling Act"). These taxes, which may include, among others, an additional per capita tax, a wage and other earned income tax, a real estate transfer tax, a gross receipts tax, a local services tax and an occupation tax, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth – "STEB") multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10 those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year. The Local Tax Enabling Act also authorizes, but does not require, taxing authorities to exempt from per capita, occupation, and earned income taxes and any local services tax levied at a rate of \$10 or less per year, any person whose total income from all sources is less than \$12,000 per year.

Act 1 of 2006 (The Taxpayer Relief Act)

Pennsylvania Act No. 1 of the Special Session of 2006 ("The Taxpayer Relief Act" or "Act 1"), became effective on June 27, 2006. Under the provisions of Act 1, a school district may not, in fiscal year 2007-2008 or in any subsequent fiscal year, levy any tax for the support of the public schools which was not levied in the 2006-2007 fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act (Act 511), or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions summarized below is applicable and the use of such exception is approved by the court of common pleas (in the case of the exceptions numbered 1, 2 and 4 below) or the Pennsylvania Department of Education (PDE) (in the case of all other exceptions below):

1. to pay costs incurred in responding to or recovering from a declared emergency or disaster;
2. to pay costs incurred in implementing a court or administrative order;
3. **to pay interest and principal on indebtedness incurred (i) prior to September 4, 2004, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2004, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2004; to pay interest and principal on any indebtedness approved by the voters at referendum; to pay interest and principal on indebtedness incurred within certain limits for academic elementary or secondary school building projects; to pay interest and principal on indebtedness for up to \$250,000 (adjusted annually by an inflationary factor) of the construction cost of a nonacademic school construction project; and to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;**

4. to pay costs incurred in responding to conditions posing an immediate threat of serious physical harm or injury to persons;
5. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances;
6. to pay costs which were incurred in the implementation of a school improvement action plan under the federal No-Child Left Behind Act and not offset by a State allocation of funds;
7. to pay costs necessary to maintain per-student local tax revenue, adjusted by the Index, if the percentage growth in average daily attendance over a defined period exceeds 7.5%, or to maintain actual instructional expense per student, adjusted by the Index, if the increase in actual instruction expense per student over a defined period is less than the Index;
8. to maintain revenues derived from real property taxes, earned income taxes, personal income taxes, basic education funding allocations from the State and special education funding allocations from the State, adjusted by the Index, for a school district where the percentage increase in revenues derived from such sources over a defined period is less than the Index;
9. to pay costs incurred for providing health care-related benefits which are directly attributable to collective bargaining agreements in effect on January 1, 2006, between the school district and its employees' organization if the anticipated increase in the cost of such benefits between the current year and the upcoming year is greater than the Index; and
10. To make payments into the State Public School Employees' Retirement System when the increase in the actual dollar amount of estimated payments between the current year and the upcoming year is greater than the Index.

Any revenue derived from an increase in the rate of any tax allowed under the exception numbered 3 above may not exceed the anticipated dollar amount of the expenditure, and any revenue derived from an increase in the rate of any tax allowed pursuant to any other exception enumerated above may not exceed the rate increase required, as determined by the court or PDE, as the case may be. If a school district's petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

The Index (to be determined and reported by PDE by September of each year for application to the following fiscal year) is the average of the percentage increase in the statewide average weekly wage, as determined by the State Department of Labor and Industry for the preceding calendar year, and the employment cost index for elementary and secondary schools, as reported by the federal Bureau of Labor Statistics for the preceding 12-month period beginning July 1 and ending June 30. If and when a school district has a Market Value/Income Aid Ratio greater than 0.40 for the prior school year, however, the Index is adjusted upward by multiplying the unadjusted Index by the sum of 0.75 and such Aid Ratio.

In accordance with the Taxpayer Relief Act, the Board of School Directors of the School District placed a referendum on the ballot for the May 15, 2007 primary election seeking voter approval to increase the rate of the School District's current .9% earned income tax and use the proceeds to reduce local real estate taxes by the homestead or farmstead exclusion. The referendum to increase the earned income tax was not approved by a majority of the voters at the primary election.

A board of school directors may submit, but is not required to submit another referendum question to the voters at the municipal election in 2009 or any odd numbered year thereafter seeking approval to levy or increase the rate of an earned income tax (EIT) or a new personal income tax (PIT) for the purpose of further funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate which, is required to provide the maximum homestead and farmstead exclusions allowable under law.

The 2006 Bonds are expected to Qualify for an Exception to the Referendum Requirement under the Taxpayer Relief Act

The 2006 Bonds represent indebtedness of the School District that was incurred under the Local Government Unit Debt Act by a resolution adopted by the Board of School Directors on November 15, 2005, and hence is expected to be eligible for the exception to the referendum provision of Act 1 which became effective on June 27, 2006, in accordance with the language of Act 1 summarized in paragraph 3 above. Under the Taxpayer Relief Act, the School District is entitled to apply to PDE for an approval to utilize a referendum exception, if and to the extent a tax increase greater than the Index is needed to pay principal and interest on the Bonds in any particular fiscal year (see "**The Taxpayer Relief Act**" and "**Budgeting Process in School Districts under the Taxpayer Relief Act**" herein). The Taxpayer Relief Act provides that PDE shall approve a school district's request if a review of the data demonstrates that the school district qualifies for the exception sought and the sum of the dollar amounts of all exceptions for which the school district qualifies is not more than what is necessary to balance the budget after giving effect to the revenue to be raised by the allowable increase under the Index. There can be no assurance; however, that approval will be given by PDE to utilize a referendum exception in any future fiscal year or years.

State Law Authorizing Replacement of the School District's Occupation Tax with an Increase in the Local Earned Income Tax

Act 24 of 2001 of the Commonwealth of Pennsylvania, which became law on June 22, 2001, authorizes a Board of School Directors to schedule a public hearing and conduct a ballot referendum on replacing the school district's occupation tax with an increase in the local earned income tax. Currently, school districts in Pennsylvania share a 1.0% tax on the annual amount of residents' wages and other earned income (which excludes unearned or investment income), with the resident municipality. Under the new law, this tax could be increased by the percentage necessary to generate revenue equal to what was collected during the preceding year on the occupation tax. The occupation tax is a flat amount for all employed individuals, or assessed by various trade, occupation and professional titles, regardless of income. The restructured tax is designed to be revenue neutral at the time of implementation to the school district.

On August 1, 2001, the Board of School Directors held a public hearing and adopted a Resolution directing the Lycoming County Board of Elections to place on the ballot a referendum regarding replacement of the occupation tax with an increase in the earned income tax from 0.5% to 1.25%. The referendum was adopted November 6, 2001, and the change in the tax went into effect in the 2002-03 school year.

Legislation Limiting Unreserved Fund Balances

Pennsylvania Act No. 2005A-48 (enacted December 23, 2005A) prohibits a school district from increasing real property taxes for the school year 2005-2006 or any subsequent school year, unless the school district has adopted a budget for such school year that includes an estimated ending unreserved undesignated fund balance which is not more than a specified percentage of the total budgeted expenditures, as set forth below:

<u>Total Budgeted Expenditures</u>	<u>Estimated Ending Unreserved Undesignated Fund Balance as a Percentage of Total Budgeted Expenditures</u>
Less than or equal to \$11,999,999	12.0%
Between \$12,000,000 and \$12,999,999	11.5%
Between \$13,000,000 and \$13,999,999	11.0%
Between \$14,000,000 and \$14,999,999	10.5%
Between \$15,000,000 and \$15,999,999	10.0%
Between \$16,000,000 and \$16,999,999	9.5%
Between \$17,000,000 and \$17,999,999	9.0%
Between \$18,000,000 and \$18,999,999	8.5%
Greater than or equal to \$19,000,000	8.0%

"Estimated ending unreserved fund balance" is defined in Act 2005A-48 as that portion of the fund balance which is appropriable for expenditure or not legally or otherwise segregated for a specific or tentative future use, projected for the close of the school year for which a school district's budget was adopted and held in the general fund accounts of the school district.

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Tax Levy Trends

Table 6 shows the recent trend of tax rates levied by the School District. Table 7 shows the comparative trend of real property tax rates for the School District, Lycoming County and the municipalities within the School District.

TABLE 6
MONTGOMERY AREA SCHOOL DISTRICT TAX RATES

					Mechanical
	Real Estate	Real Estate	Wage and	Local	Device
Year	(mills)	Transfer	Income	Services	Tax/Per
		(%)	(%)	Tax	Device
				(\$)	(\$)
2005-06	10.50	1.0	1.25	5.0	125
2006-07	11.00	1.0	1.25	5.0	125
2007-08	11.00	1.0	1.25	5.0	125
2008-09	11.00	1.0	1.25	5.0	125
2009-10	11.00	1.0	1.25	5.0	125

Source: School District Annual Financial Reports.

TABLE 7
MONTGOMERY AREA SCHOOL DISTRICT
COMPARATIVE REAL PROPERTY TAX RATES
(Mills on Assessed Value)

	2006	2007	2008	2009	2010 ⁽¹⁾
<i>School District</i>	10.5000	11.0000	11.0000	11.0000	11.0000
<i>Lycoming County</i>	4.9000	4.9000	7.6300	4.7500	4.7500
Montgomery Borough	4.6300	4.6300	4.6300	2.8200	2.8200
Brady Township	0.3000	0.4000	0.4000	0.1800	0.1800
Clinton Township	2.2100	3.0150	3.0150	1.2680	1.2680
Washington Township	1.9500	1.9500	1.9500	1.9500	1.9500

⁽¹⁾ School District Mills is based on 2010 Budget Report, All other 2010 numbers (County, Borough and Township) are not yet available.

Source: Local Government Officials.

Real Property Tax

The real property tax (excluding delinquent collections) produced an estimated 2,488,973 in 2009-10, approximately 19.85 percent of overall revenue. The tax is levied on July 1 of each year. Taxpayers who remit within 60 days receive a 2 percent discount, and those who remit subsequent to 120 days after July 1 are assessed a 10 percent penalty.

The following table summarizes recent trends of assessed and market valuations of real property and real property tax collection data. The last County reassessment was done July 1, 2004, which went into effect on January 1, 2005.

TABLE 8
MONTGOMERY AREA SCHOOL DISTRICT
REAL PROPERTY ASSESSMENT DATA

Year	Market Value	Assessed Value	Common Level Ratio
2004-05	\$257,024,127	\$155,242,573	60.40%
2005-06	276,613,849	252,271,830	91.20%
2006-07	299,260,023	257,962,140	86.20%
2007-08	327,366,925	261,893,540	80.00%
2008-09	246,308,700	264,289,320	83.80%

Source: Pennsylvania State Tax Equalization Board.

TABLE 9
MONTGOMERY AREA SCHOOL DISTRICT
REAL PROPERTY ASSESSMENT DATA BY MUNICIPALITY

	2008 Market Value	2008 Assessed Value	2009 Market Value	2009 Assessed Value
<i>School District</i>	\$ 220,294,100	\$ 261,893,540	\$ 246,308,700	\$ 264,289,320
Brady Township	17,854,700	20,508,320	19,819,300	20,738,130
Clinton Township	104,562,700	136,227,500	114,437,200	127,550,090
Montgomery Borough	30,897,800	39,910,410	34,687,000	39,874,020
Washington Township	66,978,900	75,247,310	77,365,200	76,127,080
<i>Lycoming County</i>	4,591,866,700	5,200,870,440	5,102,987,600	5,256,111,960

Source: Pennsylvania State Tax Equalization Board.

TABLE 10
MONTGOMERY AREA SCHOOL DISTRICT
ASSESSMENT BY LAND USE

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Residential	\$100,793,294	\$167,273,440	\$167,122,670	\$169,244,580	\$169,138,050
Lots	3,212,524	5,160,250	5,231,070	5,224,630	5,210,040
Industrial	17,515,640	23,977,540	23,715,190	23,722,990	23,685,100
Commercial	10,818,487	16,220,700	17,878,160	17,891,550	18,152,520
Agriculture	21,043,983	36,621,460	40,724,140	42,816,680	42,884,990
Land	1,858,645	3,018,440	3,290,910	2,993,110	3,010,810
Seasonal	0	0	0	0	1,781,370
Trailer	0	0	0	0	426,440
Total	\$155,242,573	\$252,271,830	\$257,962,140	\$261,893,540	\$264,289,320

Source: Pennsylvania State Tax Equalization Board.

TABLE 11
MONTGOMERY AREA SCHOOL DISTRICT
REAL PROPERTY TAX COLLECTION DATA

	Assessed	Adjusted	Current	Current Year	Total	Total
<u>Year</u>	<u>Valuation</u>	<u>Levy</u>	<u>Collections</u>	<u>Collections</u>	<u>Collections</u>	<u>Collections</u>
			<u>Amount</u>	<u>as Percent</u>	<u>Amount⁽¹⁾</u>	<u>as Percent</u>
2004-05	\$2,267,485	\$2,259,375	\$2,020,722	89.44%	\$2,199,354	97.34%
2005-06	2,408,623	2,397,397	2,246,440	93.70%	2,461,565	102.68%
2006-07	2,727,726	2,719,531	2,582,309	94.95%	2,745,545	100.96%
2007-08	2,885,320	2,879,270	2,764,290	96.01%	2,947,078	102.36%
2008-09	2,909,638	⁽²⁾ 2,590,881	2,533,421	97.78%	2,691,640	103.89%

⁽¹⁾Flat billing plus penalties, less discounts and exonerations.

⁽²⁾Less due to allocation of State Property Reduction of \$318,757.

Source: School District officials.

The ten largest real property taxpayers, together with 2009-10 assessed values, are shown in Table 12. The aggregate assessed value of these ten taxpayers totals approximately 8.1 percent of total assessed value.

TABLE 12
MONTGOMERY AREA SCHOOL DISTRICT
TEN LARGEST REAL PROPERTY TAXPAYERS

<u>Owner</u>	<u>Property</u>	<u>2009-10 Assessed Value</u>
LeClerc Foods	Food Processing	\$ 4,349,290
Wengers Feed Mill, Inc.	Feed Mill	3,025,920
Specialized Vehicles	Mfg.-Truck Chassis	3,010,410
Springs Commerce Center Investors	Mfg.-Blinds	2,952,430
Construction Specialites	Manufacturing	2,596,710
Koppers Ind. Inc.	Mfg.-Railroad Ties	1,624,870
Phoenix Data	Manufacturing	1,253,040
M-B Companies	Mfg.-Painting Equipment	891,150
Express Gas	Gas Drilling	876,650
Punkin Center Assoc.	Residential	750,000
Total		\$21,330,470

Source: School District officials.

Other Taxes

Under Act 511, the School District collected \$2,507,768 in other taxes in 2008-09. Among the taxes authorized by Act 511, the Real Estate Transfer Tax, Wage and Income Tax, Emergency and Municipal Services Tax, Mechanical Devise Tax are levied by the School District. The Act 511 limit, equal to 12 mills on the market value of real property, was \$2,955,704.

Real Estate Transfer. The School District levies a tax of 1.0% of the value of real estate transfers. In 2008-09, the School District's collected portion of this tax yielded \$57,000.01 or less than one percent of total revenue.

Wage and Income Tax. A tax of one 1.25 percent of the earned income of residents is levied by the School District. In 2008-09, the School District's collected portion of this tax yielded \$1,176,320 or 9.3 percent of total revenue.

Emergency and Municipal Services. A tax of \$5.00 is levied on each person with an occupation. In 2008-09 the collected portion of this tax yielded \$14,551 or less than one percent of total revenue.

Mechanical Devise Tax. A flat tax of \$125.00 is levied on each resident. In 2008-09 the collected portion of this tax yielded \$3,750 or less than one percent of total revenue.

State Aid to School Districts

Pennsylvania school districts receive financial assistance from the Commonwealth in a number of forms, all subject to statutory provisions and annual appropriation by the Pennsylvania General Assembly.

A basic instructional subsidy is allocated to all school districts based on (1) the per pupil market value of assessable real property in the school district; (2) the per pupil earned income in the school district; and (3) the school district's tax effort, as compared with the tax effort of other school districts in the Commonwealth. School districts also receive state aid for special education, pupil transportation, vocational education, health service and debt service. Commonwealth law presently provides that the School District will receive reimbursement from the Commonwealth for a portion of debt service on the Bonds upon final approval of the Department of Education. Commonwealth reimbursement is based on the "Reimbursable Percentage" assigned to the Bonds and the School District's Aid Ratio. The School District officials have estimated that the "Reimbursable Percentage" of the Bonds will be a maximum of 66.52 percent. The School District Aid Ratio for the 2010-11 school year is currently 66.64 percent. The product of these two factors is 44.33 percent which is the percentage of debt service which will be reimbursed by the Commonwealth. In future years, this percentage may change as the School District's Aid Ratio changes, or as a result of future legislation. Aid Ratio is a function of the market value per weighted average daily membership of the School District relative to that of the Commonwealth.

DEBT AND DEBT LIMITS

Debt Statement

Table 13 shows the debt of the Montgomery Area School District as of July 13, 2010, including the issuance of the Bonds.

TABLE 13
MONTGOMERY AREA SCHOOL DISTRICT
DEBT STATEMENT
(As of July 13, 2010)

	Gross Outstanding
NONELECTORAL DEBT	
General Obligation Bonds, Series A of 2010 (last maturity 2027)	\$ 7,350,000
General Obligation Bonds, Series of 2010 (last maturity 2017)	2,625,000
General Obligation Bonds, Series of 2009 (last maturity 2017)	4,270,000
TOTAL NONELECTORAL DEBT	\$14,245,000
LEASE RENTAL DEBT	
TOTAL LEASE RENTAL DEBT	\$ 0
TOTAL PRINCIPAL OF DIRECT DEBT	\$14,245,000

*Includes the estimated Bonds offered through this Preliminary Official Statement. Excludes the 2006 Bonds being refunded herein.

Table 14 presents the overlapping indebtedness and debt ratios of the School District. After issuance of the Bonds, the principal of direct debt of the School District will total \$14,245,000. After adjustment for available funds and estimated Commonwealth aid, the local effort of direct debt will total \$9,572,456.

TABLE 14
MONTGOMERY AREA SCHOOL DISTRICT
BONDED INDEBTEDNESS AND DEBT RATIOS*
(As of July 13, 2010)

	Gross Outstanding	Local Effort or Net of Available Funds and Estimated State Aid⁽¹⁾
DIRECT DEBT		
Nonelectoral Debt.....	\$14,245,000	\$9,572,456
Lease Rental Debt.....	0	0
TOTAL DIRECT DEBT	<u>\$14,245,000</u>	<u>\$9,572,456</u>
 OVERLAPPING DEBT		
Lycoming County, General Obligation ⁽²⁾	\$3,296,888	\$3,296,888
Municipal Debt.....	<u>3,550,539</u>	<u>3,550,539</u>
TOTAL OVERLAPPING DEBT	<u>\$6,847,428</u>	<u>\$6,847,428</u>
 TOTAL DIRECT AND OVERLAPPING DEBT	<u>\$21,092,428</u>	<u>\$16,419,884</u>
 DEBT RATIOS		
Per Capita	\$2,721.95	\$2,118.97
Percent 2008-09 Assessed Value	8.05%	6.27%
Percent 2008-09 Market Value (estimated)	9.57%	7.45%

*Includes the estimated Bonds offered through this Preliminary Official Statement. Excludes the 2006 Bonds being refunded herein.

⁽¹⁾ Gives effect to current appropriations for payment of debt service and expected future State Reimbursement of School District sinking fund payments based on current Aid Ratio. See "State Aid to School Districts.

⁽²⁾ Pro rata share of 4.8 percent of \$70,146,562 principal amount outstanding.

Debt Limit and Remaining Borrowing Capacity

The statutory borrowing limit of the School District under the Act is computed as a percentage of the School District's "Borrowing Base". The "Borrowing Base" is defined as the annual arithmetic average of "Total Revenues" (as defined by the Act), for the three full fiscal years ended next preceding the date of incurring debt. The School District calculates its present borrowing base and borrowing capacity as follows:

Total Revenues for 2007-08	\$12,319,387
Total Revenues for 2008-09	12,353,832
Total Revenues for 2009-10 (estimated).....	<u>12,283,745</u>
Total	<u><u>\$36,956,964</u></u>
Annual Arithmetic Average (Borrowing Base)	\$12,318,988

Under the Act as presently in effect, no school district shall incur any nonelectoral debt or lease rental debt, if the aggregate net principal amount of such new debt together with any other net nonelectoral debt and lease rental debt then outstanding, would cause the net nonelectoral debt plus net lease rental debt to exceed 225% of the Borrowing Base. The application of the aforesaid percentage to the School District's Borrowing Base produces the following product:

	<u>Legal Limit</u>	<u>Net Debt Outstanding*</u>	<u>Remaining Borrowing Capacity</u>
Net Nonelectoral Debt and Lease Rental Debt Limit:			
225% of Borrowing Base.....	\$27,717,723	\$14,245,000	\$13,472,723

*Includes the estimated Bonds described herein and excludes the 2006 Bonds being refunded; does not reflect credits against gross indebtedness that may be claimed for a portion of principal of debt estimated to be reimbursed by State Aid.

Debt Service Requirements

Table 15 presents the debt service requirements on the School District's outstanding general obligation and lease rental indebtedness including debt service on the Bonds.

Table 16 presents data on the extent to which State Aid provides coverage for debt service and lease rental requirements.

The School District has never defaulted on the payment of debt service.

TABLE 15
MONTGOMERY AREA SCHOOL DISTRICT
DEBT SERVICE REQUIREMENTS*

<u>Year</u>	<u>Other General Obligation Debt</u>	<u>Series A of 2010</u>			<u>Total Debt Service</u>
		<u>Principal</u>	<u>Interest</u>	<u>Subtotal</u>	
2010-11	\$ 639,407				
2011-12	679,416				
2012-13	738,066				
2013-14	735,351				
2014-15	731,609				
2015-16	736,558				
2016-17	740,031				
2017-18	741,818				
2018-19	663,206				
2019-20	669,681				
2020-21	665,153				
2021-22	315,038				
2022-23	0				
2023-24	0				
2024-25	0				
2025-26	0				
2026-27	0				
2027-28	0				
2028-29	0				
2029-30	0				
Total	<u>\$8,055,334</u>	<u></u>	<u></u>	<u></u>	<u></u>

*Totals may not add due to rounding.

TABLE 16
MONTGOMERY AREA SCHOOL DISTRICT
COVERAGE OF DEBT SERVICE AND LEASE RENTAL
REQUIREMENTS BY STATE AID*

2008-09 State Aid Received	\$7,699,684
2008-09 Debt Service Requirements	1,342,719
Maximum Future Debt Service Requirements after Issuance of Bonds	
Coverage of 2008-09 Debt Service Requirements	5.73 times
Coverage of Maximum Future Debt Service Requirements after Issuance of Bonds	

*Assumes current State Aid Ratio. See "State Aid to School Districts".

Future Financing

The School District does not contemplate issuing additional long-term debt in the near future.

LABOR RELATIONS

School District Employees

There are approximately 150 employees of the School District, including 82 teachers and 5 administrators, 63 support personnel including secretaries, maintenance staff and monitors.

The School District's teachers are represented by the Montgomery Area Education Association, an affiliate of the Pennsylvania State Education Association, under a contract with the School District which expires on June 30, 2011. Custodians and maintenance employees are represented by American Federation of State, County and Municipal Employees (AFSCME), under a contract which expires on June 30, 2010. Other employees are not represented by any labor union.

Pension Program

School Districts in Pennsylvania are required to participate in a statewide pension program administered by the State Public School Employees Retirement System (PSERS). All of the School District's full-time employees, part-time employees who work more than 80 days in a school year, and hourly employees who work over 500 hours a year participate in the program. However, please note a recent Pennsylvania Supreme Court decision has removed the hourly de minimis requirement for part-time employees regarding participation in the program.

The PSERS Board of Trustees has set the fiscal year 2010-11 employer retirement contribution rate at 8.22 percent of payroll. Both the School District and the Commonwealth are responsible for paying a portion of the employer's share. Employers are divided into two groups; school entities and non-school entities. School entities are responsible for paying 100 percent of the employer share of contributions to PSERS. The Commonwealth reimburses the employer for one-half the payment for employees. Recent School District pension contributions to PSERS have been as follows:

2004-05.....	\$	233,516
2005-06.....	\$	253,559
2006-07.....	\$	347,102
2007-08.....	\$	414,836
2008-09.....	\$	294,394
2009-10 Budget.....	\$	304,020

The School District is current in all payments. Future projections are indicating increases in the contribution rate for future years. The PSERS complete report is available on its website on the Internet: www.psers.state.pa.us.

Other Post-Employment Benefits

The School District is obligated under collective bargaining agreements to provide in the future health insurance coverage for current and future retired employees, and to provide retirement severance pay for existing employees. The School District will become subject to the requirements of GASB Statements No. 43 and 45 commencing with the School District's annual financial statements for the fiscal year ending June 30, 2009.

LITIGATION

At the time of settlement, the School Board and the Solicitor will deliver a certificate stating that there is no litigation pending with respect to the Bonds, the Resolution or the right of the School District to issue the Bonds.

DEFAULTS AND REMEDIES

In the event of failure of the School District to pay or cause to be paid the interest on or principal of the Bonds, as the same becomes due and payable, the holders of the Bonds shall be entitled to certain remedies provided by the Act. Among the remedies, if the failure to pay shall continue for 30 days, holders of the Bonds shall have the right to recover the amount due by bringing an action in assumpsit in the Court of Common Pleas of the county in which the School District is located. The Act provides any judgment shall have an appropriate priority upon the funds next coming into the treasury of the School District. The Act also provides that upon a default of at least 30 days, holders of at least 25 percent of the Bonds may appoint a trustee to represent them. The Act provides certain other remedies in the event of default, and further qualifies the remedies hereinbefore described.

EXEMPTION FROM TAXATION

Tax Exemption

In the opinion of Bond Counsel, under existing Pennsylvania laws, the Bonds are exempt from present Pennsylvania personal property taxes and the interest on the Bonds is exempt from present Pennsylvania personal income tax. Conditioned upon compliance by the School District with all covenants and agreements contained in the Resolution and other documents relating to issuance of the Bonds, in the opinion of Bond Counsel interest on the Bonds will not be includible in gross income under the Internal Revenue Code of 1986, as amended, under present statutes, regulations and decisions; provided, however, that such interest may, in whole or in part, constitute directly or indirectly, a tax preference item for purposes of computing the alternative minimum tax for corporations.

No opinion is expressed by Bond Counsel as to other tax consequences that may accrue to an owner of the Bonds as a result of purchase and/or ownership of the same except as specifically set forth above.

The School District will issue its certificate to the effect that on the basis of the facts, estimates and circumstances in existence on the date of delivery of the Bonds it will make no use of the proceeds of the Bonds if such use on the date of issuance reasonably had been expected to cause the Bonds to be "arbitrage bonds" under Section 103(b) and Section 148 of the Internal Revenue Code of 1986, as amended, by the United States Treasury regulations relating to "arbitrage bonds" or corresponding provisions of any Federal tax laws from time to time proposed or enacted and at the time applicable or proposed to be applicable to the Bonds.

The School District has designated and determined under and for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended to qualify each of the Bonds as a "Qualified Tax-Exempt Obligation," as such phrase is defined in the Code.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the School District (being an "obligated person" with respect to \$10,000,000 or more of outstanding securities, including the Bonds, within the meaning of the Rule) will agree:

- (i) to file annually, with the Municipal Securities Rulemaking Board (the "MSRB") Electronic Municipal Marketing Access (EMMA) System, not later than 180 days following the end of each fiscal year of the School District, beginning with the fiscal year ending June 30, 2010, the following financial information and operating data with respect to the School District:
 - the financial statements for the most recent fiscal year, prepared in accordance with generally accepted accounting principles for local government units and audited in accordance with generally accepted auditing standards
 - a copy of or a summary of the budget for the current fiscal year
 - the total assessed value and market value of all taxable real estate for the current fiscal year
 - the taxes and millage rates imposed for the current fiscal year
 - the real property tax collection results for the most recent fiscal year, including (1) the real estate levy imposed (expressed both as a millage rate and an aggregate dollar amount), (2) the dollar amount of real estate taxes collected that represented current collections (expressed both as a percentage of such fiscal year's levy and as an aggregate dollar amount), (3) the amount of real estate taxes collected that represented taxes levied in prior years (expressed as an aggregate dollar amount), and (4) the total amount of real estate taxes collected (expressed both as a percentage of the current year's levy and as an aggregate dollar amount)
 - a list of the ten (10) largest real estate taxpayers and, for each, the total assessed value of real estate for the current fiscal year
 - pupil enrollment figures, including enrollment at the end of the most recent fiscal year, current enrollment and projected enrollment for the beginning of the next fiscal year, including a breakdown between elementary and secondary enrollment (to the extent reasonably feasible)

(ii) in a timely manner, to file with MSRB or EMMA notice of the occurrence of any of the following events with respect to the Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes.

(iii) in a timely manner, to provide to the MSRB or EMMA notice of a failure to provide required annual financial information, on or before the date specified above.

The School District may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, but the School District does not commit to provide any such notice of the occurrence of any events except those specifically listed above.

The School District reserves the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the School District no longer remains an "obligated person" with respect to the Bonds within the meaning of the Rule. The School District acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders or beneficial owners of the Bonds and shall be enforceable by the holders or beneficial owners of such Bonds; provided that the Bondholders' right to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the School District's obligations hereunder and any failure by the School District to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds.

Effective as of July 1, 2009, any filing with the MSRB may be made solely by transmitting such filing to the MSRB through its Electronic Municipal Market Access (EMMA) system.

The School District unintentionally failed to file the required Annual Disclosure for calendar year December 31, 2009; however, prior to the issuance of the Bonds, the School District provided to the MSRB through the Emma System the Annual Report and other information required to be provided under the Disclosure Agreement.

RATING

Standard & Poor's Ratings Group is expected to assign its municipal bond rating of "____" to this issue of Bonds, has done so with the understanding that upon delivery of the Bonds, the municipal bond insurance policy will be issued by _____. Such rating reflects only the view of such organization and any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: [Standard & Poor's Ratings Group, 55 Water Street, 38th Floor, New York, NY 10041]. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Underwriter has agreed to purchase the Bonds from the School District, subject to certain conditions precedent, and will purchase all of the Bonds if any of such Bonds are purchased. The Bonds will be purchased at a purchase price of \$_____ (consisting of an underwriter's discount of \$_____, plus an original issue premium of \$_____) less accrued interest from the dated date to the date of delivery of the Bonds.

LEGAL OPINION

The Bonds are offered subject to the receipt of the approving legal opinion of Mette, Evans & Woodside, Bond Counsel, of Harrisburg, Pennsylvania. Certain legal matters will be passed upon for the School District by Brett O. Feese, Esquire, of Muncy, Pennsylvania, School District Solicitor.

FINANCIAL ADVISOR

The School District has retained Public Financial Management, Inc., Harrisburg, Pennsylvania, as financial advisor (the "Financial Advisor") in connection with the preparation, authorization and issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Preliminary Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

MISCELLANEOUS

This Preliminary Official Statement has been prepared under the direction of the School District by Public Financial Management, Inc., Harrisburg, Pennsylvania, in its capacity as Financial Advisor to the School District. The information set forth in this Preliminary Official Statement has been obtained from the School District and from other sources believed to be reliable. Insofar as any statement herein includes matters of opinion or estimates about future conditions, it is not intended as representation of fact, and there is no guarantee that it is, or will be, realized. Summaries or descriptions of provisions of the Bonds, the Resolution, and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof. Reference is hereby made to the complete documents, copies of which will be furnished by the School District or the Financial Advisor upon request. The information assembled in this Preliminary Official Statement is not to be construed as a contract with holders of the Bonds.

The School District has authorized the distribution of this Preliminary Official Statement.

MONTGOMERY AREA SCHOOL DISTRICT
Lycoming County, Pennsylvania

By: /s/ Bonnie R. Taylor
President, Board of School Directors

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APPENDIX A
Demographic and Economic Information
Relating to the Montgomery Area School District

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Population

Table A-1 shows recent population trends for the School District, Lycoming County and the Commonwealth of Pennsylvania. The School District's population increased from 7,091 to 7,749 between 1990 and 2000. Table A-2 shows age comparisons for the municipalities comprising the School District, the County and the Commonwealth, as well as the persons per household. Average household size was smaller for the School District than the State average and slightly smaller than the County average.

TABLE A-1
RECENT POPULATION TRENDS

<u>Area</u>	<u>1990</u>	<u>2000</u>	Compound Average Annual Percentage Change <u>1990-2000</u>
School District	7,091	7,749	0.89%
Lycoming County	118,710	120,044	0.11%
Pennsylvania.....	11,881,643	12,281,054	0.33%

Source: U.S. Bureau of the Census, and Pennsylvania State Data Center.

TABLE A-2
AGE COMPOSITION

	Under <u>18</u>	<u>18-65</u>	<u>65+</u>	Persons Per <u>Household</u>
Lycoming County	24.9%	60.0%	15.1%	2.56
Pennsylvania.....	23.5	61.1	15.4	2.57

Source: Pennsylvania State Data Center, 2000 General Population and Housing Characteristics: Pennsylvania.

Employment

Table A-3 shows the distribution of employment for the MSA for November 2009.

TABLE A-3
DISTRIBUTION OF EMPLOYMENT
WILLIAMSPORT MSA
(Lycoming County)

	Industry Employment				Net Change	
Establishment Data	Nov 2009	Oct 2009	Sep 2009	Nov 2008	Oct 2009	Nov 2008
TOTAL NONFARM	52,100	52,300	52,000	53,300	-200	-1,200
TOTAL PRIVATE	43,500	43,800	43,700	44,900	-300	-1,400
GOODS-PRODUCING	11,300	11,400	11,400	12,500	-100	-1,200
Manufacturing	9,300	9,300	9,300	10,200	0	-900
SERVICE-PROVIDING	40,800	40,900	40,600	40,800	-100	0
PRIVATE SERVICE-PROVIDING	32,200	32,400	32,300	32,400	-200	-200
Trade, Transportation, and Utilities	10,200	10,200	10,100	10,700	0	-500
Retail Trade	6,700	6,600	6,600	7,000	100	-300
Education and Health Services	9,900	9,900	9,800	9,900	0	0
Leisure and Hospitality	3,700	3,700	3,800	3,800	0	-100
Government	8,600	8,500	8,300	8,400	100	200
Federal Government	500	500	500	500	0	0
State Government	3,300	3,300	3,200	3,300	0	0
Local Government	4,800	4,700	4,600	4,600	100	200

Source: Pennsylvania State Employment Service.

Major employers located within or near the School District include:

Name	Product or Service	Approximate Number of Employees
Susquehanna Regional Healthcare Alliance	Health Services	3000
Spring Window Fashions Div., Inc.	Window Coverings/Blinds	800
Pennsylvania College of Technology	Education	691
Andritz Sprout-Bauer	Pulp, Paper Equipment	625
BroDart Co.	Books and Furniture	600
Delta Wundies Division	Children's & Ladies Clothes	600
Shop Vac Corporation	Wet/Dry Vacuum Cleaners	600
Textron Lycoming, Avco Corporation.	Aircraft Engines	490
Williamsport Wire Rope Works	Wire Rope	460
Hope Enterprises	Bulk Mailing Services	450

Source: Lycoming Chamber of Commerce.

Table A-4 shows recent trends in employment and unemployment for Lycoming County and the State. The unemployment rate for the County has been higher than that for the State during the period shown.

TABLE A-4
RECENT TRENDS IN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT*
(000)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u> ⁽¹⁾	Compound Average Annual % Rate
<i>Lycoming County</i>						
Civilian Labor Force (000)	59.3	58.9	58.8	59.6	58.8	-0.17%
Employment (000)	56.1	55.9	56	55.8	53.5	-0.94%
Unemployment (000)	3.2	3.1	2.9	3.8	5.4	11.03%
Unemployment Rate	5.4%	5.2%	4.9%	6.4%	9.1	
<i>Pennsylvania</i>						
Civilian Labor Force (000)	6,279.0	6,306.0	6,287.0	6,424.0	6,310.0	0.10%
Employment (000)	5,966.0	6,010.0	6,013.0	6,045.0	5,751.0	-0.73%
Unemployment (000)	313.0	296.0	274.0	379.0	560.0	12.34%
Unemployment Rate	5.0	4.7	4.4	5.9	8.9	

*Residence Data.

⁽¹⁾As of November 2009.

Source: Pennsylvania Department of Labor and Industry.

Income

Table A-5 shows recent trends in per capita income for the School District, Lycoming County and Pennsylvania over the 1990-2000 period. Per capita income in the School District and in the County is lower than average per capita in the Commonwealth. Per capita income in the School District increased at a slower rate over this period than per capita income for the Commonwealth and the County.

TABLE A-5
RECENT TRENDS IN PER CAPITA INCOME*

	<u>1990</u>	<u>2000</u>	Compound Average Annual Percentage Change 1990-2000
School District	\$11,276	\$16,269	3.73%
Lycoming County	11,714	17,224	3.93%
Pennsylvania.....	14,068	20,880	4.03%

*Income is defined by the Bureau of the Census as the sum of wage and salary income, non-farm self-employment income, net self-employment income, Social Security and Railroad retirement income, public assistance income, interest, dividends, pensions, etc. before deductions for personal income taxes, Social Security, etc. School District income is the population-weighted average for political subdivisions.

Source: Pennsylvania State Data Center.

Commercial Activity

A-6 shows retail sales for the years 2005 through 2009 for the County, and the Commonwealth.

TABLE A-6

TOTAL RETAIL SALES
(Millions of Dollars)

	2005	2006	2007	2008	2009
Lycoming County	\$1,499,462	\$1,604,154	\$1,946,850	\$1,765,419	\$1,708,803
Pennsylvania	155,423,454	166,183,066	185,507,879	195,558,005	180,948,327

Source: Sales and Marketing Management Magazine

Educational Institutions

Lycoming College and Pennsylvania College of Technology are located in Williamsport and in nearby Lock Haven is Lock Haven University. State College is only 40 minutes away and is the home of the Pennsylvania State University, which accommodates over 30,000 students, and Bucknell University in Lewisburg is 30 minutes from the School District.

Housing

Lycoming County, 2000 census figures showed 52,464 housing units, while 49,580 housing units were found in 1990. This represents an increase of 2,884 residence within a decade.

Medical Facilities

Hospital care is provided by Susquehanna Health Systems which consist of the Williamsport Hospital and Divine Providence Hospital, both located in Williamsport, and Muncy Valley Hospital located in Muncy.

Utilities

Utility services for the area covered by the School District are provided by Verizon, PP&L Utilities and Pennsylvania Gas and Water Company. Water and sewer service is provided by Montgomery Water and Sewer Authority.

Transportation

The School District is along U.S. 15, a major north-south highway, approximately 20 miles north of Interstate 80, a major east-west route. Route 15 provides direct access south to Harrisburg, and north to Elmira and Rochester, New York. Interstate 80 provides direct access to the New York City area and major mid-western cities. Williamsport-Lycoming County Airport, five miles north of the School District, provides scheduled air service to Philadelphia and Pittsburgh. Conrail provides mainline freight service to Williamsport.

There are 873.4 miles of State and Federal highways and 839.2 miles of secondary and municipal highways within the County.

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APPENDIX B
Opinion of Bond Counsel

METTE, EVANS & WOODSIDE
A PROFESSIONAL CORPORATION
ATTORNEYS AT LAW

HOWELL C. METTE
ROBERT MOORE
CHARLES B. ZWALLY
PETER J. RESSLER
JAMES A. ULSH

JEFFREY A. ERNICO
MARY ALICE BUSBY
KATHRYN L. SIMPSON
THOMAS F. SMIDA
JOHN F. YANINEK*

3401 NORTH FRONT STREET
P.O. BOX 5950
HARRISBURG, PA 17110-0950

IRS NO.
23-1985005

TELEPHONE FACSIMILE
(717) 232-5000 (717) 236-1816

TOLL FREE: 1-800-962-5097

[HTTP://WWW.METTE.COM](http://www.mette.com)

TIMOTHY A. HOY
MARK D. HIPP
RONALD L. FINCK
KATHLEEN DOYLE YANINEK
RANDALL G. HURST*
HEATHER Z. KELLY

JAMES W. EVANS
1926 - 2008

* MARYLAND BAR

MONTGOMERY AREA SCHOOL DISTRICT

Lycoming County, Pennsylvania

\$8,250,000

General Obligation Bonds, Series A of 2010

September 25, 2010

OPINION

Montgomery Area School District, Lycoming County, Pennsylvania (the “School District”), is a school district existing under laws of the Commonwealth of Pennsylvania (the “Commonwealth”).

The Board of School Directors of the School District by Resolution duly adopted on July 20, 2010 (the “Resolution”), authorized and directed issuance of \$8,250,000 aggregate principal amount of the School District’s General Obligation Bonds, Series A of 2010, dated as of September 15, 2010 (the “Bonds”). The proceeds from sale of the Bonds are to be used for and towards payment of costs and expenses related to the current refunding of a prior series of general obligation bonds of the School District and for and towards payment of costs and expenses of issuance of the Bonds.

Proceedings for authorization, issuance and sale of the Bonds have been conducted in accordance with the Local Government Unit Debt Act, as amended, 53 Pa. C.S. Chs. 80-82 (the “Act”), of the Commonwealth.

The Bonds may be in the denomination of \$5,000 or whole multiples thereof and are fully registered as to principal and interest. The Bonds initially will be registered in the name of the nominee of the Depository Trust Company under the book entry system. The Bonds mature on March 1 of each of the years 2011 to 2027, inclusive. The Bonds bear interest from September 15, 2010, at rates set forth in the Resolution, payable in the case of the Bonds maturing on March 1, 2010, upon maturity and in the case of all other Bonds initially on September 1, 2011, and thereafter semiannually on March 1 and September 1 in each year, beginning March 1, 2012, until maturity or, if redeemable, until prior redemption.

The Bonds maturing on March 1, 2016, and thereafter are subject to redemption prior to maturity, at the option of the School District, as a whole series or, from time to time, in part, on September 1, 2015, or on any date thereafter, at the price, in the manner, upon terms and conditions and with the effect provided in the Resolution and in the Bonds.

Assured Guaranty Municipal Corp. has issued a financial guaranty insurance policy with respect to the Bonds.

The Pennsylvania Department of Community and Economic Development (the “Department”) has approved the proceedings for the increase of debt of the School District and for the issuance and sale of the Bonds as authorized in the Resolution, as required by the Act.

The School District has designated under and for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), to qualify each of the Bonds as a “qualified tax-exempt obligation”, as such phrase is defined in the Code.

In connection with the Bonds, we have examined, among other things: all proceedings under the Act; approval of proceedings and facts related to the increase of debt of the School District, as issued by the Department; a certificate of no litigation; a Non-Arbitrage Certificate of the School District; and usual closing certificates and documents.

We are of the opinion that:

1. The School District is authorized by laws of the Commonwealth to issue the Bonds for the purposes hereinbefore set forth.

2. Proceedings for the increase of debt of the School District and for the issuance and sale of the Bonds are in accordance with law.

3. The net nonelectoral debt of the School District, including the Bonds, and the net lease rental debt of the School District presently outstanding is less than the total allowable net nonelectoral debt plus net lease rental debt permitted by the Act.

4. Under existing laws of the Commonwealth, the interest on the Bonds is exempt from the present Pennsylvania personal income tax and the present Pennsylvania corporate net income tax and the Bonds are exempt from present Pennsylvania personal property taxes.

5. Conditioned upon compliance by the School District of all covenants and agreements contained in the Resolution and in other documents relating to issuance of the Bonds, we are of the opinion that interest on the Bonds will not be includible in gross income under the Code and under present regulations and decisions nor an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code; however, it should be noted with respect to certain corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed by Section 55 of the Code on such corporations.

No opinion is expressed as to other tax consequences that may accrue to a registered owner or a beneficial owner of the Bonds as a result of purchase and/or ownership of the same except as specifically set forth above.

6. The Bonds are authorized investments under the Pennsylvania Probate, Estates and Fiduciaries Code, Chapter 73, Fiduciaries Investments, Act No. 164 of 1972, approved June 30, 1972, as amended and supplemented.

We are of the opinion that: (1) the Bonds are valid and binding general obligations of the School District; (2) the School District has effectively covenanted to make payments out of its

sinking fund or any other of its revenues or funds at such times and in such annual amounts, specified in such covenant, as shall be sufficient for the payment of the interest agreed to be paid on the Bonds and the principal thereof when due; (3) the full faith, credit and taxing power of the School District within limits permitted by law are pledged for payment of the principal of and interest on the Bonds; and (4) the Bonds are enforceable against the School District in accordance with their terms and in accordance with the Act; subject, however, to any applicable bankruptcy, insolvency, reorganization, moratorium or other laws or equitable principles affecting the enforcement of creditors' rights heretofore or hereafter enacted.

We express no opinion with respect to the accuracy or completeness of any Official Statement prepared with respect to the Bonds.

This Opinion is given as of the date hereof and we assume no obligation to update or supplement this Opinion to reflect any facts or circumstances that hereafter may come to our attention or any changes in law that hereafter may occur

Very truly yours,

/s/ METTE, EVANS & WOODSIDE

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APPENDIX C
Audited Financial Statements

MONTGOMERY AREA SCHOOL DISTRICT

Single Audit Package

June 30, 2009

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MONTGOMERY AREA SCHOOL DISTRICT

**List of Report Distribution
June 30, 2009**

Bureau of Audits
Special Audit Services Division
Forum Place – 8th Floor
555 Walnut Street
Harrisburg PA 17101

Federal Audit Clearinghouse
Bureau of the Census
1201 East 10th Street
Jeffersonville IN 47132

ATTENTION: Single Audit Clearinghouse

Office of Prothonotary
Lycoming County Court House
48 West Third Street
Williamsport PA 17701

ROGERS HUBER & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS



Board of Directors
MONTGOMERY AREA SCHOOL DISTRICT
Penn Street
Montgomery PA

We have performed the Single Audit of **MONTGOMERY AREA SCHOOL DISTRICT** for the fiscal year ended June 30, 2009 and have enclosed the single audit reporting packages.

The single audit was done to fulfill the requirements of *OMB Circular A-133*. The single audit package includes the following –

- 1) Basic Financial Statements and Schedule of Expenditures of Federal Awards, and our report thereon;
- 2) Our report on compliance and on internal control over financial reporting based on an audit of the Financial statements performed in accordance with *Government Auditing Standards*;
- 3) Our report on compliance with requirements applicable to each major program and internal control over Compliance in accordance with *OMB Circular A-133*, and related schedule of findings and questioned Costs;
- 4) Summary Schedule of Prior Audit Findings.

We have not issued a management letter.

Rogers Huber and Associates

January 22, 2010
Muncy PA



INDEPENDENT AUDITORS' REPORT

Board of Directors
MONTGOMERY AREA SCHOOL DISTRICT
Montgomery PA

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

MONTGOMERY AREA SCHOOL DISTRICT

as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of MONTGOMERY AREA SCHOOL DISTRICT's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of MONTGOMERY AREA SCHOOL DISTRICT as of June 30, 2009, the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2010, on our consideration of MONTGOMERY AREA SCHOOL DISTRICT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5a through 5e and 28 through 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITORS' REPORT (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **MONTGOMERY AREA SCHOOL DISTRICT's** basic financial statements. The accompanying schedule of expenditures of federal awards 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 Non-Profit Organizations*, and is not a required part of the basic financial statements of **MONTGOMERY AREA SCHOOL DISTRICT**. The schedule 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.

Rogers Huber and Associates

January 22, 2010
Muncy PA

Montgomery Area School District Management Discussion and Analysis For the Fiscal Year Ended June 30, 2009

The *Management, Discussion and Analysis* (MD&A) of the Montgomery Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2009. The MD&A is to provide reader friendly insight into management's analysis of the audit. This MD&A looks at the District's financial performance as a whole, although readers should review the independent Auditor's transmittal letter and notes to the financial statements to augment their understanding of the District's financial performance.

Background

Based on the volume of the Montgomery Area School District's annual expenditures, 2003/04 was the first fiscal year the District's financial statements are required to meet the GASB 34 Accounting Standards. Where previous standards (pre GASB 34) required modified accrual (no receivables/accruals beyond 60 days), no capital asset depreciation and no reports of combined net assets, GASB 34 requires fixed asset accounting, properly combining of multiple funds, and the realization of the depreciation expense as part of the Statement of Net Assets and Statement of Activities.

Condensed comparative analysis of financial statements to the previous year are included in this analysis.

Various comparative statements required under GASB 34 are:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet of Governmental Funds
- Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets
- Statement of Revenues, Expenditures and Changes in Fund Balances
- Reconciliation of Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities
- Statement of Revenues, Expenditures and Changes in Fund Equity - Budget vs. Actual - General Fund

The Statement of Net Assets provides a consolidation of all governmental funds into one statement of activities with current and non-current assets, current and non-current liabilities, and displays the total net assets of all governmental funds properly reconciled. It also provides the same for those Business Activities run by the district. In the Montgomery Area School District only the Cafeteria is structured as a business activity, subject to a business activity classification.

The Statement of Activities intends to display expenses net of program revenues and classifies revenues into the two general categories of program and general operating revenue. It identifies program revenue as charges, operating grants, capital grants, and then allocates them to particular expense categories where appropriate.

The Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets reconciles the Governmental Funds Balance Sheet to the Combined Balance Sheet for Governmental

and Business Activities by outlining the accounting changes necessary to properly record consolidation of funds and present the entity-wide statements using the full accrual method of accounting.

The Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities reconciles the change in fund balances of the governmental funds to the change in net assets of all governmental activities.

Funds analyzed in this audit include:

- Major governmental activities including:
 - General fund - Capital Reserve Fund
- Fiduciary funds:
 - Private Purpose Trust Funds
 - Carter Rake Scholarship Fund
 - F.M. Greene Scholarship Fund
 - Various small scholarship funds
- Agency fund - Student activity accounts

Financial Highlights

Key financial highlights for the year ending June 30, 2009 are as follows:

- Total net assets of \$3,506,698.
 - Positive change in Net Assets of Governmental Activities of \$368,315.
- Total fund balance of all governmental funds equaled \$3,145,219.
- Undesignated general fund balance equaled \$2,632,392.
- Designated general fund balance equaled \$150,000.
 - Total general fund revenues were \$12,610,981 or 2.4% over budget.
 - Total general fund expenditures and other financing uses were \$12,460,167 or 4.9% under budget.
- The District's Proprietary Fund/Business-Type Activity (Cafeteria) showed a net assets increase of \$1,907.
- Capital Reserve Fund balance = \$230,285.
- Capital Projects Fund balance = \$121,886.

Analysis of Overall Financial Position and Results of Operations Over the Past Fiscal Year

Net Assets - On June 30, 2009, the District had total net assets from governmental activities of \$3,462,003, which is an increase of \$366,408 over 2007/08. Issues that significantly affected the net assets increase in the 2008/09 year were:

- Increase in other receivables equaled \$141,280.
- Capital outlay in excess of depreciation - \$300,940.
- Repayment of Long Term Debt (Bonds) - \$535,000.

Business Type Activities (Food Service) has total net assets of \$44,695.

- A net asset increase of \$1,907 from 2007/08.

Table 1 summarizes the assets, liabilities, and net assets of the District at June 30, 2009.

Comparative Table 1
Net Assets as of June 30, 2009 – (Government Wide)

	Governmental Activities 2007/08	Governmental Activities 2008/09	Business-Type Activities 2007/08	Business-Type Activities 2008/09	Total 2007/08	Total 2008/09
Assets						
Current Assets	\$ 4,951,274	\$ 4,605,108	\$ 9,780	\$ 19,097	\$ 4,961,054	\$ 4,624,205
Other Assets	<u>\$ 13,971,165</u>	<u>\$14,283,145</u>	<u>\$ 34,237</u>	<u>\$ 28,251</u>	<u>\$ 14,005,402</u>	<u>\$ 14,311,396</u>
Total Assets	\$ 18,922,439	\$18,888,253	\$ 44,017	\$ 47,348	\$ 18,966,456	\$ 18,935,601
Liabilities						
Current Liabilities	\$ 1,586,195	\$ 1,584,390	\$ 1,229	\$ 2,653	\$ 1,587,424	\$ 1,587,043
Long-Term Liabilities	<u>\$ 14,240,648</u>	<u>\$13,841,860</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,240,648</u>	<u>\$ 13,841,860</u>
Total Liabilities	\$ 15,826,843	\$15,426,250	\$ 1,229	\$ 2,653	\$ 15,828,072	\$ 15,428,903
Net Assets						
Invested in Capital Assets	\$ 4,221,373	\$ (32,602)	\$ 34,237	\$ 34,237	\$ 4,255,610	\$ 1,635
Restricted for Capital Projects	\$ 685,162	\$ 230,285	\$ -	\$ -	\$ 685,162	\$ 230,285
Unrestricted	<u>\$ (1,810,939)</u>	<u>\$ 3,264,320</u>	<u>\$ 8,551</u>	<u>\$ 10,458</u>	<u>\$ (1,802,388)</u>	<u>\$ 3,274,778</u>
Total Net Assets	\$ 3,095,596	\$ 3,462,003	\$ 42,788	\$ 44,695	\$ 3,138,384	\$ 3,506,698

Balance Sheet/Fund Balances - Total fund equity of Governmental funds equaled \$3,145,219. This balance consists of:

- General Fund - Total fund balance equaled \$2,792,578. Of this amount \$2,632,392 is unreserved-undesignated and \$150,000 is unreserved-designated. The remaining balance of \$10,186 is reserved for inventories.
- In 2008/09, the District's Fund Balance increased (expenses less than revenues) by \$151,039.
- Capital Reserve Account - Total fund balance equaled \$230,285 reserved for building construction and improvements or deferred building maintenance.
- Capital Projects Fund - Total fund balance equaled \$121,886 all of which is designated for construction project costs.

Comparative Table 2
Changes in Net Assets
For the Year Ended June 30, 2009
(Government-wide)

	Governmental Activities 2007/08	Governmental Activities 2008/09	Business-Type Activities 2007/08	Business-Type Activities 2008/09	Total 2007/08	Total 2008/09
Program Revenues:						
Charges for Services	\$ 260,048	\$ 307,279	\$ 224,617	\$ 245,075	\$ 484,665	\$ 552,354
Operating Grants and Contributions	\$ 2,783,536	\$ 2,727,624	\$ 171,242	\$ 195,061	\$ 2,955,778	\$ 2,922,685
Capital Grants and Contributions	\$ 273,180	\$ 268,868			\$ 273,180	\$ 268,868

	Governmental Activities 2007/08	Governmental Activities 2008/09	Business-Type Activities 2007/08	Business-Type Activities 2008/09	Total 2007/08	Total 2008/09
General Revenues:						
Property Taxes	\$ 2,761,166	\$ 2,533,421			\$ 2,761,166	\$ 2,533,421
Public Utility Realty, Earned						
Income Taxes, etc.	\$ 1,667,655	\$ 1,337,463			\$ 1,667,655	\$ 1,337,463
Grants and Entitlements	\$ 4,897,103	\$ 5,348,982			\$ 4,897,103	\$ 5,348,982
Investment Earnings	\$ 155,457	\$ 54,716	\$ 423	\$ 250	\$ 155,880	\$ 54,966
Miscellaneous	\$ (5,012)	\$ 34,685			\$ (5,012)	\$ 34,685
Transfers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	\$ 12,793,133	\$ 12,613,038	\$ 396,282	\$ 440,386	\$ 13,189,415	\$ 13,053,424
Program Expenses:						
Instruction	\$ 6,811,368	\$ 6,905,459			\$ 6,811,368	\$ 6,905,459
Support Services						
Instructional Student Support	\$ 934,232	\$ 991,748			\$ 934,232	\$ 991,748
Administrative and Financial	\$ 924,351	\$ 977,100			\$ 924,351	\$ 977,100
Operation and Maintenance	\$ 1,160,242	\$ 1,311,844			\$ 1,160,242	\$ 1,311,844
Pupil Transportation	\$ 455,426	\$ 460,949			\$ 455,426	\$ 460,949
Community Services	\$ 13,592	\$ 13,450			\$ 13,592	\$ 13,450
Student Activities	\$ 345,029	\$ 350,496			\$ 345,029	\$ 350,496
Interest on Long Term Debt	\$ 618,307	\$ 569,834			\$ 618,307	\$ 569,834
Unallocated Depreciation Expense	\$ 600,833	\$ 665,750			\$ 600,833	\$ 665,750
Food Service	\$ -	\$ -	\$ 401,672	\$ 438,479	\$ 401,672	\$ 438,479
Total Expenses	\$ 11,863,380	\$ 12,246,630	\$ 401,672	\$ 438,479	\$ 12,265,052	\$ 12,685,109
Increase /(Decrease) in Net Assets	\$ 929,753	\$ 366,408	\$ (5,390)	\$ 1,907	\$ 924,363	\$ 368,315

As of June 30, 2009, the District held the following other balances:

- Ending cash and cash equivalents in its proprietary fund (cafeteria) of \$13,194.
- Private Purpose Trust fund balance totals of \$77,540.
- Agency fund (student activities fund) cash and cash equivalent of balance of \$26,733.

Budgetary Variances - 2008/2009

- Total General Fund Revenues exceeded budget by \$301,560 or 2.4%.

Budgetary estimate differed in the following areas:

- Local revenues
 - Local Real Estate Taxes - \$126,941 positive variance - This increase was a function of lower than expected delinquencies.

- Wage Taxes - \$126,320 positive variance - Increase due to higher than expected collections.
- Intermediate Federal Sources: \$37,134 positive variance - Increase in federal money passed through Intermediate Units.
- Interest Earnings - (\$47,370) negative variance - Increase due a decline in interest rates.
- State Revenue
 - Overall State Revenue - \$90,458 positive variance - This is due to an increase in the Basic Instructional and Transportation Subsidy for 2008/09.
- Federal Revenue
 - Overall Federal Revenue - (\$23,984) negative variance - This was due to a decrease in Federal Program Allocations.
- Total General Fund Expenditures and other financing uses were under spent by \$647,973 or 4.9%.
 - The majority of the variance in expenditures occurred in lower than expected employee benefit costs and a reduction in debt service payments due to bond refinancing.

Currently Known Facts, Decisions or Conditions:

Other than those issues listed in the MD&A or in the notes to the audited financial statements, there are no facts currently known to management that would materially impact the financial statements either favorably or unfavorably at this time.

BASIC FINANCIAL STATEMENTS

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets --			
Cash and cash equivalents	3,366,047	13,194	3,379,241
Taxes receivable, net	419,953	-	419,953
Due from other governments	808,922	3,250	812,172
Other receivables	-	2,653	2,653
Inventories	10,186	-	10,186
Total Current Assets	4,605,108	19,097	4,624,205
Noncurrent Assets --			
Land	84,535	-	84,535
Site Improvements, net of accumulated depreciation	617,762	-	617,762
Building and building improvements, net of accumulated depreciation	12,057,834	-	12,057,834
Furniture and equipment, net of accumulated depreciation	1,058,558	28,251	1,086,809
Construction in progress	175,019	-	175,019
Long-term prepayments	289,437	-	289,437
Total Noncurrent Assets	14,283,145	28,251	14,311,396
TOTAL ASSETS	18,888,253	47,348	18,935,601
LIABILITIES			
Current Liabilities --			
Accounts payable	283,601	-	283,601
Current portion of long-term debt	510,000	-	510,000
Accrued salaries and benefits	599,649	-	599,649
Payroll deductions and withholdings	383	-	383
Deferred revenues	5,321	2,653	7,974
Other current liabilities	185,436	-	185,436
Total Current Liabilities	1,584,390	2,653	1,587,043
Noncurrent Liabilities --			
Bonds payable	13,805,747	-	13,805,747
Long-term portion of compensated absences	36,113	-	36,113
Total Noncurrent Liabilities	13,841,860	-	13,841,860
TOTAL LIABILITIES	15,426,250	2,653	15,428,903
NET ASSETS			
Invested in capital assets, net of related debt	(32,602)	34,237	1,635
Restricted for capital projects	230,285	-	230,285
Unrestricted	3,264,320	10,458	3,274,778
TOTAL NET ASSETS	3,462,003	44,695	3,506,698
TOTAL LIABILITIES AND NET ASSETS	18,888,253	47,348	18,935,601

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

MONTGOMERY AREA SCHOOL DISTRICT

**Statement of Activities
For The Year Ended June 30, 2009**

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities -								
Instruction	6,905,459	-	277,954	2,255,265	-	(4,372,240)	-	(4,372,240)
Instructional Student Support	991,748	-	-	58,482	-	(933,266)	-	(933,266)
Administrative and Financial Support Services	977,100	-	-	41,998	-	(935,102)	-	(935,102)
Operation and Maintenance of Plant Services	1,311,844	-	866	28,505	-	(1,282,473)	-	(1,282,473)
Pupil Transportation	460,949	-	-	332,300	-	(128,649)	-	(128,649)
Student Activities	350,496	-	20,003	10,646	11,494	(308,353)	-	(308,353)
Community Services	13,450	-	8,456	428	-	(4,566)	-	(4,566)
Interest on Long-Term Debt	569,834	-	-	-	257,374	(312,460)	-	(312,460)
Depreciation-Unallocated	665,750	-	-	-	-	(665,750)	-	(665,750)
Total Governmental Activities	12,246,630	-	307,279	2,727,624	268,868	(8,942,859)	-	(8,942,859)
Business-Type Activities -								
Food Services	438,479	-	245,075	195,061	-	-	1,657	1,657
Total Primary Government	12,685,109	-	552,354	2,922,685	268,868	(8,942,859)	1,657	(8,941,202)
General Revenues -								
Taxes --								
Property Taxes, Levied for General Purposes, Net						3,870,884	-	3,870,884
Grants, Subsidies, and Contributions Not Restricted						5,348,982	-	5,348,982
Investment Earnings						54,716	250	54,966
Miscellaneous Income						34,685	-	34,685
Total General Revenues, Special Items, Extraordinary Items and Transfers						9,309,267	250	9,309,517
Change in Net Assets						366,408	1,907	368,315
Net Assets - July 1, 2008						3,095,595	42,788	3,138,383
Net Assets - June 30, 2009						3,462,003	44,695	3,506,698

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

MONTGOMERY AREA SCHOOL DISTRICT

Balance Sheet - Governmental Funds
June 30, 2009

	<u>Major Governmental Funds</u>			
	<u>General</u>	<u>Capital</u>	<u>Non-Major</u>	<u>Total</u>
	<u>Fund</u>	<u>Reserve</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
ASSETS				
Cash and cash equivalents	2,961,576	232,386	172,085	3,366,047
Taxes Receivable, net	160,021	-	-	160,021
Due from other governments	419,928	-	-	419,928
State revenue receivable	133,768	-	-	133,768
Federal revenue receivable	113,946	-	-	113,946
Inventories	10,186	-	-	10,186
TOTAL ASSETS	<u>3,799,425</u>	<u>232,386</u>	<u>172,085</u>	<u>4,203,896</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	231,771	2,101	49,729	283,601
Current portion of long-term debt	9,702	-	-	9,702
Accrued salaries and benefits	599,649	-	-	599,649
Payroll deductions and withholdings	383	-	-	383
Deferred revenues	165,342	-	-	165,342
TOTAL LIABILITIES	<u>1,006,847</u>	<u>2,101</u>	<u>49,729</u>	<u>1,058,677</u>
Fund Balances				
Reserve for inventories	10,186	-	-	10,186
Reserve for capital projects	-	230,285	-	230,285
Unreserved - designated	150,000	-	121,886	271,886
Unreserved - undesignated	2,632,392	-	470	2,632,862
TOTAL FUND BALANCES	<u>2,792,578</u>	<u>230,285</u>	<u>122,356</u>	<u>3,145,219</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>3,799,425</u>	<u>232,386</u>	<u>172,085</u>	<u>4,203,896</u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2009

Total Fund Balances - Governmental Funds 3,145,219

**Amounts reported for governmental activities in statement of net assets
are different because --**

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$22,239,261 and the accumulated depreciation is \$8,245,553. 13,993,708

Property taxes receivable will be collected this year, but are not available soon enough to pay for current period expenditures and therefore are deferred in the funds. 419,953

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of the following --

General obligation bonds	14,465,000	
Deferred amount on refunding	(149,253)	
Accrued interest on bonds	175,734	
Compensated absences	36,113	(14,527,594)

Other receivables will be collected but are not available soon enough to pay for current period expenditures and therefore not recorded in the funds. 141,280

Bond issuance costs and bond discounts reported as expenditures in the fund statements are capitalized in the government-wide financial statements. 289,437

Total Net Assets - Governmental Activities 3,462,003

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2009

	<u>Major Governmental Funds</u>			
	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>				
Local sources	4,550,281	4,104	2,842	4,557,227
State sources	7,699,684	-	-	7,699,684
Federal sources	361,016	-	-	361,016
TOTAL REVENUES	12,610,981	4,104	2,842	12,617,927
<u>EXPENDITURES</u>				
Current --				
Instruction	7,044,181	-	-	7,044,181
Support services	3,699,813	-	64,498	3,764,311
Noninstructional services	366,026	-	-	366,026
Fac. Acq, Const, and Imp	-	412,207	415,411	827,618
Debt service	-	-	1,037,719	1,037,719
Refund of prior year receipts	7,428	-	-	7,428
TOTAL EXPENDITURES	11,117,448	412,207	1,517,628	13,047,283
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,493,533	(408,103)	(1,514,786)	(429,356)
<u>OTHER FINANCING SOURCES (USES)</u>				
Refunding bonds issued	-	-	4,615,131	4,615,131
Sale of fixed assets	225	-	-	225
Interfund transfers from other funds	-	145,000	1,197,719	1,342,719
Interfund transfers - out	(1,342,719)	-	-	(1,342,719)
Debt service - refunded bond issues	-	-	(4,550,163)	(4,550,163)
TOTAL OTHER FINANCING SOURCES(USES)	(1,342,494)	145,000	1,262,687	65,193
NET CHANGE IN FUND BALANCE	151,039	(263,103)	(252,099)	(364,163)
FUND BALANCE - JULY 1, 2008	2,641,539	493,388	374,455	3,509,382
FUND BALANCE - June 30, 2009	2,792,578	230,285	122,356	3,145,219

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

MONTGOMERY AREA SCHOOL DISTRICT

Reconciliation of Governmental Fund Statement of Revenues, Expenditures and
Changes in Fund Balance to Statement of Activities
For the Year Ended June 30, 2009

Total net change in fund balance - governmental funds (364,163)

**Amounts reported for governmental activities in statement of activities
are different because --**

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is --

Capital outlay	1,085,921	
Construction in progress	(119,231)	
Depreciation	(665,750)	300,940

Because some revenues will not be collected for several months after the District's year end, they are not considered available revenues in the fund statements. The difference between the additional receivables at fiscal year 07-08 and 08-09 is shown.

(16,144)

Issuance of long-term debt (bonds) provides current financial resources to governmental funds, while repayment of the principle debt consumes current financial resources. However, neither transaction has any effect on the net assets. Also, governmental funds report the effect on issuance costs, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The effect on these transactions in the statement of activities is shown below --

Issuance of bond proceeds	(4,640,000)	
Repayment of long-term debt	5,015,000	
Amortization of bond issuance costs	58,359	433,359

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, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here.

13,895

In the statement of activities, compensated absences 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.

In the statement of activities, only the gain/(loss) on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the undepreciated value of the asset sold or disposed.

(12,509)

In the statement of activities, the gain/(loss) on the sale or disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differ from the change in fund balance by the undepreciated value of the asset sold or disposed.

(464)

In the fund statements, contributions of capital assets are not recorded since they are not a source of financial resources. The contribution is recognized in the statement of activities, with the related asset recorded in the statement of net assets.

11,494

Change in Net Assets - Governmental Activities

366,408

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Net Assets - Proprietary Fund
June 30, 2009

	<u>Food Service</u>
ASSETS	
Current Assets --	
Cash and cash equivalents	13,194
Due from other governments	3,250
Inventories	<u>2,653</u>
Total Current Assets	<u>19,097</u>
Noncurrent Assets --	
Furniture and equipment, net of accumulated depreciation	<u>28,251</u>
TOTAL ASSETS	<u><u>47,348</u></u>
LIABILITIES	
Current Liabilities --	
Deferred revenue	<u>2,653</u>
Noncurrent Liabilities	-
TOTAL LIABILITIES	<u>2,653</u>
NET ASSETS	
Investment in capital assets, net of related debt	28,251
Unrestricted	<u>16,444</u>
TOTAL NET ASSETS	<u>44,695</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>47,348</u></u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets -
Proprietary Fund
For the Year Ended June 30, 2009

	<u>Food Service</u>
OPERATING REVENUES --	
Food service revenue	<u>245,075</u>
Total operating revenues	<u>245,075</u>
OPERATING EXPENSES --	
Salaries	95,844
Employee benefits	29,453
Purchased professional and technical service	354
Purchased property service	5,078
Other purchased service	275,296
Supplies	26,469
Depreciation	5,985
Total operating expenses	<u>438,479</u>
OPERATING INCOME/(LOSS)	<u>(193,404)</u>
NON-OPERATING REVENUES (EXPENSES) --	
Earnings on investments	250
State sources	23,880
Federal sources	171,181
Total Non-operating Revenues (Expenses)	<u>195,311</u>
INCOME/(LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,907
CONTRIBUTIONS AND TRANSFERS --	
Transfers in (out)	<u>-</u>
CHANGE IN NET ASSETS	1,907
TOTAL NET ASSETS - JULY 1, 2008	<u>42,788</u>
TOTAL NET ASSETS - JUNE 30, 2009	<u><u>44,695</u></u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2009

	<u>Food Service</u>
Cash Flows from Operating Activities --	
Cash received from users	245,075
Cash payments to employees for services	(95,845)
Cash payments to suppliers for goods and services	(301,766)
Cash payments for other operating expenses	(34,883)
Net cash (used for) operating activities	<u>(187,419)</u>
Cash Flows from Non-Capital Financing Activities --	
State sources	23,930
Federal sources	171,525
Net cash provided by non-capital financing activities	<u>195,455</u>
Cash Flows from Capital and Related Financing Activities --	
Net cash (used for) capital and related financing activities	<u>-</u>
Cash Flows from Investing Activities --	
Earnings on investments	250
Net cash provided by investing activities	<u>250</u>
Net (Decrease) in Cash and Cash Equivalents	8,286
Cash and Cash Equivalents Beginning of Year	<u>4,908</u>
Cash and Cash Equivalents End of Year	<u><u>13,194</u></u>
Reconciliation of Operating Income/(Loss) to Net Cash Provided By/(Used For)	
Operating Activities --	
Operating income/(loss)	<u>(193,404)</u>
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided By/(Used For)	
Operating Activities --	
Depreciation	5,985
Total Adjustments	<u>5,985</u>
Net Cash (Used For) Operating Activities	<u><u>(187,419)</u></u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Fiduciary Net Assets - Fiduciary Funds
June 30, 2009

	Private Purpose Trust Fund	Activity Fund	Total Fiduciary
ASSETS			
Cash and cash equivalents	77,540	26,733	104,273
Total Assets	<u>77,540</u>	<u>26,733</u>	<u>104,273</u>
LIABILITIES			
Accounts payable	-	26,733	26,733
Total Liabilities	<u>-</u>	<u>26,733</u>	<u>26,733</u>
NET ASSETS			
Restricted for legal purposes	18,281	-	18,281
Unrestricted	59,259	-	59,259
Total Net Assets	<u>77,540</u>	<u>-</u>	<u>77,540</u>
TOTAL LIABILITIES AND NET ASSETS	<u>77,540</u>	<u>26,733</u>	<u>104,273</u>

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

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
For the Year Ended June 30, 2009

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Gifts and contributions	13,550
Other additions	1,204
DEDUCTIONS	
Scholarships awarded	<u>15,875</u>
CHANGE IN NET ASSETS	(1,121)
NET ASSETS - JULY 1, 2008	<u>78,661</u>
NET ASSETS - June 30, 2009	<u><u>77,540</u></u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Montgomery Area School District** (the District) is a third class school district located in Montgomery, Lycoming County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in Accordance with the provision of the School Laws of Pennsylvania.

The financial statements of **Montgomery Area School District** have been prepared in accordance with U.S. 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 GASB has issued codification of governmental accounting and financial reporting standards. This codification and subsequent GASB pronouncements are recognized as U. S. generally accepted accounting principles for state and local governments. This report has been prepared in conformity with GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments, issued in June 1999.

A. Reporting Entity

The Governmental Accounting Standards Board Statement No. 14 "The Financial Reporting Entity", established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. GASB State No. 39 has expanded the definition of component units to include non-profit organizations which have certain defined relationships with the reporting entity. These criteria include whether the reporting entity benefits from the economic resources of the non-profit. In evaluating the District as a reporting entity, management had addressed all potential component units which may or may not fall within the District's financial accountability and the nature and significance of the relationship. No component units were identified for inclusion in these financial statements.

This report includes all of the funds of **Montgomery Area School District**.

B. Basis of Presentation

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

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

The statement of net assets presents the financial condition of the governmental and business-type activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities and for one business-type activity of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

C. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major funds –

General Fund The general fund is the operating fund of the district and is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund The special revenue fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue fund accounts for revenues from capital reserves.

Additionally, the District reports the following non-major funds –

Capital Project Fund The capital project fund accounts for bond proceeds and interest revenue to be used for renovations at the Junior/Senior high school and elementary schools

Debt Service Fund The debt service fund is used to account for the accumulation of resources to provide payment of general obligation bonds.

Proprietary Funds Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as either enterprise or internal service.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The District's major enterprise fund is –

Food Service Fund This fund accounts for the financial transactions related to the food service operations of the District.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's fiduciary funds are the agency fund and the private-purpose trust funds.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of assets.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 recorded as deferred revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. Interfund Activity

Transfers are made between the general fund and the debt service fund, as required by bond instruments. Also, in the governmental fund statements, activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". In the government-wide financial statements, transfers between one governmental fund and another, as well as any year-end amounts due to a governmental fund from another governmental fund are eliminated. Balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Amounts due to or from fiduciary funds are reported as other assets or liabilities in the government-wide financial statements.

F. Inventories

Inventories are stated at cost, except for commodities by the United States Department of Agriculture (USDA) which are stated at the specific items' donated value (the USDA's cost). Reported inventories of supplies and materials consist of supplies recorded as an asset when the individual inventory items are purchased, and as an expenditure or expense when consumed. Fund equity is reserved for the inventory balances in the general fund in the amount of \$10,186. Any unused commodities donated by the federal government are reported as deferred revenues at June 30, 2009 in the food service fund.

G. Prepaid Expenses

In the government-wide statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

H. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All capital assets reported as used in governmental activities are depreciated using the straight-line method over the following estimated useful lives –

<u>Assets</u>	<u>Years</u>
Building and Building Improvements	20-40
Furniture and Equipment	5-20

Proprietary funds equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over 10-12 years at the rate of 8.33% per year.

I. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

J. Reserved Fund Balances

The fund financial statements reflect the following reserves –

	<u>Unreserved</u>	<u>Reserved</u>
Major Funds		
General Fund		
Reserve for Inventory		10,186
Unreserved	2,782,392	
Capital Reserve		230,285

K. Estimates

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

L. Proprietary Fund FASB Usage and Definition of Operating Income

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

The District's only proprietary fund is its food service fund. The District defines amounts received from individuals for meals as operating revenue. Subsidies received from federal and state sources in support of the District's food services are defined as non-operating revenue.

M. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments with an original maturity from the time of purchase by the District of seventeen months or less to be cash equivalents.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest its monies as follows –

Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The deposit and investment policy of the District adheres to state statutes and prudent business practice.

GASB Statement No. 40 requires that the District disclose information about risks associated with its deposit and investment activities .

Deposits with Financial Institutions

The District maintains demand deposits with local financial institutions that are subject to custodial risk. Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a policy regarding management of custodial risk. As of June 30, 2009 the District's bank balances of \$374,649 were exposed to custodial credit risk as follows –

Uninsured and uncollateralized	-
Insured and collateralized with securities held by pledging institutions	281,361
Uninsured and collateralized with securities held by the pledging institution, or by its trust department, but not in the District's name	<u>93,288</u>
Total	<u><u>374,649</u></u>

Investments

The District maintains deposits with the PA Local Government Investment Trust (PLGIT), which is an external investment pool. Deposits with PLGIT are subject to the following risks defined by GASB Statement No. 40.

Credit Risk – Credit risk is the risk that issuers of financial instruments may not fulfill their obligations. Credit risk is generally evaluated based on credit ratings provided by companies such as Standard & Poor's. The District's investments with PLGIT are rated AAA.

Concentration of Credit Risk – GASB Statement No. 40 defines that concentration of credit risk occurs when investments in one entity exceeds 5% of total investments. Substantially all of the District's investments are with PLGIT.

The District does not have policies addressing these risks.

Cash and cash equivalents reported on the financial statements represent –

Bank value of deposits with financial institutions	374,649
Plus, deposits in transit	-
Less, outstanding checks	<u>(123,594)</u>
Book balance of deposits	251,055
Investments in PLGIT	3,231,949
Other investments	470
Petty cash	<u>40</u>
Total Cash and Cash Equivalents	<u><u>3,483,514</u></u>
Governmental Funds	3,366,047
Business-Type Funds	13,194
Fiduciary Funds	<u>104,273</u>
	<u><u>3,483,514</u></u>

NOTE 3 REAL ESTATE AND PER CAPITA TAXES AND DEFERRED REVENUE

Based upon assessments provided by the County, the elected tax collectors bill and collect property taxes for the District. The District tax rate for the year ended June 30, 2009 was 11.0 mills (\$11.00 per \$1,000 of assessed valuation) as levied by the Board of School Directors. The Board of School Directors also levies occupational taxes, real estate transfer tax and earned income and net profits tax. The tax rates under Act 511 are \$5/person for each resident employed in the District, .5% of each real estate transaction in the District and 1.25% of all income earned by residents that reside in the District, respectively. The schedule for real estate taxes levied for each fiscal year is as follows –

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

The District recognizes the delinquent and unpaid taxes receivable. No allowance for uncollectible real estate taxes is considered necessary. An allowance of \$293,283 has been recorded reflecting the District's estimate for uncollectible taxes other than real estate taxes. Net taxes receivable which are not available within 60 days after year-end are not recognized in the fund financial statements and are reported as deferred revenues.

The deferred revenue balance in the General Fund of \$165,342 consists of deferred taxes of \$160,021 and other deferred revenues of \$5,321.

NOTE 4 DUE FROM OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the District. At June 30, 2009, the following amounts are due from other governmental units –

	<u>General Fund</u>
Federal (through the state)	113,946
State	133,768
Local	<u>419,928</u>
Total	<u>667,642</u>

NOTE 5 CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows –

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated -				
Land	84,535	-	-	84,535
Construction in Progress	294,250	-	119,231	175,019
Total Assets, Not Being Depreciated	<u>378,785</u>	<u>-</u>	<u>119,231</u>	<u>259,554</u>
Capital Assets, Being Depreciated -				
Site Improvements	716,671	396,174	-	1,112,845
Building and Building Improvements	15,712,768	525,226	-	16,237,994
Furniture and Fixtures	4,533,119	176,015	161,938	4,547,196
Vehicles	81,672	-	-	81,672
Total Assets Being Depreciated	<u>21,044,230</u>	<u>1,097,415</u>	<u>161,938</u>	<u>21,979,707</u>
Less Accumulated Depreciation for -				
Site Improvements	455,177	39,906	-	495,083
Building and Building Improvements	3,779,128	401,032	-	4,180,160
Furniture and Equipment	3,452,346	216,895	161,474	3,507,767
Vehicles	54,626	7,917	-	62,543
Total Accumulated Depreciation	<u>7,741,277</u>	<u>665,750</u>	<u>161,474</u>	<u>8,245,553</u>
Total Capital Assets, Being Depreciated, Net	<u>13,302,953</u>	<u>431,665</u>	<u>464</u>	<u>13,734,154</u>
Governmental Activities, Capital Assets, Net	<u>13,681,738</u>	<u>431,665</u>	<u>119,695</u>	<u>13,993,708</u>

NOTE 5 CHANGES IN CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Business-Type Activities</i>				
Capital Assets Being Depreciated				
Equipment	130,203	-	-	130,203
Less Accumulated Depreciation For - Equipment	<u>95,966</u>	<u>5,985</u>	<u>-</u>	<u>101,951</u>
Total Capital Assets Being Depreciated, Net	<u>34,237</u>	<u>(5,985)</u>	<u>-</u>	<u>28,252</u>
Business-Type Activities Capital Assets, Net	<u>34,237</u>	<u>(5,985)</u>	<u>-</u>	<u>28,252</u>
Depreciation Expense was reported as follows --				
<i>Governmental Activities</i>				
Unallocated activities				<u>665,750</u>
Total Depreciation Expense - Government Activities				<u>665,750</u>
<i>Business-Type Activities</i>				
Food Service Fund				<u>5,985</u>
Total Depreciation Expense - Business-Type Activities				<u>5,985</u>

NOTE 6 GENERAL LONG-TERM DEBT

The following summarizes activity in the general long-term debt for the year ended June 30, 2009 --

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<i>Governmental Activities --</i>					
Bonds and Notes Payable -					
General Obligation Debt	14,840,000	4,640,000	5,015,000	14,465,000	510,000
Deferred Amount of Refunding	<u>(87,956)</u>	<u>(70,738)</u>	<u>(9,441)</u>	<u>(149,253)</u>	<u>-</u>
Bonds Payable	14,752,044	4,569,262	5,005,559	14,315,747	510,000
Other Liabilities -					
Compensated Absences	<u>39,150</u>	<u>6,664</u>	<u>-</u>	<u>45,814</u>	<u>9,702</u>
Total Long-term Debt	<u>14,791,194</u>	<u>4,575,926</u>	<u>5,005,559</u>	<u>14,361,561</u>	<u>519,702</u>

The payments of general long-term debt are to be funded by the General Fund and Debt Service Fund.

Series of 2009 General Obligation Bonds

On February 25, 2009, the District issued General Obligation Bonds, Series of 2009, in the amount of \$4,640,000 for the purpose of refunding the General Obligation Bonds, Series of 2003 and paying the costs of issuance. Interest rates for the issue range from 2.0% to 2.85%.

NOTE 6 GENERAL LONG-TERM DEBT (Continued)

Debt service requirements of the General Obligation Bonds, Series of 2009, are as follows --

Year Ended June 30	General Obligation Bonds		Total
	Principal	Interest	Requirements
2010	370,000	111,253	481,253
2011	465,000	94,060	559,060
2012	510,000	84,310	594,310
2013	520,000	74,010	594,010
2014	530,000	63,245	593,245
2015-2019	2,245,000	122,665	2,367,665
	<u>4,640,000</u>	<u>549,543</u>	<u>5,189,543</u>

Series of 2006 General Obligation Bonds

The District issued General Obligation Bonds, Series of 2006 in the amount of \$7,500,000 on January 3, 2006. The purpose of the borrowing is to design, acquire, and construct alterations, renovations and improvements to the District's buildings, and to pay the costs of the issuance. Interest rates for the remaining issue range from 3.50% to 4.40%.

Debt service requirements of the General Obligation Bonds, Series of 2006, are as follows --

Year Ended June 30	General Obligation Bonds		Total
	Principal	Interest	Requirements
2010	110,000	308,710	418,710
2011	115,000	304,860	419,860
2012	70,000	300,893	370,893
2013	65,000	298,373	363,373
2014	75,000	296,033	371,033
2015-2019	410,000	1,436,437	1,846,437
2020-2024	2,990,000	1,261,960	4,251,960
2025-2027	3,445,000	298,760	3,743,760
	<u>7,280,000</u>	<u>4,506,026</u>	<u>11,786,026</u>

Series A of 2005 General Obligation Bonds

On April 28, 2005, the District issued General Obligation Bonds, Series A of 2005, in the amount of \$2,600,000 for the purpose of refunding the General Obligation Bonds, Series of 2001 and paying the costs of issuance. Interest rates on remaining principal range from 3.5% to 4.35%.

Debt service requirements of the General Obligation Bonds, Series A of 2005, are as follows --

Year Ended June 30	General Obligation Bonds		Total
	Principal	Interest	Requirements
2010	30,000	105,350	135,350
2011	30,000	104,300	134,300
2012	40,000	103,065	143,065
2013	45,000	101,556	146,556
2014	45,000	99,902	144,902
2015-2019	790,000	458,866	1,248,866
2020-2022	1,565,000	87,428	1,652,428
	<u>2,545,000</u>	<u>1,060,467</u>	<u>3,605,467</u>

NOTE 6 **GENERAL LONG-TERM DEBT** (Continued)

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental and similar trust funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in general long-term debt on the government-wide financial statements.

In the proprietary funds and similar trust funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

Vacation - District employees who are required to work on a twelve-month schedule are credited with vacation at rates which vary with length of service or job classification. Employees who do not take all their vacation during the year of entitlement may carry such leave over to subsequent years.

Sick Leave - Most District employees are credited annually with sick days. Unused sick leave is cumulative from year to year. However, accumulation of this leave is not compensated upon termination or retirement.

Sabbaticals - Most District employees are entitled to a sabbatical after ten years of service. Sabbaticals may only be taken for educational purposes or for health reasons. Sabbaticals taken for educational purposes are considered restricted and for the benefit of the employer. Sabbaticals taken for health reasons are considered unrestricted. No liability is recorded because both sabbaticals are conditional on future events.

At June 30, 2009, the liability for compensated absences, which consists entirely of vacation payable was \$45,814. The current portion of \$9,702 is included in current liabilities and the remaining amount of \$36,112 is included in general long-term debt on the government-wide financial statements.

NOTE 7 **LEASE OBLIGATIONS**

The District leases copiers and other equipment under operating leases. All of these leases are cancelable if the legislative body does not appropriate funds for the continuation of the lease agreement and a creditworthy assignee cannot be located.

Lease expense for the year ended June 30, 2009 was \$37,638 and is reported in the general fund.

NOTE 8 **PENSION PLAN**

Plan Description

School Districts in the Commonwealth of Pennsylvania participate in the Public School Employees' Retirement System (PSERS), a government cost sharing multiple-employer defined benefit plan. PSERS provides retirement and disability, legislative mandated *ad hoc* cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. Authority is established by the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended)(24 Pa. C.S. 8101-8535).

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 Barbara D. Flurie, Office of Financial Management, Public School Employees' Retirement System, P. O. Box 125, Harrisburg, PA 17108-0125. The report is also available in the publications section of the PSERS site on the Internet at www.psers.state.pa.us.

NOTE 8 **PENSION PLAN** (Continued)

Contributions and Funding Policy

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

Employer Contributions - Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2009, the rate of employer's contribution was 4.76 percent of covered payroll. The 4.76 percent rate is composed of a pension contribution rate of 4.00 percent for pension benefits and .76 percent for healthcare insurance premium assistance.

Employee contributions - Active members who joined the System prior to July 22, 1983, contribute 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Montgomery Area School District's contributions to PSERS for the years ending June 30, 2009, 2008, and 2007 were \$296,394, \$414,836 and \$347,102, respectively.

NOTE 9 **POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

The District offers post-employment benefits to teachers, administrators and supervisory personnel who elect to retire early. A single lump-sum payment is made to the retiree on the last working day prior to retirement or the retiree may elect to receive post-retirement healthcare benefits. These healthcare benefits are comprised of payments toward health insurance costs until the retiree reaches age 65, or becomes eligible for Medicare. In the fiscal year ended June 30, 2009, there were no lump-sum payments made and healthcare payments amounted to \$60,249 for 16 retired teachers, administrators and supervisory personnel. The District accounts for the cost of post-employment health care benefits on a pay-as-you-go basis, rather than by advance funding on an actuarially determined basis.

NOTE 10 **CONTINGENT LIABILITIES**

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2009 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 11 **RISK MANAGEMENT**

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2009, and the two previous years, no settlements exceeded insurance coverage.

NOTE 11. RISK MANAGEMENT (Continued)

The District participates in the Lycoming County Insurance Consortium Pooled Trust (a public entity risk pool) which provides health care benefits for District employees. The Consortium collects assessments from its members and pays health claims, stop loss insurance premiums and administrative expenses. The District's assessment is based on consideration of the claims experience of all Consortium members, the Consortium's accumulated reserves, and the District's proportional number of covered employees. As such, the District is subject to additional assessment should the Consortium's estimated assessments prove to be insufficient to cover claims. At June 30, 2009, the District was not aware of any circumstance that would limit the Consortium's ability to meet its obligations to pay claims. At June 30, 2009, the unaudited financial statements of the Consortium reflected surplus funds of \$17,226,334. The District's portion of surplus was \$730,985, representing approximately 59% of the District's assessment.

NOTE 12. COMMITMENTS

During the fiscal years ended June 30, 2005 and 2009, the District initiated several renovations, alterations, and improvements to its facilities. As of June 30, 2009, the District has awarded construction contracts totaling \$8,419,989 and has incurred costs of \$8,301,740 in relation to these contracts.

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY AREA SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local revenues	4,285,194	4,315,195	4,550,281	235,086
State program revenues	7,419,854	7,609,226	7,699,684	90,458
Federal program revenues	350,000	385,000	361,016	(23,984)
TOTAL REVENUES	12,055,048	12,309,421	12,610,981	301,560
EXPENDITURES				
Current --				
Instruction -				
Regular programs	4,259,973	4,840,385	4,651,854	188,531
Special programs	1,121,479	1,191,249	1,121,807	69,442
Vocational programs	477,142	494,942	445,668	49,274
Other instructional programs	311,358	422,258	418,394	3,864
Community/Junior College programs	-	13,960	13,958	2
Pre-Kindergarten	383,673	398,173	392,500	5,673
Support services --				
Pupil personnel services	385,432	399,532	395,291	4,241
Instructional staff services	419,756	490,156	471,643	18,513
Administrative services	731,099	747,749	731,763	15,986
Pupil health	98,707	102,907	95,727	7,180
Business services	221,867	227,017	209,107	17,910
Operation and maintenance of plant services	1,342,502	1,352,027	1,274,374	77,653
Student transportation services	438,086	461,586	460,949	637
Central and other support services	-	750	710	40
Other support services	77,700	77,700	60,249	17,451
Operation of noninstructional services --				
Student activities	353,689	367,189	352,576	14,613
Community services	17,433	18,283	13,450	4,833
Debt service --				
Principal and interest	1,120,152	1,047,277	-	1,047,277
Refund of prior year receipts	-	-	7,428	(7,428)
TOTAL EXPENDITURES	11,760,048	12,653,140	11,117,448	1,535,692
EXCESS/(DEFICIENCY) OF REVENUES OVER EXPENDITURES	295,000	(343,719)	1,493,533	1,837,252
OTHER FINANCING SOURCES/(USES)				
Sale of fixed asset	-	-	225	225
Interfund transfers	150,000	150,000	-	(150,000)
Transfers out	(455,000)	(455,000)	(1,342,719)	(887,719)
Budgetary reserve	(640,000)	(1,281)	-	1,281
Total other financing sources/(uses)	(945,000)	(306,281)	(1,342,494)	(1,036,213)
NET CHANGE IN FUND BALANCES	(650,000)	(650,000)	151,039	801,039
FUND BALANCE - JULY 1, 2008	2,169,152	2,169,152	2,641,539	472,387
FUND BALANCE - JUNE 30, 2009	1,519,152	1,519,152	2,792,578	1,273,426

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

An operating budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

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

The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding year.

The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office 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 ten 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 of School Directors may take 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 includes the effect of approved budget amendments.

Included in the General Fund budget are program budgets as prescribed by the federal and state agencies funding the program. These budgets are approved on a program by program basis by the federal and state funding agencies.

Montgomery Area School District

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009**

Federal Grantor/ Pass-through Grantor/ Project Title	Source Code	Federal CFDA Number	Pass- through Grantor Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Received for Year	Accrued or (Deferred) Revenue at July 1	Revenue Recognized	Expendi- tures	Accrued or (Deferred) Revenue at June 30
U.S. Department of Education										
Pass-through PA Department of Education -										
Title I - Improving Basic Programs	I	84.010	013-09-0262	7/1/08-9/30/09	246,464	215,983	-	246,464	246,464	30,481
Title I - Academic Achievement	I	84.010	077-09-0262	7/1/08-9/30/09	6,000	2,400	-	-	-	(2,400)
Drug Free Schools	I	84.186	100-09-0262	7/1/08-9/30/09	4,279	4,279	-	4,279	4,279	-
Title II - Improving Teacher Quality	I	84.367	020-09-0262	7/1/08-9/30/09	69,446	60,186	-	69,446	69,446	9,260
Title II - Educational Technology	I	84.318	055-09-0262	7/1/08-9/30/09	35,000	14,000	-	34,543	34,543	20,543
Pass-through BLaST Intermediate Unit #17 - IDEA Component III	I	84.027	062-0617	7/1/08-9/30/09	133,354	85,306	-	133,354	133,354	48,048
Total U.S. Department of Education						<u>382,154</u>	<u>-</u>	<u>488,086</u>	<u>488,086</u>	<u>105,932</u>
U.S. Department of Agriculture										
Pass-through PA Department of Education -										
National School Lunch Program	I	10.555	N/A	7/1/08-6/30/09	N/A	120,422	-	122,818	122,818	2,396
National School Breakfast Program	I	10.553	N/A	7/1/08-6/30/09	N/A	22,667	-	23,180	23,180	513
Pass-through PA Department of Agriculture										
Value of USDA Donated Commodities	I	10.550	N/A	7/1/07-6/30/08	N/A	a) 26,607 b) -	(1,229)	25,183 c) -	25,183 d) -	(2,653)
Total U.S. Department of Agriculture						<u>169,696</u>	<u>(1,229)</u>	<u>171,181</u>	<u>171,181</u>	<u>256</u>
TOTAL FEDERAL FUNDS						<u>551,850</u>	<u>(1,229)</u>	<u>659,267</u>	<u>659,267</u>	<u>106,188</u>

Source Code --

D - Direct Funding
I - Indirect Funding

Footnotes --

- a) Total amount of commodities received from the Department of Agriculture
b) Beginning inventory at July 1, 2008.
c) Total amount of commodities used.
d) Ending inventory at June 30, 2009.

**Calculation of Federal Expenditures --
Identification of 25% --**

Total Federal Expenditures

659,267

**Programs Selected for Testing --
Title I - Improving Basic Programs**

246,464

Divided by Federal expenditures

659,267 = 37.4%



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

Board of Directors
MONTGOMERY AREA SCHOOL DISTRICT
MONTGOMERY, PA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the

MONTGOMERY AREA SCHOOL DISTRICT

as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

**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 (Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MONTGOMERY AREA 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. 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 for the information and use of management, the Board, federal awarding agencies, and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Rogers Huber and Associates

January 22, 2010
Muncy PA



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

Board of Directors
MONTGOMERY AREA SCHOOL DISTRICT
MONTGOMERY, PA

Compliance

We have audited the compliance of

MONTGOMERY AREA SCHOOL DISTRICT

with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The MONTGOMERY AREA SCHOOL DISTRICT'S major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the MONTGOMERY AREA SCHOOL DISTRICT'S management. Our responsibility is to express an opinion on MONTGOMERY AREA SCHOOL DISTRICT'S compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MONTGOMERY AREA 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 of MONTGOMERY AREA SCHOOL DISTRICT'S compliance with those requirements.

In our opinion, MONTGOMERY AREA SCHOOL DISTRICT complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (Continued)**

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

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

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

This report is intended solely for the information and use of management, School Board of Directors, others within the entity, PA Department of Education, 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.

Rogers Hoke and Associates

January 22, 2010
Muncy PA

MONTGOMERY AREA SCHOOL DISTRICT

**Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2009**

Financial Statement Audit Finding –

FINDING 2008-1

Requirement – Controls should be in place to assure that transactions are properly reflected on the modified accrual basis of accounting in the Fund Financial Statements.

Finding – Significant adjustments were required at year-end to record accounts payable in the Capital Projects and Capital Reserve Funds. Current year payables needed to be recorded and prior year payables needed to be reversed.

Result – Expenses in the Capital Reserve Fund were understated and expenses in the Capital Projects Fund were overstated.

Cause – Controls are not in place to record payables in these two funds.

Recommendation – We recommend that accounts payable be recorded on a regular basis in the Capital Projects and Capital Reserve Funds.

Status – Controls were in place to record year-end payables for fiscal year ended June 30, 2009.

FINDING 2008-2

Requirement – Controls should be in place to assure that fixed assets and related depreciation expense and accumulated depreciation are properly recorded in the reports provided to the District by Industrial Appraisal.

Finding – The report from Industrial Appraisal had not been reviewed for accuracy. Additionally, information about assets acquired through the activities of the Capital Projects and Capital Reserve Funds had not been communicated to Industrial Appraisal for either the years ended June 30, 2007 or June 30, 2008.

Results – The cost of the District's assets were understated on the Industrial Appraisal's report. Depreciation expense and accumulated depreciation were also understated.

Cause – No one had been trained to review the Industrial Appraisal's report nor had anyone been trained to communicate asset activity in the Capital Projects and Capital Reserve Funds.

Recommendation – We recommend that training for these activities be provided for the appropriate level staff.

Status – Controls were in place so that current year additions of equipment were properly added to fixed asset schedule. However, installation costs and other contractor payments were not added.

MONTGOMERY AREA SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2009**

A. SUMMARY OF AUDIT RESULTS

- 1) The auditors' report expresses an unqualified opinion on the financial statements of the **MONTGOMERY AREA SCHOOL DISTRICT**.
- 2) No deficiencies in internal controls 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 material to the financial statements of **MONTGOMERY AREA 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 Internal Control Over Compliance in Accordance with OMB Circular A-133.
- 5) The auditors' report on compliance for the major federal award programs for **MONTGOMERY AREA SCHOOL DISTRICT** expresses an unqualified opinion.
- 6) No findings relative to the major federal award program for **MONTGOMERY AREA SCHOOL DISTRICT** are reported.
- 7) The program tested as a major program is Title I – Improving Basic Programs, (CFDA #84.010).
- 8) The threshold for distinguishing types A and B programs was \$300,000.
- 9) **MONTGOMERY AREA SCHOOL DISTRICT** was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None