

Penn Manor School District

Millersville, Pennsylvania

ANNUAL REPORT

For the fiscal year ended June 30, 2002

SCHOOL BOARD OFFICERS and MEMBERS

C. Willis Herr, President

Dr. Richard L. Frerichs, Vice President

Jeffrey E. Lyon

H. Thomas Herr

Kelly K. Withum

Donna J. Wert

Patrick T. Kline

Donald H. Anderson

Jeffrey G. Kreider

Dr. Gary B. Campbell - Superintendent

Mr. Donald F. Stewart - Substitute Superintendent

Ellen P. Griffis - Administrative Assistant
for Curriculum and Instruction

Donald F. Stewart - Administrative Assistant
for Personnel and Planning

Stephen B. Skrocki - Administrative Assistant for Business

Hartman Underhill & Brubaker - Solicitor

Penn Manor School District

Financial Statements with Supplementary Information

Year ended June 30, 2002

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Trout, Ebersole & Groff, LLP

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board Officers and Members
Penn Manor School District
Millersville, Pennsylvania

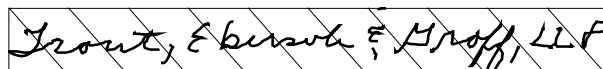
We have audited the general purpose financial statements of the Penn Manor School District as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 general purpose 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 opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Penn Manor School District at June 30, 2002 and the results of its operations and cash flows of its proprietary and similar trust fund types 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 September 26, 2002 on our consideration of Penn Manor School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of Penn Manor School District taken as a whole. The schedule on pages 30 & 31 is presented for purposes of additional analysis and is not a required part of the general purpose 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 also not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.



TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

September 26, 2002
Lancaster, Pennsylvania

Penn Manor School District
COMBINED BALANCE SHEET - ALL FUND TYPES and ACCOUNT GROUPS
June 30, 2002

	Governmental Fund Types			
	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund
<u>ASSETS</u>				
Cash and Cash Equivalents	1,221,876	153	3,071	
Investments	9,707,978	1,570,634	9,384,018	34,660
Taxes Receivable	1,836,922			
Due from Other Funds	85,384	200,914		
Due from Other Governments	1,417,523			
Other Receivables	109,627			
Inventories				
Land and Site Improvements				
Buildings and Building Improvements				
Machinery and Equipment				
Accumulated Depreciation				
Amount Available in Debt Service Fund				
Amount to be Provided for Retirement of General Long-Term Debt				
Amount to be Provided for Compensated Absences				
Amount to be Provided for Early Retirement Incentive				
<u>TOTAL ASSETS</u>	<u>14,379,310</u>	<u>1,771,701</u>	<u>9,387,089</u>	<u>34,660</u>
<u>LIABILITIES</u>				
Due to Other Funds	3,254		200,914	
Accounts Payable	1,326,925	114,154	50,000	
Accrued Salaries and Benefits	3,255,429			
Deferred Revenues	794,094			
Other Current Liabilities		257,908		390
Bonds and Notes Payable				25,000
Accumulated Compensated Absences				
Early Retirement Incentive Payable				
Lease Purchase Obligations				
<u>TOTAL LIABILITIES</u>	<u>5,379,702</u>	<u>372,062</u>	<u>250,914</u>	<u>25,390</u>
<u>FUND EQUITY</u>				
Investment in General Fixed Assets				
Unreserved Retained Earnings				
Fund Balance:				
Specific Reserves				9,270
Unreserved - Undesignated	8,999,608	1,399,639	9,136,175	
<u>TOTAL FUND EQUITY</u>	<u>8,999,608</u>	<u>1,399,639</u>	<u>9,136,175</u>	<u>9,270</u>
<u>TOTAL LIABILITIES and FUND EQUITY</u>	<u>14,379,310</u>	<u>1,771,701</u>	<u>9,387,089</u>	<u>34,660</u>

Proprietary Fund Types	Fiduciary Fund Types		Account Groups		Totals (Memorandum Only)
	Trust Fund	Agency Fund	General Fixed Assets	General Long-Term Debt	
10,167		169			1,235,436
70,722	68,454	85,269			20,921,735
3,254					1,836,922
					289,552
1,912		88			1,417,523
62,672					111,627
			1,429,306		62,672
			76,377,956		1,429,306
49,885			3,674,473		76,377,956
(19,635)					3,724,358
				9,270	(19,635)
					9,270
				57,760,631	57,760,631
				77,138	77,138
				1,129,670	1,129,670
<u>178,977</u>	<u>68,454</u>	<u>85,526</u>	<u>81,481,735</u>	<u>58,976,709</u>	<u>166,364,161</u>
85,384					289,552
9,654		1,157			1,501,890
31,526					3,255,429
		84,369			825,620
					342,667
				57,732,645	57,757,645
				77,138	77,138
				1,129,670	1,129,670
				37,256	37,256
<u>126,564</u>	<u>-</u>	<u>85,526</u>	<u>-</u>	<u>58,976,709</u>	<u>65,216,867</u>
52,413			81,481,735		81,481,735
	68,454				52,413
					77,724
					19,535,422
<u>52,413</u>	<u>68,454</u>	<u>-</u>	<u>81,481,735</u>	<u>-</u>	<u>101,147,294</u>
<u>178,977</u>	<u>68,454</u>	<u>85,526</u>	<u>81,481,735</u>	<u>58,976,709</u>	<u>166,364,161</u>

Penn Manor School District
COMBINED STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES and EXPENDABLE TRUST FUNDS
Year ended June 30, 2002

	Governmental Fund Types				Fiduciary Fund Types	Totals (Memorandum Only)
	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Expendable Trust Funds	
<u>REVENUES and OTHER FINANCING SOURCES</u>						
Revenues:						
Local Sources:						
Real Estate Taxes	24,299,218					24,299,218
Other Taxes	4,067,536					4,067,536
Investment Income	527,378	71,540	226,065	4,714	552	830,249
Other Revenues	429,469	56,885			3,300	489,654
<u>Total Local Sources</u>	29,323,601	128,425	226,065	4,714	3,852	29,686,657
State Sources	14,367,927					14,367,927
Federal Sources	480,723					480,723
Other Financing Sources:						
Bond Proceeds			4,940,549			4,940,549
Refunding Bond Proceeds				4,302,438		4,302,438
Interfund Transfers	108,307			6,889,268		6,997,575
Sale of Equipment and Supplies	900					900
<u>Total Revenues and Other Financing Sources</u>	44,281,458	128,425	5,166,614	11,196,420	3,852	60,776,769
<u>EXPENDITURES and OTHER FINANCING USES</u>						
Expenditures:						
Instruction	23,719,631					23,719,631
Support Services	11,487,403					11,487,403
Operation of Noninstructional Services	698,051	105,867			4,550	808,468
Capital Outlay	80,422	4,194,071	64,601			4,339,094
Debt Service:						
Interest	111,957			2,184,549		2,296,506
Principal	8,173			8,970,000		8,978,173
Refunds of Prior Years' Receipts	192,126					192,126
Other Financing Uses:						
Bond Issue Costs and Bank Fees			36,092	33,052		69,144
Note Issue Costs and Bank Fees			178			178
Debt Service Fund Transfers	6,884,496					6,884,496
Student Activity Fund Transfers	10,177					10,177
Fund Transfers			113,079			113,079
<u>Total Expenditures and Other Financing Uses</u>	43,192,436	4,299,938	213,950	11,187,601	4,550	58,898,475
<u>REVENUES and OTHER FINANCING SOURCES OVER (UNDER)</u>						
<u>EXPENDITURES and OTHER FINANCING USES</u>	1,089,022	(4,171,513)	4,952,664	8,819	(698)	1,878,294
<u>FUND BALANCE - July 1, 2001</u>	7,910,586	5,571,152	4,183,511	451	25,170	17,690,870
<u>FUND BALANCE - June 30, 2002</u>	8,999,608	1,399,639	9,136,175	9,270	24,472	19,569,164

See notes to financial statements.

Penn Manor School District
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCE
BUDGET and ACTUAL - GENERAL FUND
Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<u>REVENUES and OTHER FINANCING SOURCES</u>			
Revenues:			
Local Sources:			
Real Estate Taxes	23,971,432	24,299,218	327,786
Other Taxes	3,684,535	4,067,536	383,001
Investment Income	836,975	527,378	(309,597)
Other Revenues	454,885	429,469	(25,416)
<u>Total Local Sources</u>	28,947,827	29,323,601	375,774
State Sources	14,961,624	14,367,927	(593,697)
Federal Sources	427,764	480,723	52,959
Other Financing Sources:			
Fund Transfers	32,654	108,307	75,653
Sale of Equipment and Supplies	-	900	900
<u>Total Revenues and Other Financing Sources</u>	<u>44,369,869</u>	<u>44,281,458</u>	<u>(88,411)</u>
<u>EXPENDITURES and OTHER FINANCING USES</u>			
Expenditures:			
Instruction:			
Regular Programs -			
Elementary/Secondary	18,143,327	18,143,327	-
Special Programs -			
Elementary/Secondary	3,161,662	3,161,662	-
Vocational Education Programs	2,045,252	2,045,252	-
Other Instruction Programs -			
Elementary/Secondary	369,390	369,390	-
<u>Total Instruction</u>	<u>23,719,631</u>	<u>23,719,631</u>	<u>-</u>
Support Services:			
Pupil Personnel	1,270,837	# 1,270,837	-
Instructional Staff	730,319	# 730,319	-
Administration	2,730,782	# 2,730,782	-
Pupil Health	422,009	# 422,009	-
Business	525,530	# 525,530	-
Operation and Maintenance of			
Plant Services	3,102,529	# 3,102,529	-
Student Transportation Services	2,236,112	# 2,236,112	-
Central	50,946	# 50,946	-
Other Support Services	418,339	# 418,339	-
<u>Total Support Services</u>	<u>11,487,403</u>	<u>11,487,403</u>	<u>-</u>

See notes to financial statements.

Penn Manor School District
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCE
BUDGET and ACTUAL - GENERAL FUND
(Continued)
Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>EXPENDITURES and OTHER FINANCING USES</u>			
(Continued)			
Expenditures: (Continued)			
Operation of Noninstructional Services:			
Student Activities	697,871	697,871	-
Community Services	180	180	-
<u>Total Operation of Noninstructional Services</u>	698,051	698,051	-
Capital Outlay:			
Existing Building Improvement Services	80,422	80,422	-
Debt Service:			
Interest	111,957	111,957	-
Principal	8,173	8,173	-
Refunds of Prior Years' Receipts	192,126	192,126	-
<u>Total Debt Service</u>	312,256	312,256	-
Other Financing Uses:			
Debt Service Fund Transfers	6,884,496	6,884,496	-
Fund Transfers	1,530,517	# 10,177	1,520,340
<u>Total Other Financing Uses</u>	8,415,013	6,894,673	1,520,340
<u>Total Expenditures and Other Financing Uses</u>	44,712,776	43,192,436	1,520,340
<u>REVENUES and OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES and OTHER FINANCING USES</u>			
	(342,907)	1,089,022	1,431,929
<u>FUND BALANCE</u> - July 1, 2001		7,910,586	
<u>FUND BALANCE</u> - June 30, 2002		8,999,608	

See notes to financial statements.

Penn Manor School District
COMBINED STATEMENT of REVENUES, EXPENSES, and CHANGES in
RETAINED EARNINGS/FUND BALANCE - ALL PROPRIETARY FUND TYPES
and NONEXPENDABLE TRUST FUNDS
Year ended June 30, 2002

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Type</u>	
	Enterprise Fund	Nonexpendable Trust Funds	Totals (Memorandum Only)
<u>OPERATING REVENUES</u>			
Local Sources:			
Food Service Revenue	1,244,505		1,244,505
Earnings on Investments		1,179	1,179
Other Operating Revenue	<u>80,632</u>	<u>300</u>	<u>80,932</u>
<u>Total Operating Revenues</u>	<u>1,325,137</u>	<u>1,479</u>	<u>1,326,616</u>
<u>OPERATING EXPENSES</u>			
Personal Services - Salaries	538,915		538,915
Personal Services - Employee Benefits	144,703		144,703
Supplies	1,081,003		1,081,003
Depreciation	3,982		3,982
Other Objects/Awards	<u>37,103</u>	<u>1,228</u>	<u>38,331</u>
<u>Total Operating Expenses</u>	<u>1,805,706</u>	<u>1,228</u>	<u>1,806,934</u>
<u>Operating Income (Loss)</u>	<u>(480,569)</u>	<u>251</u>	<u>(480,318)</u>
<u>NONOPERATING REVENUES</u>			
Earnings on Investments	3,185		3,185
State Subsidy Revenue	88,509		88,509
Federal Subsidy Revenue	<u>370,034</u>		<u>370,034</u>
<u>Total Nonoperating Revenues</u>	<u>461,728</u>	<u>-</u>	<u>461,728</u>
<u>NET INCOME</u>	<u>(18,841)</u>	<u>251</u>	<u>(18,590)</u>
<u>RETAINED EARNINGS/ FUND BALANCE - July 1, 2001</u>			
	<u>71,254</u>	<u>43,731</u>	<u>114,985</u>
<u>RETAINED EARNINGS/ FUND BALANCE - June 30, 2002</u>			
	<u>52,413</u>	<u>43,982</u>	<u>96,395</u>

See notes to financial statements.

Penn Manor School District
COMBINED STATEMENT of CASH FLOWS - ALL PROPRIETARY FUND TYPES
and NONEXPENDABLE TRUST FUNDS
Year ended June 30, 2002

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise Fund</u>	<u>Nonexpendable Trust Funds</u>	
<u>CASH FLOWS from OPERATING ACTIVITIES</u>			
Cash Received from Users	1,325,423	300	1,325,723
Cash Received from Earnings on Investments		1,179	1,179
Cash Payments to Employees for Services	(533,388)		(533,388)
Cash Payments to Suppliers for Goods and Services	(1,318,390)		(1,318,390)
Cash Payments for Other Operating Expenses		(1,228)	(1,228)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>(526,355)</u>	<u>251</u>	<u>(526,104)</u>
<u>CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES</u>			
State Sources	88,386		88,386
Federal Sources	366,295		366,295
<u>Net Cash Provided By Noncapital Financing Activities</u>	<u>454,681</u>	<u>-</u>	<u>454,681</u>
<u>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</u>			
Facilities Acquisition, Construction, and Improvement	(4,205)	-	(4,205)
<u>CASH FLOWS from INVESTING ACTIVITIES</u>			
Earnings on Investments	3,185		3,185
Purchase of Investment Securities		(1,479)	(1,479)
Withdrawals from Investment Pools	30,086	1,228	31,314
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>33,271</u>	<u>(251)</u>	<u>33,020</u>
<u>NET (DECREASE) in CASH and CASH EQUIVALENTS</u>	<u>(42,608)</u>	<u>-</u>	<u>(42,608)</u>
<u>CASH and CASH EQUIVALENTS - Beginning of Year</u>	<u>52,775</u>	<u>-</u>	<u>52,775</u>
<u>CASH and CASH EQUIVALENTS - End of Year</u>	<u>10,167</u>	<u>-</u>	<u>10,167</u>
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	(480,569)	251	(480,318)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	3,982		3,982
(Increase) in Accounts Receivable	(378)		(378)
Decrease in Inventories	7,695		7,695
Increase in Accounts Payable	4,899		4,899
Increase in Accrued Salaries/Benefits	5,527		5,527
(Decrease) in Payroll Deductions/Withholdings	(68,175)		(68,175)
Increase in Other Current Liabilities	664		664
<u>Total Adjustments</u>	<u>(45,786)</u>	<u>-</u>	<u>(45,786)</u>
<u>Cash Provided (Used) by Operating Activities</u>	<u>(526,355)</u>	<u>251</u>	<u>(526,104)</u>

See notes to financial statements.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies

Penn Manor School District, located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through twelfth to students living in Conestoga Township, Manor Township, Martic Township, the Borough of Millersville, and Pequea Township. These include regular, advanced academic, and vocational education programs, and special education programs for gifted and physically and mentally challenged children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the board of School Directors. The School District is comprised of seven elementary schools, two middle schools, and one high school, serving approximately 5,294 students.

The accounting policies of Penn Manor School District conform with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

Consistent with guidance contained in Statement No. 14 of the Governmental Accounting Standards Board (GASB), The Financial Reporting Entity, the criteria used by the School District to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

1. Organizations that make up its legal entity.
2. Legally separate organizations if School District officials appoint a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the School District as defined below.

Impose its Will - If the School District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Financial Benefit or Burden - If the School District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations that are fiscally dependent on the School District. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the School District.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Based on the foregoing criteria, no additional entities are included in the accompanying general purpose financial statements.

Joint Ventures

Lancaster County Career and Technology Center (LCCTC)

The School District is one of sixteen member school districts of the Lancaster County Career and Technology Center (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member districts. LCCTC is controlled and governed by the Career and Technology Board for Lancaster County, which is composed of school board members of all the member districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The School District's financial obligation to LCCTC for the year ended June 30, 2002 was \$889,675 which has been reported in the School District's General Fund. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Vocational Technical School Authority

The School District is also a member of the Lancaster County Vocational Technical School Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Lancaster County Career and Technology Center to acquire land and construct buildings to provide the facilities for the operation of LCCTC. In 1995, the Authority entered into an additional agreement with the same parties to provide funding for the upgrading and modernization of the LCCTC facilities. The School District has an ongoing financial responsibility to the Authority for a portion of the debt obligation relating to these improvements. The balance of the School District's share of this obligation at June 30, 2002 is \$986,100. The School District's lease payment to the Authority for the year ended June 30, 2002 was \$150,520 which has been reported in the School District's General Fund. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P. O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority

The School District is a member in the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980 under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The Authority is not reported as part of the School District's reporting entity. The School District did not have any financial transactions with the Authority during the year ended June 30, 2002. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Joint Ventures (Continued)

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members, who are elected by the public, and are appointed to the LLIU Board by the member school districts' Boards of Directors. Penn Manor School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Penn Manor School District contracts with the LLIU for special education services for School District students. The amount paid for these services and various other support services during the year ended June 30, 2002 was approximately \$872,487. Complete financial information for LLIU can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

Basis of Presentation - Fund Accounting and Measurement Focus

The accounts of the School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, liabilities, fund equity, revenues, and expenditures or expenses. The funds are grouped into four types in three categories. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. Following is a description of the fund types and account groups used by the School District in the accompanying financial statements.

Governmental Fund Types - Governmental funds are used to account for the School District's expendable financial resources and related liabilities (except those accounted for in proprietary funds). The measurement focus is upon determination of changes in financial position. The following are the School District's governmental fund types:

General Fund - The General Fund is the principal operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. These funds include the Capital Reserve Fund and the Athletic Fund.

Capital Projects Fund - This fund is used to account for financial resources related to general fixed asset acquisitions, construction, and improvements. This fund includes the 1996 G. O. Bond Construction Fund.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting and Measurement Focus
(Continued)

Governmental Fund Types (Continued)

Debt Service Fund - This fund is used to account for the accumulation of resources for, and payment of, interest and principal on debt reported in the General Long-Term Debt Account Group. This fund includes the 1990 Sinking Fund, the 1993 Series A Sinking Fund, the 1996 Sinking Fund, the 1996 Series A Sinking Fund, the 1998 Sinking Fund, the 2001 Sinking Fund, the 2001 A Sinking Fund, and the 2002 Sinking Fund.

Proprietary Fund Types - Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. Following are the School District's proprietary fund types:

Enterprise Fund - Enterprise funds are used to account for the School District's operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost of providing goods or services to the students on a continuing basis be financed or recovered primarily through user charges or cost reimbursement plans. The following fund is used to account for those financial activities:

Food Service Fund - This fund accounts for the revenues, food purchases, and other costs, and expenses of providing meals to students during the school year.

Fiduciary Fund Types - These are the funds that account for the assets held by the School District as a trustee or agent for individuals, private organizations and/or governmental units. The funds included in this category are:

Expendable Trust Funds - These funds are established to account for such things as endowments where the donor(s) stipulate that principal and income may be expended in the course of the designated purpose of the endowment. This fund includes the Rob Guiles Fund, Alumni Association Scholarship Fund, Class of 1960 Fund, Class of 1940 Fund, Class of 1986 Fund, Class of 2000, Ditlow-Weatherlow Memorial Fund, Gilner-Ruhland Memorial Fund, Millersville Bicentennial Fund, Steinmetz Award Fund, Wally Walker Scholarship Fund, Perry Love Student Scholarship Fund, Deb Souders Cheerleading Scholarship Fund, and Friends of Penn Manor Award.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting and Measurement Focus
(Continued)

Nonexpendable Trust Funds - These funds are established to account for such things as endowments where the donor(s) stipulate that only the income produced from the endowment may be expended in the course of the designated purpose of the endowment and that the principal must remain intact. This fund includes the Alan Creasy Scholarship Fund, Brian McCall Memorial Fund, Eugene Herr Chemistry Scholarship Fund, Class of 1996 Scholarship Fund, A. Norman Ranck Scholarship Fund, Smith-Walker Scholarship Fund, Spanish Club Award Fund, Donald O. Winters Memorial Award Fund, Vernon Ludwig Award Fund, and William H. Duncan Memorial Scholarship Fund.

Agency Funds - These funds are used to account for assets held by the School District as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund includes the Student Activities Fund.

Account Groups - In addition to the funds listed above, the School District maintains two account groups, the General Fixed Assets Account Group and the General Long-Term Debt Account Group. The account groups are not "funds"; they are only concerned with the measurement of financial position, not the results of operations.

General Fixed Assets Account Group - This group accounts for all fixed assets of the School District used in governmental fund type operations. Fixed assets related to food services are accounted for in the Enterprise Fund.

General Long-Term Debt Account Group - This account group is used to account for all long-term obligations of the School District, except those accounted for in the Enterprise Fund.

Basis of Accounting

The modified accrual basis of accounting is used for the governmental fund types and the agency funds. Under this basis of accounting, revenues are recorded when they are susceptible to accrual, that is, when they become both measurable and available. Available means collectible within the period or soon enough thereafter to be used to pay liabilities of the current period. Revenues considered susceptible to accrual include real estate taxes, taxpayer-assessed taxes, interest, rent, intergovernmental revenues, and certain miscellaneous revenues. Revenues not considered available are recorded as deferred revenues. Expenditures generally are recognized when the liability is incurred, except for interest on general long-term debt, which is recorded when due.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the School District; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Real estate taxes are recorded as assets when they are levied and are recognized as revenue in the year for which they have been levied, provided they are received by the School District within 60 days after year end.

The accrual basis of accounting is used by the Enterprise Fund. Under the accrual basis of accounting, revenues are recognized in the accounting period earned and expenses are recognized in the period incurred. That fund does not apply standards issued by the Financial Accounting Standards Board after November 30, 1989.

Budgetary Data

Penn Manor School District follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 31, management submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the Board.

Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.

5. Budgetary data are included in the School District's management information system and are employed as a management control device during the year.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Data (Continued)

6. Unused appropriations lapse at the end of each fiscal year; however, the School District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount. There were no outstanding encumbrances at June 30, 2002.
7. The budget for the General Fund is adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits and overnight repurchase agreements.

Investments

Investments are recorded at market value.

Taxes Receivable and Deferred Tax Revenues

The portion of delinquent real estate taxes receivable that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other tax receivables is recorded as deferred tax revenues. All tax receivables are considered to be fully collectible.

Due from Other Funds/Due to Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventories

Inventories in the Food Service Fund represent the cost, using the first-in/first-out (FIFO) method, of food and supplies on hand at June 30, 2002. Any unused commodities donated by the federal government at June 30, 2002 are reported as deferred revenue since title does not pass to the School District until the commodities are used.

General Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

General Fixed Assets (Continued)

Donated fixed assets are valued at their estimated fair market value on the date received. There is no provision for depreciation on the general fixed assets.

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.

Fixed Assets - Enterprise Fund

Beginning July 1, 1994, fixed assets purchased by the Food Service Fund were capitalized and depreciated on the straight-line basis over their estimated useful lives, which in most cases is twelve years. The historical cost for assets purchased in prior years by the Cafeteria Fund is not available and, therefore, no depreciation has been recorded for these assets. The effects of the above are not reasonably determinable. The Food Service Fund assets were included in the professional appraisal of all School District assets and included in the General Fixed Asset Account Group. Prior to July 1, 1994, assets that specifically related to the Food Service Fund could not be reasonably separated from other School District assets and, therefore, were not included on the Food Service Fund balance sheet. Assets purchased after July 1, 1994 were capitalized and depreciated in the Food Service Fund.

Amount to be Provided for Retirement of General Long-Term Debt

The balance in this account represents the amount to be provided from future taxes or other general revenues to retire long-term obligations.

Amount to be Provided for Payment of Compensated Absences

The balance in this account represents the amount to be provided from other general revenues to pay employees, upon their retirement or termination, the amount of their accumulated sick days.

Amount to be Provided for Early Retirement Incentive

The balance in this account represents the amount to be provided from other general revenues to pay teachers who elect early retirement.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Pension Plan

Substantially all full-time and part-time employees of the School District participate in a cost-sharing multiple employer defined benefit pension plan. The School District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in the governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure but as a liability in the General Long-Term Debt Account Group if not payable with expendable, available financial resources.) The School District made all required contributions for the year ended June 30, 2002, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

Compensated Absences

Effective July 1, 2001, the School District implemented the policy to allow non-administrative employees who have fifteen years of consecutive service with the School District to accumulate an unlimited amount of sick leave. Upon retirement, the employee would be paid \$15 per day for these accumulated sick days. The School District records the expenditures for compensated absences when paid. The aggregate cost to the School District for the accumulated sick leave and personal days, including salary related payments, was estimated at \$77,138 at June 30, 2002 and was, therefore, recorded as a liability in the General Long-Term Debt Account Group. This liability was calculated using the criteria which was effective July 1, 2001 since it relates to future payments.

Early Retirement Incentive

Effective July 1, 2000, the School District provides teachers with a voluntary early retirement incentive payment program. If the teacher has been employed by the School District for at least 15 consecutive years preceding retirement, then the teacher will receive payment based on \$125 per year for each year of employment with the School District plus \$50 per day for each unused sick and/or personal day. The retirement incentive is limited to a maximum of \$14,000. Effective July 1, 2001, the School District provides administrators with a voluntary early retirement incentive payment program. If the administrator has been employed by the School District for at least 10 consecutive years preceding retirement, then the administrator will receive \$60 per day for each unused sick and/or personal day, plus the selection of \$250 per year for each year of employment with the School District or \$500 per year for each year employed as an administrator with the School District. The retirement incentive is limited to a maximum of \$28,000. The School District records the expenditures for early retirement incentives when paid. The aggregate cost to the School District for the early retirement incentive, including salary related payments was estimated at \$1,129,670 at June 30, 2002 and was, therefore, recorded as a liability in the General Long-Term Debt Account Group.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserved fund balances for governmental fund types represent the amounts that have been identified for a specified expenditure. Unreserved retained earnings for proprietary fund types represent the net assets available for future operations or distribution.

Total Columns on Combined Statements

Total columns on the combined statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows, in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

NOTE 2 - Deposits and Investments

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

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

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.

Deposits

The School District's checking and savings accounts at June 30, 2002, were insured by the Federal Deposit Insurance Corporation (category 1) or were collateralized in accordance with Act 72, which requires the institution to pool collateral for all its government deposits and to have the collateral held by an approved custodian in the institution's name (category 3).

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 2 - Deposits and Investments (Continued)

Deposits (Continued)

	Category <u>1</u>	Total Bank <u>Balance</u>	Total Carrying <u>Amount</u>
Checking and Savings			
Accounts	<u>76,142</u>	<u>76,142</u>	<u>75,619</u>

Reconciliation to the Balance Sheet - Cash and Cash Equivalents

Total Carrying Amount of:

Deposits	75,619
Repurchase Agreement	1,159,467
Petty Cash	<u>350</u>

Cash and Cash Equivalents per

Balance Sheet	<u>1,235,436</u>
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Investments

The School District's investments are categorized as either (1) insured or registered, or securities held by the School District or its agent in the School District's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the School District's name, or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the School District's name.

The School District invests in the Pennsylvania Local Government Investment Trust. The Pennsylvania Local Government Investment Trust (PLGIT) insures that it will not place deposits with any single issuing institution if the largest participant's pro rata share of such deposits exceeds \$100,000, unless such deposits are collateralized as prescribed by Act 72.

The School District's investments at June 30, 2002 are stated at market value. The School District has no investments which would be classified in categories 1, 2, or 3. However, the School District does have investments which are not in any of the three defined categories. Such investments are separately identified. The School District's investments at June 30, 2002 are as follows:

	Category <u>1</u>	Category <u>3</u>	Non- <u>Categorized</u>	Market <u>Value</u>	Cost <u>Value</u>
Certificate of Deposit	10,000	-0-	-0-	10,000	10,000
Repurchase Agreement	-0-	1,159,467	-0-	1,159,467	1,159,467
Investment in Money					
Market Funds	-0-	-0-	18,783,360	18,783,360	18,783,360
Investment in State					
Investment Pools:					
PLGIT	<u>-0-</u>	<u>-0-</u>	<u>2,397,082</u>	<u>2,397,082</u>	<u>2,397,082</u>
<u>Total Investments</u>	<u>10,000</u>	<u>1,159,467</u>	<u>21,180,442</u>	<u>22,349,909</u>	<u>22,349,909</u>

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 2 - Deposits and Investments (Continued)

Investments (Continued)

Reconciliation of Investments to Balance Sheet:	
Total Investments per Above	22,349,909
Less: Repurchase Agreement	1,159,467
Outstanding Checks	<u>268,707</u>
<u>Investments per Balance Sheet</u>	<u>20,921,735</u>

NOTE 3 - Real Estate Taxes

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2002 was 14.12 mills (\$14.12 per \$1,000 of assessed valuation) as levied by the Board of School Directors. 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 - March 31	- 10% Penalty Period
April 1	- Lien Date

NOTE 4 - Taxes Receivable and Deferred Taxes

The School District, in accordance with Statement 1 of the National Council on Government Accounting, recognized the delinquent and unpaid taxes receivable. A portion of the receivable amount, which was measurable and available within 60 days, was recognized as revenue and the balance was deferred. The balances at June 30, 2002 are as follows:

	Taxes Receivable	Tax Revenue Recognized	Deferred Taxes
Real Estate	938,135	149,026	789,109
Earned Income Taxes	847,071	847,071	-0-
Per Capita and Occupation	389	389	-0-
Transfer Tax	<u>51,327</u>	<u>51,327</u>	<u>-0-</u>
	<u>1,836,922</u>	<u>1,047,813</u>	<u>789,109</u>

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - Due From/To Other Funds

Individual fund receivable and payable balances at June 30, 2002 were as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	85,384	3,254
Special Revenue:		
Capital Reserve	200,914	-0-
Capital Projects	-0-	200,914
Enterprise:		
Food Service	<u>3,254</u>	<u>85,384</u>
 <u>Total</u>	 <u>289,552</u>	 <u>289,552</u>

NOTE 6 - Due from Other Governments

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2002, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>
Federal Grants	62,683
State Rental Subsidy	1,055,989
State Retirement Subsidy	49,040
State Social Security Subsidy	113,198
State Grants and Programs	7,639
Local Grants and Programs	<u>128,974</u>
<u>Total</u>	<u>1,417,523</u>

NOTE 7 - Deferred Revenues

Deferred revenues at June 30, 2002 consist of the following:

General Fund:	
Deferred Taxes - Note 4	789,109
Deferred Program Monies - Other	<u>4,985</u>
 <u>Total</u>	 <u>794,094</u>
Cafeteria Fund:	
Commodities Inventory	23,912
Unused Tickets	<u>7,614</u>
 <u>Total</u>	 <u>31,526</u>

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 8 - Specific Reserved Fund Balances

Specific reserves represent portions of fund balances that are legally segregated for a specific future use or are not appropriate for expenditures. As of June 30, 2002, the School District included the following amounts as specific reserved fund balances:

Trust Funds

Reserved for Scholarships	30,554
Reserved for Endowments	<u>37,900</u>
	<u>68,454</u>

Debt Service Fund

Reserve for Debt Service Payments	<u>9,270</u>
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NOTE 9 - Fixed Assets

A summary of changes in the General Fund Fixed Asset Account Group follows:

	Balance <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2002</u>
Land and Site				
Improvements	1,429,306	-0-	-0-	1,429,306
Buildings and				
Building				
Improvements	72,014,511	4,363,445	-0-	76,377,956
Machinery and				
Equipment	<u>3,096,081</u>	<u>578,392</u>	-0-	<u>3,674,473</u>
<u>Total</u>	<u>76,539,898</u>	<u>4,941,837</u>	<u>-0-</u>	<u>81,481,735</u>

The beginning buildings and building improvement balance, which was derived from a professional appraisal, has been adjusted to reflect actual documented historical costs. The beginning machinery and equipment balance has been adjusted to eliminate items which are below the School District's capitalization policy.

A summary of the Food Service Fund fixed assets follows:

	Balance <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2002</u>
Food Service				
Equipment	45,680	4,205	-0-	49,885
Accumulated				
Depreciation	(15,653)	(3,982)	-0-	(19,635)
<u>Net Food Service</u>				
Equipment	<u>30,027</u>	<u>223</u>	<u>-0-</u>	<u>30,250</u>

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - General Long-Term Debt

A summary of outstanding general obligation debt at June 30, 2002 follows:

<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Interest Rate or Yield</u>	<u>Amount</u>
Series of 1990 GOB	June 1, 2008	7.00% - 7.10%	3,511,735
Series of 1996 GOB	June 1, 2014	3.40% - 5.20%	24,240,000
Series of 1998 GOB	June 1, 2016	3.60% - 4.35%	8,460,000
Series of 2001 GOB	June 1, 2009	4.00% - 5.00%	3,465,000
Series A of 2001 GOB	February 15, 2011	3.20% - 4.45%	4,995,000
Series of 2002 GOB	June 1, 2008	3.50% - 3.90%	4,330,000
GON of 2000	February 1, 2003	73% of 30 day LIBOR	3,999,950
Accrued Interest on 1990 Capital Appreciation Bonds			<u>4,730,960</u>
Total Principal on General Obligation Debt			57,732,645
Obligations for Capitalization Leases Refer to Note 12			<u>37,256</u>
Total General Obligation Debt			<u>57,769,901</u>

The following schedule reveals the aggregate annual debt service requirements for all general obligation debt series:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	7,872,627	3,482,825	11,355,452
2004	4,145,278	2,906,922	7,052,200
2005	4,240,701	2,805,466	7,046,167
2006	4,347,298	2,701,517	7,048,815
2007	4,081,501	2,915,597	6,997,098
2008 - 2012	21,209,280	5,736,830	26,946,110
2013 - 2016	<u>7,105,000</u>	<u>755,473</u>	<u>7,860,473</u>
<u>Total</u>	<u>53,001,685</u>	<u>21,304,630</u>	<u>74,306,315</u>

Changes in Long-Term Liabilities

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the General Long-Term Debt Account Group:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2002</u>
General Obligation Debt:				
Bonds and Notes				
Payable	56,763,088	9,353,466	8,383,909	57,732,645
Capital Lease				
Obligations	45,429	-0-	8,173	37,256
Compensated Absences	84,668	-0-	7,530	77,138
Early Retirement				
Incentive	<u>835,575</u>	<u>294,095</u>	<u>-0-</u>	<u>1,129,670</u>
	<u>57,728,760</u>	<u>9,647,561</u>	<u>8,399,612</u>	<u>58,976,709</u>

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - General Long-Term Debt (Continued)

Bond Refunding

On May 15, 2002, the School District issued General Obligation Bonds, Series of 2002 for \$4,330,000 to partially refund and redeem General Obligation Bonds, Series A of 1996 with a principal balance of \$5,530,000. The School District also paid \$1,265,000 towards the refunding of the General Obligation Bonds, Series A of 1996.

As a result of the current refunding of the General Obligation Bond, Series A of 1996, the School District reduced its total debt service requirements by \$148,024 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$144,647.

General Obligation Note

On August 1, 2001, the School District issued General Obligation Bonds, Series A of 2001 for \$4,995,000, to provide funds toward the cost of the design and construction of improvements, additions and renovations to School District property. The principal balance on June 30, 2002 was \$4,995,000. The interest rates on the bonds range from 3.20% to 4.45%. Principal payments are due annually beginning February 15, 2003.

NOTE 11 - Employment Termination Agreement

On June 13, 2002, the School District entered into an employment termination agreement with a former administrator. Effective July 1, 2002, and on the first day of each month through September 1, 2003, the School District shall pay \$7,000 per month. Effective October 1, 2003, and on the first day of each month through September 1, 2013, the School District shall pay \$500 per month. In recognition of prior years service, the School District will also pay a single lump sum payment of \$15,000 due on January 15, 2003.

The following is a schedule which reveals the annual requirements under the agreement:

June 30, 2003	99,000
2004	25,500
2005	6,000
2006	6,000
2007	6,000
2008 - 2012	30,000
2013 - 2014	7,500

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 12 - Obligations for Capitalized Leases

Penn Manor School District has entered into capital lease agreements for various assets. The leased assets and related obligations are accounted for in the General Fixed Assets Account Group and the General Long-Term Debt Account Group, respectively. Assets under capital leases were \$56,767 at June 30, 2002. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the lease payments as of June 30, 2002:

June 30, 2003	21,499
2004	5,483
2005	<u>15,699</u>
Minimum Lease Payments	42,681
Less: Amount Representing Interest	<u>5,425</u>
Present Value of Minimum Lease Payments	<u>37,256</u>

NOTE 13 - Operating Leases

On September 11, 1995, the School District entered into a forty year operating lease with Millersville University of the Pennsylvania State System of Higher Education. The School District agreed to construct and maintain a two-tier parking garage on land owned by Millersville University. In lieu of rent, the School District agreed to allow Millersville University primary use of the lower tier of the parking garage.

On December 11, 1995, the School District entered into a forty year operating lease with Millersville University of the Pennsylvania State System of Higher Education. The School District agreed to lease approximately 2.32 acres of land, referred to as the "Athletic Field", to Millersville University. In lieu of rent, Millersville University agreed to lease to the School District a .34 acre of land, referred to as the "Parking Lot".

Lease Rental Debt, Series of 1998 dated October 7, 1998, was issued by the Lancaster County Career and Technical Center Authority (the "Authority") to advance refund the Authority's Series of 1995 Lease Revenue Bonds. The 1995 bonds were issued to provide funds for the upgrading and modernization of the facilities of the Lancaster County Career and Technical Center. The Lancaster County Career and Technical Center and the sixteen member school districts have entered into a lease agreement with the Authority and each school district will pay its proportionate share of the lease rentals in order to fund the Series of 1998 debt.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 13 - Operating Leases (Continued)

Minimum future rental payments under this operating lease having remaining terms in excess of one year as of June 30, 2002 are as follows:

Fiscal year ending June 30, 2003	150,304
2004	150,623
2005	150,649
2006	150,431
2007	150,664
2008	150,608
2009	150,703
2010	<u>150,781</u>
Total Minimum Future Rental Payments	<u>1,204,763</u>

NOTE 14 - Defined Benefit Pension Plan

Plan Description - The School District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employees' Retirement System (PSERS). Benefit provisions of the Plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The Plan provides retirement, disability, and death benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a publicly available financial report that includes financial statements for the Plan. That report may be obtained by writing to PSERS, P. O. Box 125, Harrisburg, PA 17108-0125.

Funding Policy - The contribution policy is set by the Code and requires contributions by active employees and by participating employers. Plan members may belong to two membership classes. Class TC and Class TD are available to plan members. Active members who joined the Plan before July 22, 1983 are required to contribute 5.25 percent of their compensation if they are in Class TC or 6.5 percent for Class TD. Members who joined on or after July 11, 1983 and were active or inactive as of July 1, 2001, are required to contribute 6.25 percent for Class TC or 7.5 percent for Class TD. Members who joined the Plan after June 30, 2001 are automatically in Class TD and are required to contribute 7.5 percent. The contributions required of participating employers is based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. For the fiscal year ended June 30, 2002, the rate of employer contribution was 1.09 percent of covered payroll. The 1.09 percent rate is composed of a pension contribution rate of .93 percent for pension benefits and .16 percent for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 14 - Defined Benefit Pension Plan (Continued)

Funding Policy (Continued)

total employer rate. Penn Manor School District's contributions to PSERS for the years ending June 30, 2002, 2001, and 2000 were \$241,148, \$414,772, and \$962,628, respectively. Those amounts are equal to the required contribution for each year.

Active and inactive members of the plan may elect a new membership class as of July 1, 2001 to receive a higher benefit formula. Upon qualifying, these members will make employee contributions of 6.50% (if currently contributing 5.25%) or 7.50% (if currently contributing 6.25%) effective January 1, 2002. Members not making this election will continue to contribute at the original rates identified above.

NOTE 15 - Risk Management

Property and Liability

For losses incurred prior to July 1, 1999, the School District joined together with other school districts in the area to form the Lancaster-Lebanon Public Schools Insurance Pool (the "Pool"), a public entity risk pool currently operating as a common risk management and insurance program for eleven member school districts, the Lancaster-Lebanon Intermediate Unit, the Lancaster County Academy, and the Lancaster County Career and Technical Center. The agreement of the Pool states that the School District pays an annual premium to the Pool for the purpose of seeking the prevention or lessening of casualty losses to member properties and injuries to persons or property which might result in claims being made against members and to pool the insurance risks, reserves, claims, and losses and providing self-insurance and reinsurance therefore. It is the intent of the members of the Pool that the Pool will utilize funds contributed by the members to provide self-insurance and reimbursement to the members for certain losses, to defend and protect, each member of the Pool in accordance with the agreement, against certain liabilities and losses, and to purchase stop-loss insurance for claims greater than \$75,000 per occurrence.

As of June 30, 2002, the School District is not aware of any additional assessments relating to the Pool.

Hospitalization

The School District has a self-insured hospitalization plan with Health Guard Management Services Company, the claims administrator, who processes and pays the claims. For the year ended June 30, 2002, the School District was limited in liability for claims to \$75,000 per individual and \$701,304 and \$2,143,248 in total, for the Indemnity Plan and Point of Service Plan, respectively. A liability for claims incurred prior to June 30, 2002 and paid subsequently is recorded in the amount of \$224,662 in accounts payable in the General Fund.

Effective January 1, 2003, the Indemnity Plan will be eliminated.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 15 - Risk Management (Continued)

Changes in the School District's claims liability amount in fiscal years 2001 and 2002 were:

	Beginning of Fiscal Year <u>Liability</u>	Current Year Claims and Changes in <u>Estimates</u>	Claims Payments	Balance at Fiscal <u>Year End</u>
2000-2001	135,978	2,117,091	2,139,484	113,585
2001-2002	113,585	2,369,765	2,258,688	224,662

Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for nineteen member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims, and losses and providing self-insurance and reinsurance thereof. It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance.

As of June 30, 2002, the School District is not aware of any additional assessments relating to the Fund.

Unemployment Compensation

The School District has elected to self-insure for unemployment compensation rather than contribute to the State Fund. Transactions relating to this Plan are reflected in the General Fund.

NOTE 16 - Vision Fund

The School District administers a vision fund which is reflected in the General Fund. The Plan reimburses for professional eye examinations and the cost of prescription glasses and contacts. Eligible expenses in accordance with the Plan, are those incurred by either an employee or his/her dependents.

The Plan requires submission of receipted invoices for eligible services and operates on a fiscal year from July 1 to June 30. Payment by the School District is made monthly and items submitted by the end of each month will be reimbursed by the 15th of the following month. In order to be eligible for payment, bills incurred must be less than six months old. Payment for the fiscal year ending June 30, 2002 is limited to \$135. An eligible employee may carry over any unused amount in his/her account to the following year to a maximum usage of \$285. For the fiscal year beginning July 1, 2003, payment is limited to \$140 per year and the carryover is limited to a maximum of \$290.

Penn Manor School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 17 - Contingencies and Commitments

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal Government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

The School District is also involved in various claims and legal actions arising in the ordinary course of business. It is the opinion of the School District's solicitor that such liability resulting from the litigation would not be material in relation to the School District's financial position. Subsequent to year end, an agreement was reached in the amount of \$40,000 to settle a legal action. This amount has been included in the current year's General Fund as an expenditure.

As of June 30, 2002, the School District has the following commitments that were not fulfilled as of the end of the year:

Construction Contracts	<u>4,860,500</u>
------------------------	------------------

NOTE 18 - Subsequent Events

On July 25, 2002, the School District signed a construction contract agreement in the amount of \$31,410 for the removal of vinyl floor tile. It is anticipated that this work will be completed during the following year.

NOTE 19 - GASB Statement No. 34

In June 1999, the Governmental Accounting Standards Board unanimously approved Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments. Statement No. 34 will significantly change governmental financial reporting statements as follows:

The focus of financial statements will shift from fund types to major individual funds.

Financial statements will include a management discussion and analysis section providing an analysis of the School District's overall financial position and results of operations.

Financial statements will be prepared using full accrual accounting for all activities, including reporting infrastructure assets.

The general provisions of GASB Statement No. 34 must be implemented by the Penn Manor School District no later than the fiscal year ending June 30, 2003.

Penn Manor School District
 SCHEDULE of REVENUES and EXPENDITURES
 ORIGINAL BUDGET and ACTUAL - GENERAL FUND
 SUPPLEMENTAL INFORMATION
 Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<u>REVENUES and OTHER FINANCING SOURCES</u>			
Revenues:			
Local Sources:			
Real Estate Taxes	23,971,432	24,299,218	327,786
Other Taxes	3,684,535	4,067,536	383,001
Investment Income	836,975	527,378	(309,597)
Other Revenues	<u>454,885</u>	<u>429,469</u>	<u>(25,416)</u>
<u>Total Local Sources</u>	28,947,827	29,323,601	375,774
State Sources	14,961,624	14,367,927	(593,697)
Federal Sources	427,764	480,723	52,959
Other Financing Sources:			
Fund Transfers	32,654	108,307	75,653
Sale of Equipment and Supplies	<u> </u>	<u>900</u>	<u>900</u>
<u>Total Revenues and Other Financing Sources</u>	<u>44,369,869</u>	<u>44,281,458</u>	<u>(88,411)</u>
<u>EXPENDITURES and OTHER FINANCING USES</u>			
Expenditures:			
Instruction:			
Regular Programs -			
Elementary/Secondary	18,999,195	18,143,327	855,868
Special Programs -			
Elementary/Secondary	3,466,811	3,161,662	305,149
Vocational Education Programs	1,959,499	2,045,252	(85,753)
Other Instruction Programs -			
Elementary/Secondary	<u>416,472</u>	<u>369,390</u>	<u>47,082</u>
<u>Total Instruction</u>	<u>24,841,977</u>	<u>23,719,631</u>	<u>1,122,346</u>
Support Services:			
Pupil Personnel	1,269,440	1,270,837	(1,397)
Instructional Staff	741,668	730,319	11,349
Administration	2,692,615	2,730,782	(38,167)
Pupil Health	374,151	422,009	(47,858)
Business	464,717	525,530	(60,813)
Operation and Maintenance of			
Plant Services	3,339,229	3,102,529	236,700
Student Transportation Services	2,238,811	2,236,112	2,699
Central	48,485	50,946	(2,461)
Other Support Services	<u>445,181</u>	<u>418,339</u>	<u>26,842</u>
<u>Total Support Services</u>	<u>11,614,297</u>	<u>11,487,403</u>	<u>126,894</u>

See auditors' report.

Penn Manor School District
 SCHEDULE of REVENUES and EXPENDITURES
 ORIGINAL BUDGET and ACTUAL - GENERAL FUND
 SUPPLEMENTAL INFORMATION
 (Continued)
 Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<u>EXPENDITURES and OTHER FINANCING USES</u> (Continued)			
Expenditures: (Continued)			
Operation of Noninstructional Services:			
Student Activities	672,285	697,871	(25,586)
Community Services	<u>2,208</u>	<u>180</u>	<u>2,028</u>
<u>Total Operation of Noninstructional Services</u>	<u>674,493</u>	<u>698,051</u>	<u>(23,558)</u>
Capital Outlay:			
Existing Building Improvement Services	<u>365,000</u>	<u>80,422</u>	<u>284,578</u>
Debt Service:			
Interest	50,750	111,957	(61,207)
Principal	107,705	8,173	99,532
Refunds of Prior Years' Receipts	<u>15,000</u>	<u>192,126</u>	<u>(177,126)</u>
<u>Total Debt Service</u>	<u>173,455</u>	<u>312,256</u>	<u>(138,801)</u>
Other Financing Uses:			
Debt Service Fund Transfers	6,893,554	6,884,496	9,058
Fund Transfers	-	10,177	(10,177)
Budgetary Reserve	<u>150,000</u>	<u> </u>	<u>150,000</u>
<u>Total Other Financing Uses</u>	<u>7,043,554</u>	<u>6,894,673</u>	<u>148,881</u>
<u>Total Expenditures and Other Financing Uses</u>	<u>44,712,776</u>	<u>43,192,436</u>	<u>1,520,340</u>
<u>REVENUES and OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES and OTHER FINANCING USES</u>	<u>(342,907)</u>	1,089,022	<u>1,431,929</u>
<u>FUND BALANCE</u> - July 1, 2001		<u>7,910,586</u>	
<u>FUND BALANCE</u> - June 30, 2002		<u>8,999,608</u>	

See auditors' report.

Penn Manor School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year ended June 30, 2002

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2001	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2002
<u>U.S. Department of Agriculture</u>									
Passed through the Pennsylvania Department of Education:									
School Breakfast Program***	I/F	10.553	N/A	07/01/01 - 06/30/02	N/A	0	27,135	27,135	0
	S	N/A	N/A	07/01/01 - 06/30/02	N/A	0	4,881	4,881	0
National School Lunch Program***	I/F	10.555	N/A	07/01/01 - 06/30/02	N/A	0	262,401	262,401	0
	S	N/A	N/A	07/01/01 - 06/30/02	N/A	0	60,333	60,333	0
						0	354,750	354,750	0
Passed through the Pennsylvania Department of Agriculture:									
Food Donation (Note 2)	I/F	10.550	N/A	07/01/00 - 06/30/01	N/A	(27,652) A)	80,498 B)	84,238 C)	(23,912) D)
<u>Total U.S. Department of Agriculture</u>						(27,652)	435,248	438,988	(23,912)
<u>U.S. Department of Education</u>									
Passed through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	I/F	84.010	013-020324	07/01/01 - 09/30/02	192,942	0	153,936	181,234	27,298
Title I Grants to Local Educational Agencies	I/F	84.010	107-020324	07/01/01 - 09/30/02	10,978	0	10,978	10,204	(774)
Title I Grants to Local Educational Agencies	I/F	84.010	013-010324	07/01/00 - 09/30/01	189,808	46,765	50,615	3,850	0
Title I Grants to Local Educational Agencies	I/F	84.010	107-010324	07/01/00 - 09/30/01	9,053	604	604	0	0
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-020324	07/01/01 - 09/30/02	22,332	0	8,933	22,332	13,399

See auditors' report.

(Continued)

Penn Manor School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year ended June 30, 2002

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2001	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2002
<u>U.S. Department of Education (Continued)</u>									
Passed through the Pennsylvania Department of Education (Continued):									
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-010324	10/30/00 - 09/30/01	23,104	(1,928)	3,080	5,008	0
Eisenhower Professional Development State Grants	I/F	84.281	020-020324	07/01/01 - 09/30/02	21,033	0	15,418	12,417	(3,001)
Eisenhower Professional Development State Grants	I/F	84.281	020-010324	07/01/00 - 09/30/01	16,337	4,445	7,624	3,179	0
Innovative Education Program Strategies	I/F	84.298	011-020324	07/01/01 - 09/30/02	20,610	0	20,610	20,610	0
Innovative Education Program Strategies	I/F	84.298	011-010324	07/01/00 - 09/30/01	19,548	4,242	6,516	2,274	0
Technology Literacy Challenge Fund Grants	I/F	84.318	055-010324	04/12/01 - 09/30/02	20,000	10,690	7,368	7,406	10,728
Class Size Reduction	I/F	84.340	088-020324	07/01/01 - 09/30/02	67,932	0	56,673	67,932	11,259
Class Size Reduction (Note 3)	I/F	84.340	011-010324	07/01/00 - 09/30/01	53,488	7,132	7,132	0	0
<u>Total Passed through the Pennsylvania Department of Education</u>						<u>71,950</u>	<u>349,487</u>	<u>336,446</u>	<u>58,909</u>
Passed through the Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States	I/F	84.027	N/A	07/01/01 - 06/30/02	66,002	0	8,310	66,002	57,692
Special Education - Grants to States	I/F	84.027	N/A	07/01/00 - 06/30/01	52,265	9,189	9,189	0	0
<u>Total Passed through the Lancaster-Lebanon Intermediate Unit #13</u>						<u>9,189</u>	<u>17,499</u>	<u>66,002</u>	<u>57,692</u>
<u>Total U.S. Department of Education</u>						<u>81,139</u>	<u>366,986</u>	<u>402,448</u>	<u>116,601</u>

See auditors' report.

(Continued)

Penn Manor School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year ended June 30, 2002

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2001	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2002
<u>TOTAL EXPENDITURES of FEDERAL AWARDS</u>						<u>53,487</u>	<u>802,234</u>	<u>841,436</u>	<u>92,689</u>

Legend

- I = Indirect funding
- F = Federal share
- S = State share
- CFDA = Catalog of Federal Domestic Assistance
- *** = Component of Child Nutrition Cluster

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

NOTE 2 - Food Distribution

- A) Beginning inventory at July 1.
- B) Total amount of commodities received from the Department of Agriculture including \$5,435 of bonus commodities.
- C) Total amount of commodities used.
- D) Ending inventory at June 30.

NOTE 3 - Adjustments

An accrual of \$7,140 was shown at June 30, 2001; however, this was an error. An accrual of \$7,132 should have been shown.

See auditors' report.

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REPORT on COMPLIANCE and on INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED on an AUDIT of FINANCIAL STATEMENTS PERFORMED in ACCORDANCE
with GOVERNMENT AUDITING STANDARDS

To the Board Officers and Members
Penn Manor School District
Millersville, Pennsylvania

We have audited the general purpose financial statements of Penn Manor School District as of and for the year ended June 30, 2002, and have issued our report thereon dated September 26, 2002. 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.

Compliance

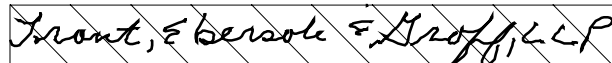
As part of obtaining reasonable assurance about whether Penn Manor School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

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

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

September 26, 2002
Lancaster, Pennsylvania



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REPORT on COMPLIANCE with REQUIREMENTS APPLICABLE to each
MAJOR PROGRAM and on INTERNAL CONTROL OVER COMPLIANCE in ACCORDANCE with
OMB CIRCULAR A-133

To the Board Officers and Members
Penn Manor School District
Millersville, Pennsylvania

Compliance

We have audited the compliance of Penn Manor 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 its major federal program for the year ended June 30, 2002. Penn Manor School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Penn Manor School District's management. Our responsibility is to express an opinion on Penn Manor 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 Penn Manor 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 Penn Manor School District's compliance with those requirements.

In our opinion, Penn Manor School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

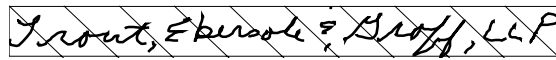
Internal Control Over Compliance

The management of Penn Manor School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Penn Manor 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

September 26, 2002
Lancaster, Pennsylvania


TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Penn Manor School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year ended June 30, 2002

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Penn Manor School District.
2. No reportable conditions relating to the audit of the general purpose 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 general purpose financial statements of Penn Manor School District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal programs are reported in the Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for Penn Manor School District expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for Penn Manor School District are reported in Part C. of this Schedule.
7. The program tested as a major program is: Title I Grants to Local Educational Agencies - CFDA #84.010.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Penn Manor School District was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

None

Penn Manor School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year ended June 30, 2002

There are no prior audit findings.