

***PENN MANOR SCHOOL DISTRICT***

***YEAR ENDED JUNE 30, 2006***



**PENN MANOR SCHOOL DISTRICT**

YEAR ENDED JUNE 30, 2006

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**PENN MANOR SCHOOL DISTRICT**

YEAR ENDED JUNE 30, 2006

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## Independent Auditors' Report

Board of School Directors  
Penn Manor School District  
Millersville, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Penn Manor School District as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Penn Manor School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 the Penn Manor School District as of June 30, 2006, and the respective changes in the financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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AND  
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In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2006 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Penn Manor 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 Nonprofit Organizations, and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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.

*Brown Schuttz Sheridan + Fritz*

Lancaster, Pennsylvania  
October 3, 2006

## ***PENN MANOR SCHOOL DISTRICT***

### MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2006

The discussion and analysis of Penn Manor School District's financial performance provides an overall review of the School District's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. It should be read in conjunction with the notes to the basic financial statements and the financial statements to enhance the understanding of the School District's financial performance.

#### **Financial Highlights**

Key financial highlights for 2006 are as follows:

- Total assets increased by \$22.1 million, with a corresponding increase in liabilities of \$15.4 million; therefore total net assets increased by almost \$6.7 million.
- Revenues totaled \$57.7 million. General revenues accounted for \$46.2 million or 80% of total revenues, which is consistent with the prior year. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$11.6 million or 20% of total revenues, which is also consistent with the prior year.
- The School District had \$49.1 million in expenses related to governmental activities; \$9.7 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$46.2 million were adequate to provide for these programs.
- Among major funds, the General Fund had \$55.5 million in revenues and \$54.0 million in expenditures and other financing uses. This resulted in the addition of about \$1.46 million to Fund Balance reserves, bringing the General Fund's fund balance up to about \$9.9 million from \$8.5 million; after designations, the unreserved, undesignated fund balance is \$4.32 million. Approximately \$1.6 million of the General Fund's fund balance is budgeted to be utilized for the year ended June 30, 2007. The projected ending undesignated fund balance on June 30, 2007, of \$4.7 million, represents just under 8% of the budgeted expenditures and other financing uses for the 2006-2007 fiscal year.
- Net assets for Enterprise Funds increased from \$7,481 to \$39,116. This increase resulted from operating expenses of \$2.0 million exceeding operating revenues of \$1.4 million. Federal, state and investment funding sources also offset \$608,639 of costs in the food service fund and a budgeted transfer of \$50,000 was needed to shore up the finances of the food services operation.

# **PENN MANOR SCHOOL DISTRICT**

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Penn Manor School District as a financial whole.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how the services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Penn Manor School District, the General Fund is the most significant fund.

### **Reporting the School District as a Whole**

Our analysis for the School District as a whole begins on page 5. One of the most important questions asked about the School District's finances is, "Have our financial results this year improved or diminished our overall financial position?" The *Statement of Net Assets* and the *Statement of Activities* report information about the School District as a whole and about the activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in net assets. The change in net assets is important because it tells the reader, for the School District as a whole, whether the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the School District's financial information is divided into two distinct kinds of activities:

- *Governmental Activities* - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- *Business-Type Activities* - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District's food services are reported as business activities.

## **PENN MANOR SCHOOL DISTRICT**

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

#### **Reporting the School District's Most Significant Funds**

##### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 10. The fund financial statements begin on page 18 and provide detailed information about the most significant funds - not the School District as a whole. The School District's two types of funds, governmental and proprietary, use different accounting approaches.

- **Governmental Funds** - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds' statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** - Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

#### **The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

**PENN MANOR SCHOOL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:**

**(Table 1)  
Net Assets at June 30  
(In Millions)**

	Governmental activities		Business-type activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>						
Current and other assets	46.96	24.39	0.10	0.12	47.06	24.51
Capital assets	<u>61.85</u>	<u>62.20</u>	<u>0.05</u>	<u>0.08</u>	<u>61.90</u>	<u>62.28</u>
Total assets	<u>108.81</u>	<u>86.59</u>	<u>0.15</u>	<u>0.20</u>	<u>108.96</u>	<u>86.79</u>
<b>Liabilities</b>						
Current liabilities	9.41	9.36	0.09	0.18	9.50	9.54
Noncurrent liabilities	<u>58.58</u>	<u>43.10</u>	<u>0.02</u>	<u>0.02</u>	<u>58.60</u>	<u>43.12</u>
Total liabilities	<u>67.99</u>	<u>52.46</u>	<u>0.11</u>	<u>0.20</u>	<u>68.10</u>	<u>52.66</u>
<b>Net Assets</b>						
Invested in capital assets net of debt	25.95	21.38	0.06	0.07	26.01	21.45
Restricted	0.02	0.00	0.00	0.00	0.02	0.00
Unrestricted (deficit)	<u>14.85</u>	<u>12.75</u>	<u>(0.02)</u>	<u>(0.07)</u>	<u>14.83</u>	<u>12.68</u>
Total net assets	<u>40.82</u>	<u>34.13</u>	<u>0.04</u>	<u>0.00</u>	<u>40.86</u>	<u>34.13</u>
Total liabilities and net assets	<u>108.81</u>	<u>86.59</u>	<u>0.15</u>	<u>0.20</u>	<u>108.96</u>	<u>86.79</u>

In total, net assets increased just over \$6.73 million from 2005. Net assets of governmental activities increased by \$6.69 million while the net assets of business-type activities increased by \$31,635. While the food service operations did not suffer a loss in fiscal 2005-06, this was due to a budgeted contribution of \$50,000 from the general fund. Work continues to make the food service operation self-supporting.

**PENN MANOR SCHOOL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**(Table 2)  
Changes in Net Assets  
(In Millions)**

	Governmental activities		Business-type activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	0.6	0.5	1.4	1.4	2.0	1.9
Operating grants	9.0	8.8	0.6	0.6	9.6	9.4
General revenue:						
Property and other taxes	35.4	32.2	0.0	0.0	35.4	32.2
Grants and entitlements	9.2	9.1	0.0	0.0	9.2	9.1
Other	<u>1.5</u>	<u>0.4</u>	<u>0.0</u>	<u>0.0</u>	<u>1.5</u>	<u>0.4</u>
Total revenues	<u>55.7</u>	<u>51.0</u>	<u>2.0</u>	<u>2.0</u>	<u>57.7</u>	<u>53.0</u>
<b>Expenses</b>						
Program expenses:						
Instruction	31.8	30.5	0.0	0.0	31.8	30.5
Support services:						
Instructional student support	3.2	3.2	0.0	0.0	3.2	3.2
Administrative and financial support services	4.3	4.2	0.0	0.0	4.3	4.2
Operation and maintenance of plant services	4.5	4.0	0.0	0.0	4.5	4.0
Pupil transportation	2.4	2.3	0.0	0.0	2.4	2.3
Student activities	1.0	1.0	0.0	0.0	1.0	1.0
Interest on long-term debt	1.9	2.2	0.0	0.0	1.9	2.2
Food service	<u>0.0</u>	<u>0.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>
Total expenses	<u>49.1</u>	<u>47.4</u>	<u>2.0</u>	<u>2.0</u>	<u>51.1</u>	<u>49.4</u>
Increase in net assets	<u>6.6</u>	<u>3.6</u>	<u>0.0</u>	<u>0.0</u>	<u>6.6</u>	<u>3.6</u>

## **PENN MANOR SCHOOL DISTRICT**

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those costs. Table 2 shows, for governmental and business type activities, the total cost of services and the net cost of services for fiscal year 2005-06 as compared to fiscal year 2004-05. It identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

The School District passed the budget for 2006-07 in June of 2006 with a 4.7% property tax increase. Management will continue to carefully control expenses during the coming years to assure that a balance is struck between the need for tax increases in conjunction with the steady structured use of fund balance to balance future budgets.

Program revenues are used to partially offset the costs of Governmental Activities. Those program revenues which offset expenses this year include:

- Charges for services include tuition for nonresident students, fees for extra programs and admission paid to athletic events.
- Operating grants and contributions include state subsidies for special education, transportation and employee benefits, as well as federal and state grants for specific programs.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those costs. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. It identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

**PENN MANOR SCHOOL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**(Table 3)**  
**Governmental Activities**  
**(In Millions)**

	Total cost of services		Net cost of services	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Instruction	31.8	30.5	25.9	25.2
Support services:				
Instructional student support	3.2	3.2	2.9	2.9
Administration and financial support services	4.3	4.2	4.1	4.0
Operation and maintenance of plant services	4.5	4.0	4.3	3.9
Pupil transportation	2.4	2.3	0.9	0.8
Student activities	1.0	1.0	0.9	0.8
Interest on long-term debt	<u>1.9</u>	<u>2.2</u>	<u>0.5</u>	<u>0.6</u>
Total	<u>49.1</u>	<u>47.4</u>	<u>39.5</u>	<u>38.2</u>

The dependence upon tax revenues and grants and entitlements for governmental activities is apparent. As in 2005, nearly 81% of instructional activities are supported in 2006 through taxes and other general revenues. When looking at all Governmental Activities, general revenue and tax support remain constant at 80%. The community, as a whole, is by far the primary financial support for Penn Manor School District.

Expenses for Governmental Activities increased by \$1.7 million, which is a 3.5% overall increase from the prior year. Increases were driven primarily by salary and benefit increases across all functional categories, as well as some increases in contract service expenses. Benefit increases included medical and dental claim expenses, higher retirement costs and a relatively higher FICA tax expense due to the higher salaries.

## **PENN MANOR SCHOOL DISTRICT**

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

#### **Business-Type Activities**

Business-type activities consist only of food service operations. These programs had revenues, including state and federal support, of \$2.0 million and expenses of \$2.0 million for both 2006 and 2005. A slight increase in meal prices was instituted at the beginning of the 2005-06 school year. Net assets are listed as \$39,116 as of June 30, 2006. The increase of net assets can be attributed mainly to the revised method of accounting for healthcare expenses and a \$50,000 infusion of operating cash transferred from the general fund. Moving forward into the 2006-07 fiscal year, this new method of charging healthcare costs may affect net assets as costs will approximate actual expenses incurred. Due to the continuation of rising costs, increases in student and adult prices for meals was implemented for the 2006-07 school year. Business activities received no support from tax revenues with the exception of a \$50,000 transfer from the general fund in 2006. A \$50,000 transfer has been budgeted for the 2006-07 school year in an effort to continue assisting the food service operations build positive net assets.

#### ***The School District's Funds***

Information about the School District's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$56.1 million and expenditures and debt service, principal and interest of \$54.6 million. Other financing sources provided a net of \$20.3 million to the various funds and the overall fund balance increased by \$21.9 million.

- ◆ General Fund transfers to other funds included the normal operating transfers to Debt Service for bond principal and interest and \$50,000 to the Food Service Fund which represented budgeted General Fund support for these areas. At year-end, additional transfers to Capital Reserve of \$1.876 million allowed a critical transfer of resources for planned expenditures on capital projects.
  - The General Fund balance grew by nearly \$1.46 million as a result of exceptional collections in various revenue categories. Legislation enacted in December 2003 mandates a fund balance not to exceed 8% of expenditures. The ending unreserved, undesignated fund balance stands at 7.3% of the 2006-07 budget.
  - At July 1, 2005, the School District started the year with a total fund balance of 15.7% of budgeted expenditures. By designating \$5.632 million of the fund balance for future healthcare costs and potential liabilities associated with the "Swaption" investment, the undesignated fund balance at June 30, 2006 was 8.0% of the original budgeted expenditures and other financing uses for 2005-06. Planned use of the fund balance during the 2006-07 fiscal year is budgeted to keep the District below the 8% limit on June 30, 2007.
  - The legislation enacted in December 2003 by the Commonwealth of Pennsylvania required districts (as of July 1, 2005) to budget for an unrestricted, undesignated fund balance of no more than 8% of budgeted expenditures. Use of fund balance to fall within the required restriction also allowed the District to limit the increase in tax millage again for the 2006 tax levy to a 0.66 mill increase; the total millage for the July 2006 tax levy is therefore 14.73 mills. Collection begins in July 2006.

**PENN MANOR SCHOOL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**General Fund Budgeting Highlights**

The School District's General Fund budget is prepared according to Pennsylvania law.

During the course of fiscal 2006, the School District managed District expenditures based on its General Fund budget. The School District used site based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. At the end of the fiscal year, the Board approved certain budgetary transfers to be made as needed, to comply with statutory requirements. No change was made to original revenue or the total of the expenditures and other financing uses budget total amounts; budgets were transferred within the original totals approved for 2005-06.

For the General Fund, actual revenues were \$55.5 million; this was \$3.0 million above original budget estimates of \$52.5 million. Most of this difference was due to increased interest earnings on investments, high collections of earned income, interim, transfer and delinquent taxes, unanticipated receipt of grants as well as conservative revenue estimates.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2006, the School District had \$61.9 million invested in land, buildings and equipment, with \$61.8 million in governmental activities. Table 4 shows the fiscal 2006 balance compared to 2005:

**(Table 4)**  
**Capital Assets at June 30, Net of Depreciation**  
**(In Millions)**

	Governmental activities		Business-type activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	1.4	1.4	0.0	0.0	1.4	1.4
Buildings and improvements	58.4	59.1	0.0	0.0	58.4	59.1
Furniture and equipment, vehicles	<u>2.0</u>	<u>1.7</u>	<u>0.1</u>	<u>0.1</u>	<u>2.1</u>	<u>1.8</u>
Totals	<u>61.8</u>	<u>62.2</u>	<u>0.1</u>	<u>0.1</u>	<u>61.9</u>	<u>62.3</u>

The overall total of capital assets declined during 2005-2006. This is due to depreciation expense being higher than the amount of newly invested capital assets.

**PENN MANOR SCHOOL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**Debt**

At June 30, 2006, the School District had \$59.8 million in bonds outstanding as compared to \$45.8 million a year ago. Table 5 summarizes bonds outstanding:

**(Table 5)  
Outstanding Debt at Year-End  
(In Millions)**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
General Obligation Bonds:		
Series of 1990 GOB	1.2	1.7
Series of 1996 GOB	0.0	11.6
Series of 2001 GOB	1.4	1.9
Series A of 2001 GOB	0.0	4.8
Series of 2002 GOB	0.9	1.8
Series of 2003 GOB	8.6	8.7
Series of 2004 GOB	5.9	7.0
Series of 2005 GOB	5.0	5.0
Series of 2006 GOB	19.4	0.0
Series A of 2006 GOB	14.8	0.0
1990 CAB Accrued Interest	<u>2.6</u>	<u>3.3</u>
Total	<u>59.8</u>	<u>45.8</u>

The District increased its bonds by a net \$14.0 million during the 2006 year. In addition to refunding a portion of the Series A of 2001 into the Series A of 2006 and obtaining \$19.4 million in additional debt through the Series of 2006, a significant amount of principal was paid down according to the debt schedules in place. Moody's Investors Service has assigned an A1 enhanced with a stable outlook and an A2 underlying rating to the Penn Manor School District. The underlying A2 rating reflects the district's satisfactory financial operations, manageable debt position and modestly growing rural/agricultural tax base. The A1 enhanced rating is based upon the additional security for these bonds provided by the Commonwealth of Pennsylvania's Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default.

**For the Future**

Penn Manor School District is strong financially. As the preceding information shows, the School District maintains a healthy investment in fixed assets to support and provide comprehensive educational services, considers future implications of current and ongoing financial obligations and prudently manages its financial assets. Strong academic performance is supported by reasonable and competitive per pupil spending. Balanced payment schedules on existing debt obligations should mean steady tax implications in the future.

## ***PENN MANOR SCHOOL DISTRICT***

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Challenges face many districts in Pennsylvania on a number of issues. With the passage of Act 1 of 2006, our District is faced with a new cap on the amount of money that can be funded from a property tax increase. This cap is based upon a number calculated provided by the Department of Education. While some exceptions may apply that would allow for a tax increase in excess of the index, Penn Manor will likely keep tax increases at or below the allowable increase. In addition, the District is required to craft a referendum question for the May 2007 primary election that will put forth to the voters an option of shifting a portion of the property tax burden to either an increased earned income tax or the creation of a new personal income tax. At this time, a Tax Study Commission has been appointed per the legislation and is working toward a recommendation for the school board. The changes to the fundamental structure of school funding will have broad implications as districts across the Commonwealth learn exactly what must be done and when to comply with any new requirements. There is great uncertainty about the timing of increased education funding becoming available from the Commonwealth as well as what form of tax relief will be offered. Any change will cause a shift in cash flows for districts; the degree of the shift will determine the severity of that impact. Other implications of the new law include earlier budgetary planning cycles and limits on the tax increases which can be levied without voter referendums.

Many districts face the common problem of escalating costs for employee benefits, particularly the retirement expenses of the PSERS system and, as in the case for our District, self-insured medical costs. Both of these costs are set by outside influences, and therefore are not discretionary costs that can be controlled by District management.

Recent changes in the PSERS calculation of benefit expenses have extended the period of time for the actuarial calculation from 10 to 30 years, and the costs have therefore leveled out somewhat over the next several years compared with the huge increases previously predicted. However, depending on market performance, the actual experience of the Pension System could still drive out higher employer costs in the short-term, and eventually, the projections continue to show dramatically higher rates in the future.

The costs of medical benefits will continue to have an effect on the School District budget, as we continue to offer a competitive benefits package to employees through our self-insured plan. Medical claims have increased at 15% to 25% rates over most of the past five years. A Collective Bargaining Agreement is in effect for the 2005-08 school years and has given some relief to these costs through employee contributions, but those contributions cover only a fraction of actual expenses. Also, part of the negotiated agreement is a "mandatory generic" program for prescription drugs. It is estimated that this feature could significantly reduce the amount paid for prescription drugs while still offering effective formulary treatments for our employees. Employee contributions will continue to be implemented at competitive and reasonable levels for our employees, within and outside the bargaining unit.

***PENN MANOR SCHOOL DISTRICT***

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2006

In conclusion, Penn Manor School District has committed itself to financial and educational excellence for many years. The District's system of budgeting and internal controls is well regarded and consistently followed. Continued diligence in all financial matters will be a key component of continued financial performance well into the future.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the District's accountability for the money it received. If you have questions about this report or need additional financial information please contact Christopher L. Johnston, Administrative Assistant for Business, at Penn Manor School District, PO Box 1001, Millersville, PA 17551 or visit our website at [www.pennmanor.net](http://www.pennmanor.net).

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF NET ASSETS - JUNE 30, 2006

	ASSETS		
	Governmental activities	Business-type activities	Total
Current assets:			
Cash and cash equivalents	\$ 2,073,062	\$ 879	\$ 2,073,941
Investments	16,704,455	22,094	16,726,549
Taxes receivable, net	1,362,962		1,362,962
Due from other governments	1,931,636		1,931,636
Other receivables	181,189	11,671	192,860
Inventories		63,054	63,054
Prepaid expenses	18,749		18,749
	<hr/>	<hr/>	<hr/>
Total current assets	<u>22,272,053</u>	<u>97,698</u>	<u>22,369,751</u>
Noncurrent assets:			
Investments held for long-term purposes	23,940,433		23,940,433
Construction in progress	417,507		417,507
Land	1,429,306		1,429,306
Site improvements, net of accumulated depreciation	699,665		699,665
Buildings and building improvements, net of accumulated depreciation	57,293,499		57,293,499
Furniture and equipment, net of accumulated depreciation	1,787,761	57,162	1,844,923
Vehicles, net of accumulated depreciation	227,100		227,100
Long-term debt issuance costs, net of accumulated amortization	<u>744,952</u>	<hr/>	<u>744,952</u>
Total noncurrent assets	<u>86,540,223</u>	<u>57,162</u>	<u>86,597,385</u>
Total assets	<u>\$ 108,812,276</u>	<u>\$ 154,860</u>	<u>\$ 108,967,136</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

	Governmental activities	Business-type activities	Total
Current liabilities:			
Internal balances	\$( 39,234)	\$ 39,234	
Accounts payable	1,224,639	17,311	\$ 1,241,950
Accrued salaries and benefits	3,826,883		3,826,883
Current portion of:			
Lease purchase obligations	8,804		8,804
Bonds payable	3,961,501		3,961,501
Compensated absences	222,327	2,420	224,747
Payroll deductions and withholdings	9		9
Deferred revenues	6,512	34,995	41,507
Other current liabilities	197,289		197,289
Total current liabilities	9,408,730	93,960	9,502,690
Noncurrent liabilities:			
Bonds payable	56,710,260		56,710,260
Lease purchase obligations	11,825		11,825
Accrued retirement costs	574,810		574,810
Long-term portion of compensated absences	1,282,615	21,784	1,304,399
Total noncurrent liabilities	58,579,510	21,784	58,601,294
Total liabilities	67,988,240	115,744	68,103,984
Net assets:			
Invested in capital assets, net of related debt	25,955,343	57,162	26,012,505
Restricted	17,799		17,799
Unrestricted	14,850,894	( 18,046)	14,832,848
Total net assets	40,824,036	39,116	40,863,152
Total liabilities and net assets	\$ 108,812,276	\$ 154,860	\$ 108,967,136

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

	Program revenues			Net revenue (expense) and changes in net assets		
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:						
Instruction	\$ 31,776,141	\$ 502,756	\$ 5,406,436	\$( 25,866,949)		\$( 25,866,949)
Instructional student support	3,168,135		294,535	( 2,873,600)		( 2,873,600)
Administrative and financial support services	4,257,098	10,822	152,464	( 4,093,812)		( 4,093,812)
Operation and maintenance of plant services	4,452,787	65,453	88,319	( 4,299,015)		( 4,299,015)
Pupil transportation	2,399,954		1,481,848	( 918,106)		( 918,106)
Student activities	998,408	48,200	34,676	( 915,532)		( 915,532)
Community services	19,409		19,404	( 5)		( 5)
Capital outlay	150,938			( 150,938)		( 150,938)
Bank fees	2,762			( 2,762)		( 2,762)
Interest on long-term debt	1,890,511		1,554,081	( 336,430)		( 336,430)
Miscellaneous	4,061			( 4,061)		( 4,061)
Total governmental activities	49,120,204	627,231	9,031,763	( 39,461,210)		( 39,461,210)
Business-type activities, food services	2,009,314	1,382,310	604,949		\$( 22,055)	( 22,055)
Total primary government	<u>\$ 51,129,518</u>	<u>\$ 2,009,541</u>	<u>\$ 9,636,712</u>	<u>( 39,461,210)</u>	<u>( 22,055)</u>	<u>( 39,483,265)</u>

(continued)

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2006

	Program revenues			Net revenue (expense) and changes in net assets		
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
General revenues:						
Taxes:						
Property, etc.				\$ 29,526,832		\$ 29,526,832
Other				5,897,555		5,897,555
Grants, subsidies and other nonrestricted				9,158,815		9,158,815
Interest				1,483,544	\$ 3,690	1,487,234
Miscellaneous				138,142		138,142
Transfers				( 50,000)	50,000	
Total general revenues and transfers				<u>46,154,888</u>	<u>53,690</u>	<u>46,208,578</u>
Change in net assets				6,693,678	31,635	6,725,313
Net assets:						
Beginning				<u>34,130,358</u>	<u>7,481</u>	<u>34,137,839</u>
Ending				<u>\$ 40,824,036</u>	<u>\$ 39,116</u>	<u>\$ 40,863,152</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

BALANCE SHEET - GOVERNMENTAL FUNDS - JUNE 30, 2006

ASSETS

	Major funds					
	General fund	Capital reserve	Capital projects	Debt service	Nonmajor fund, athletic fund	Total governmental funds
Assets:						
Cash and cash equivalents	\$ 2,072,878				\$ 184	\$ 2,073,062
Investments	11,373,497	\$ 5,247,978	\$ 23,940,433	\$ 17,799	65,181	40,644,888
Taxes receivable, net	1,362,962					1,362,962
Due from:						
Other funds	39,302	1,888,057				1,927,359
Other governments	1,931,636					1,931,636
Other receivables, net	96,350		84,839			181,189
Prepaid expenses	18,749					18,749
Total assets	<u>\$ 16,895,374</u>	<u>\$ 7,136,035</u>	<u>\$ 24,025,272</u>	<u>\$ 17,799</u>	<u>\$ 65,365</u>	<u>\$ 48,139,845</u>

(continued)

**PENN MANOR SCHOOL DISTRICT**

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED) - JUNE 30, 2006

LIABILITIES AND FUND BALANCES

	Major funds					
	General fund	Capital reserve	Capital projects	Debt service	Nonmajor fund, athletic fund	Total governmental funds
Liabilities:						
Due to other funds	\$ 1,876,292		\$ 11,833			\$ 1,888,125
Accounts payable	973,371	\$ 6,541	243,917		\$ 810	1,224,639
Accrued salaries and benefits	3,826,883					3,826,883
Payroll deductions and withholdings	9					9
Deferred revenues	265,569					265,569
Other current liabilities					13,546	13,546
Total liabilities	<u>6,942,124</u>	<u>6,541</u>	<u>255,750</u>		<u>14,356</u>	<u>7,218,771</u>
Fund balances:						
Reserved			23,769,522	\$ 17,799		23,787,321
Unreserved:						
Designated	5,632,088					5,632,088
Undesignated	<u>4,321,162</u>	<u>7,129,494</u>			<u>51,009</u>	<u>11,501,665</u>
Total fund balances	<u>9,953,250</u>	<u>7,129,494</u>	<u>23,769,522</u>	<u>17,799</u>	<u>51,009</u>	<u>40,921,074</u>
Total liabilities and fund balances	<u>\$ 16,895,374</u>	<u>\$ 7,136,035</u>	<u>\$ 24,025,272</u>	<u>\$ 17,799</u>	<u>\$ 65,365</u>	<u>\$ 48,139,845</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2006

Total fund balances, governmental funds		\$ 40,921,074
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets and construction in progress used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$90,676,835 and the accumulated depreciation is \$28,821,997.		61,854,838
Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		259,058
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:		
Bonds payable	\$( 59,819,299)	
Accrued interest on the bonds	( 183,744)	
Unamortized long-term debt issuance costs	744,952	
Bond premium	( 1,254,857)	
Deferred loss on bond refunding	402,395	
Capital lease payable	( 20,629)	
Accrued retirement costs	( 574,810)	
Compensated absences	( 1,504,942)	( 62,210,934)
Total net assets, governmental activities		<u>\$ 40,824,036</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	Major funds				Nonmajor fund, athletic fund	Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service		
Revenues:						
Local sources:						
Real estate taxes	\$ 29,813,065					\$ 29,813,065
Other taxes	5,897,555					5,897,555
Investment income	928,072	\$ 196,193	\$ 355,543	\$ 801	\$ 2,935	1,483,544
Other revenue	<u>1,333,651</u>	<u>70,729</u>	<u>1,300</u>		<u>48,200</u>	<u>1,453,880</u>
Total local sources	37,972,343	266,922	356,843	801	51,135	38,648,044
State sources	16,985,307					16,985,307
Federal sources	<u>516,764</u>					<u>516,764</u>
Total revenues	<u>55,474,414</u>	<u>266,922</u>	<u>356,843</u>	<u>801</u>	<u>51,135</u>	<u>56,150,115</u>

(continued)

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2006

	Major funds				Nonmajor fund, athletic fund	Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service		
Expenditures:						
Instructional services	\$ 29,681,694					\$ 29,681,694
Support services	14,238,401		\$ 234,181	\$ 195,039		14,667,621
Noninstructional services	916,831				\$ 54,944	971,775
Capital outlay		\$ 459,430	1,544,565			2,003,995
Bank fees			2,762			2,762
Debt service:						
Principal				4,693,292		4,693,292
Interest				2,554,087		2,554,087
Refunds of prior year receipts	4,061					4,061
Total expenditures	44,840,987	459,430	1,781,508	7,442,418	54,944	54,579,287
Excess (deficiency) of revenues over expenditures	10,633,427	( 192,508)	( 1,424,665)	( 7,441,617)	( 3,809)	1,570,828

(continued)

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2006

	Major funds				Nonmajor fund, athletic fund	Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service		
Other financing sources (uses):						
Bond proceeds			\$ 19,430,000			\$ 19,430,000
Bond proceeds, refunding bonds				\$ 16,215,000		16,215,000
Interfund transfers	\$( 9,173,671)	\$ 1,876,292		7,247,379		( 50,000)
Debt service, payment to refunded bond escrow agent				( 16,499,725)		( 16,499,725)
Bond premium			699,280	486,975		1,186,255
Total other financing sources (uses)	<u>( 9,173,671)</u>	<u>1,876,292</u>	<u>20,129,280</u>	<u>7,449,629</u>		<u>20,281,530</u>
Net changes in fund balances	1,459,756	1,683,784	18,704,615	8,012	\$( 3,809)	21,852,358
Fund balances:						
July 1, 2005	<u>8,493,494</u>	<u>5,445,710</u>	<u>5,064,907</u>	<u>9,787</u>	<u>54,818</u>	<u>19,068,716</u>
June 30, 2006	<u>\$ 9,953,250</u>	<u>\$ 7,129,494</u>	<u>\$ 23,769,522</u>	<u>\$ 17,799</u>	<u>\$ 51,009</u>	<u>\$ 40,921,074</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Total net change in fund balances, governmental funds \$ 21,852,358

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period. Depreciation expense, \$(2,412,891); capital outlays and construction in progress, \$2,070,909. ( 341,982)

Because some property taxes will not be collected for several months after the School District's fiscal year-end, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. ( 286,233)

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

Issuance of bonds	\$( 19,430,000)	
Issuance of refunding bonds	( 16,215,000)	
Repayment of bond principal	5,406,684	
Long-term debt issuance costs	429,123	
Amortization of long-term debt issuance costs	( 61,049)	
Principal payments on capital leases	10,994	
Bond premium	( 1,186,255)	
Amortization of bond premium	42,141	
Amortization on deferred loss	( 48,458)	
Payment to escrow agent	<u>16,499,725</u>	( 14,552,095)

(continued)

**PENN MANOR SCHOOL DISTRICT**

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2006

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental fund, an interest expenditure is reported when due.	\$ 6,556
In the statement of activities, certain operating expenses (compensated absences and retirement costs) are measured by the amounts incurred during the year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount incurred versus the amount used.	<u>15,074</u>
Change in net assets of governmental activities	<u>\$ 6,693,678</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF NET ASSETS - PROPRIETARY FUND

JUNE 30, 2006

ASSETS

	<u>Food service</u>
Current assets:	
Cash	\$ 879
Investments	22,094
Other receivables	11,671
Inventories	<u>63,054</u>
Total current assets	97,698
Noncurrent assets, machinery and equipment, net of accumulated depreciation	<u>57,162</u>
Total assets	<u>\$ 154,860</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Due to other funds	\$ 39,234
Accounts payable	17,311
Current portion of compensated absences	2,420
Deferred revenues	<u>34,995</u>
Total current liabilities	93,960
Noncurrent liabilities, noncurrent portion of compensated absences	<u>21,784</u>
Total liabilities	<u>115,744</u>
Net assets:	
Invested in capital assets	57,162
Unrestricted	<u>( 18,046)</u>
Total net assets	<u>39,116</u>
Total liabilities and net assets	<u>\$ 154,860</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUND

YEAR ENDED JUNE 30, 2006

	<u>Food service</u>
Operating revenues:	
Food service revenue	\$ 1,321,226
Other operating revenue	<u>61,084</u>
Total operating revenues	<u>1,382,310</u>
Operating expenses:	
Salaries	595,889
Employee benefits	148,148
Supplies	1,201,667
Depreciation	20,154
Other operating expenses	<u>43,456</u>
Total operating expenses	<u>2,009,314</u>
Operating loss	<u>( 627,004)</u>
Nonoperating revenues:	
Earnings on investments	3,690
Sources:	
State	108,492
Federal	<u>496,457</u>
Total nonoperating revenues	<u>608,639</u>
Change in net assets before operating transfers	<u>( 18,365)</u>
Transfers in	<u>50,000</u>
Change in net assets	31,635
Total net assets:	
July 1, 2005	<u>7,481</u>
June 30, 2006	<u>\$ 39,116</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

YEAR ENDED JUNE 30, 2006

	<u>Food service</u>
Cash flows from operating activities:	
Cash received from users	\$ 1,372,643
Cash payments to:	
Suppliers for goods and services	( 1,123,432)
Employees for services	<u>( 835,901)</u>
Net cash used in operating activities	<u>( 586,690)</u>
Cash flows from noncapital financing activities:	
Operating transfers	50,000
Sources:	
State	108,492
Federal	<u>399,249</u>
Net cash provided by noncapital financing activities	<u>557,741</u>
Cash flows from investing activities:	
Earnings on investments	3,690
Deposits to investment pools	<u>( 1,440)</u>
Net cash provided by investing activities	<u>2,250</u>
Net decrease in cash and cash equivalents	( 26,699)
Cash:	
Beginning of year	<u>27,578</u>
End of year	<u>\$ 879</u>

(continued)

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)

YEAR ENDED JUNE 30, 2006

	<u>Food service</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$( 627,004)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	20,154
Donated commodities	97,207
(Increase) decrease in:	
Accounts receivable	( 9,667)
Inventories	13,817
Decrease in:	
Accounts payable and other liabilities	( 80,821)
Deferred revenue	<u>( 376)</u>
Total adjustments	<u>40,314</u>
Net cash used in operating activities	<u>\$( 586,690)</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

JUNE 30, 2006

	<u>Private purpose trust</u>	<u>Agency</u>
Assets:		
Cash and cash equivalents		\$ 206
Investments	\$ 62,557	110,153
Other		<u>811</u>
Total assets	<u>\$ 62,557</u>	<u>\$ 111,170</u>
Liabilities:		
Accounts payable		\$ 8,389
Other current liabilities		<u>102,781</u>
Total liabilities		<u>111,170</u>
Net assets, reserved for scholarships and endowments	<u>\$ 62,557</u>	
Total liabilities and net assets	<u>\$ 62,557</u>	<u>\$ 111,170</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2006

	<u>Private purpose trust</u>
Additions:	
Gifts and contributions	\$ 1,800
Earnings on investments	<u>2,413</u>
	4,213
Deduction, scholarships awarded	<u>( 3,425)</u>
Change in net assets	788
Net assets:	
July 1, 2005	<u>61,769</u>
June 30, 2006	<u>\$ 62,557</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2006

	<u>Budget amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>budgetary</u>	<u>final budget</u>
			<u>basis</u>	<u>positive</u>
				<u>(negative)</u>
Revenues:				
Local sources:				
Real estate taxes	\$ 29,179,670	\$ 29,179,670	\$ 29,813,065	\$ 633,395
Other taxes	4,503,819	4,503,819	5,897,555	1,393,736
Investment income	466,354	466,354	928,072	461,718
Other revenue	<u>1,101,980</u>	<u>1,101,980</u>	<u>1,333,651</u>	<u>231,671</u>
Total local sources	35,251,823	35,251,823	37,972,343	2,720,520
State sources	16,852,829	16,852,829	16,985,307	132,478
Federal sources	<u>401,000</u>	<u>401,000</u>	<u>516,764</u>	<u>115,764</u>
Total revenues	<u>52,505,652</u>	<u>52,505,652</u>	<u>55,474,414</u>	<u>2,968,762</u>
Expenditures:				
Instructional services:				
Regular programs	23,796,260	22,714,181	22,714,181	
Special programs	4,556,488	4,125,438	4,125,438	
Vocational programs	2,281,407	2,286,381	2,286,381	
Other instructional programs	530,622	526,504	526,504	
Adult education programs	3,371	29,190	29,190	
Support services:				
Pupil personnel	1,813,185	1,644,498	1,644,498	
Instructional staff	981,963	1,001,314	1,001,314	
Administrative	3,361,713	3,217,729	3,217,729	
Pupil health	494,372	491,177	491,177	
Business	575,476	485,964	485,964	
Operation and maintenance of plant	4,252,238	4,394,779	4,394,779	
Student transportation	2,490,990	2,399,881	2,399,881	
Central and other support	506,067	553,461	553,461	
Other support services	50,381	49,598	49,598	

(continued)

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)

YEAR ENDED JUNE 30, 2006

	<u>Budget amounts</u>		<u>Actual budgetary basis</u>	<u>Variance with final budget positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (continued):				
Operation of noninstructional services:				
Student activities	\$ 867,751	\$ 897,422	\$ 897,422	
Community services	2,123	19,409	19,409	
Debt service (principal and interest)	<u>7,250,251</u>	<u>7,247,379</u>	<u>7,247,379</u>	
Total expenditures	<u>53,814,658</u>	<u>52,084,305</u>	<u>52,084,305</u>	
Excess (deficiency) of revenues over expenditures	<u>( 1,309,006)</u>	<u>421,347</u>	<u>3,390,109</u>	<u>\$ 2,968,762</u>
Other financing uses:				
Interfund transfers	38,000	1,914,292	1,926,292	( 12,000)
Budgetary reserve	150,000			
Miscellaneous		<u>4,061</u>	<u>4,061</u>	
Total other financing uses	<u>188,000</u>	<u>1,918,353</u>	<u>1,930,353</u>	<u>( 12,000)</u>
Net changes in fund balances	<u>( 1,497,006)</u>	<u>( 1,497,006)</u>	<u>1,459,756</u>	<u>2,956,762</u>
Fund balances:				
July 1, 2005	<u>8,283,353</u>	<u>8,283,353</u>	<u>8,493,494</u>	<u>210,141</u>
June 30, 2006	<u>\$ 6,786,347</u>	<u>\$ 6,786,347</u>	<u>\$ 9,953,250</u>	<u>\$ 3,166,903</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies:**

Penn Manor School District (the School District), located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 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 5,338 students.

The accounting policies of the 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.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies (continued):**

*Reporting entity (continued):*

**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.

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

*Basis of presentation, fund accounting:*

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/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

*Basis of presentation, financial statements:*

Government-wide financial statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. As a general rule, the effect of interfund activity has been eliminated from these financial statements. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies (continued):**

*Basis of presentation, financial statements (continued):*

Government-wide financial statements (continued)

The government-wide statement of activities presents direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws the general revenues of the School District.

Fund financial statements

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental and proprietary funds are reported in separate columns with composite columns for nonmajor funds. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included in the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies (continued):**

*Basis of presentation, financial statements (continued):*

Fund financial statements (continued)

The School District reports the following major government funds:

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

Capital reserve fund - This fund is used to account for transfers from other funds and related investment earnings for capital outlays not accounted for in another fund.

Capital projects fund - This fund is used to account for financial resources related to general fixed asset acquisitions, construction and improvements.

Debt service fund - This fund is used to account for the accumulation of resources for, and payment of, general long-term debt principal and interest. This fund includes the 1993 Series A Sinking Fund, the 1996 Sinking Fund, the 1998 Sinking Fund, the 2001 Sinking Fund, the 2001 Series A Sinking Fund, the 2002 Sinking Fund, the 2003 Sinking Fund, the 2004 Sinking Fund, the 2006A Sinking Fund and the 2005 Sinking Fund.

The School District reports the following enterprise fund:

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.

The School District accounts for assets held by the School District in a trustee capacity in a private purpose trust fund. This fund accounts for receipts and disbursement of monies contributed to the School District for scholarships and memorials.

The agency fund is 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 represents the student activities fund.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies (continued):**

*Basis of presentation, financial statements (continued):*

Fund financial statements (continued):

Additionally, the School District reports the following nonmajor governmental fund:

Athletic fund - This fund accounts for gate receipts and other revenues from athletic events and costs of the athletic program.

*Basis of accounting:*

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary and fiduciary fund financial statements measure and report all assets, liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, except for postemployment healthcare benefits (Note 16) and the unrealized loss resulting from a derivative (Note 10), regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues in the year in which the eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year-end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service and compensated absence payments which are recognized when due.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year-end: property taxes, tuition, grants and entitlements, student fees and interest on investments.

Current property taxes measurable at June 30, 2006, and which are not available to finance fiscal 2006 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year-end.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies (continued):**

*Basis of accounting (continued):*

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed for the government-wide and 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 these financial statements, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Revenues, exchange and nonexchange transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies (continued):**

*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.
5. Budgetary data are included in the School District's management information system and are employed as a management control device during the year.
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, 2006.
7. The budget for the general fund is adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

*Cash and cash equivalents:*

Cash and cash equivalents include amounts in repurchase agreements and other bank deposits and are carried at cost plus accrued interest, which approximates fair value.

*Investments:*

Investments are stated at fair value, except that discount notes are stated at market value. Fair value of the investment is equal to cost/principal amounts because those are the values at which those investments could be readily redeemed.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies (continued):**

*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 in the fund financial statements.

*Inventories:*

There is no inventory recorded in the general fund. Items such as office supplies and cleaning materials are expensed as incurred.

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, 2006, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as deferred revenue until used.

*Capital assets and depreciation:*

The School District's property, plant and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and are comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method over their estimated useful lives. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting current replacement cost back to the estimated year of acquisition. Estimated useful lives, in years, for depreciable assets are generally as follows:

<u>Assets</u>	<u>Years</u>
School buildings	40
Building improvements	20
Site improvements	20
Furniture and equipment	5 to 12
Vehicles	12

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies (continued):**

*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. Bond premiums and discounts, as well as issuance costs and refunding losses, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources 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 other financing uses.

*Compensated absences:*

The School District accrues vacation leave and retirement costs as liabilities as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Professional employees with qualifying years of service receive a lump sum retirement bonus according to either the collective bargaining agreement or Act 93 agreement.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year-end, taking into consideration any limits specified in the School District's severance policy. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid and a corresponding liability is reflected.

Additional amounts are accrued for salary-related payments associated with the payment of compensated absences using the rates in effect at the balance sheet date. The School District has accrued the employer's share of Social Security and Medicare taxes.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies (continued):**

*Encumbrances:*

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. Encumbrances outstanding at year-end are reported as reservations of fund balances because they do not constitute expenditures or liabilities. As of June 30, 2006, the School District had no encumbrances.

*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 until payable with expendable, available financial resources.) The School District made all required contributions for the year ended June 30, 2006 and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

*Interfund activity:*

Exchange transactions between governmental funds are eliminated on the government-wide statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds.

*Fund equity:*

Unreserved fund balances for governmental fund types 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. Net assets of the proprietary fund are available for future operations or distribution.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**1. Summary of significant accounting policies (continued):**

*Estimates:*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Derivatives:*

Up-front payments from derivatives are recorded as revenue when received. Unrealized gains or losses are recorded as cash payments are made.

*Extraordinary and special items:*

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2006.

**2. Cash, cash equivalents 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.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**2. Cash, cash equivalents and investments (continued):**

*Custodial credit risk, deposits:*

Custodial credit risk is the risk that, in the event of a counterparty failure, the School District's deposits may not be returned to it. The District's policy requires deposits in savings accounts or time deposits or share accounts of institutions to be insured or covered by approved collateral as provided by law. As of June 30, 2006, \$2,410,425 of the District's bank balance of \$2,510,609 was not covered by the Federal Deposit Insurance Corporation and was held in government securities through a repurchase agreement.

The reconciliation of deposits to the financial statements is as follows:

Repurchase agreements	\$ 2,410,425
Plus:	
Insured by Federal Depository Insurance	100,184
Petty cash	350
Less, outstanding checks	<u>( 436,812)</u>
Total	<u>\$ 2,074,147</u>
Government activities, cash and cash equivalents	\$ 2,073,062
Business-type activities	879
Fiduciary funds, agency	<u>206</u>
Total	<u>\$ 2,074,147</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**2. Cash, cash equivalents and investments (continued):**

*Investments:*

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

<u>Investment/ratings by Standard and Poor's</u>	<u>Maturities</u>	<u>Fair value</u>
PA School District Liquid Asset Fund, certificates of deposit (unrated/backed by AAA rated collateral)	1 to 3 months	\$ 2,900,000
PA Local Government Investment Trust (rated AAAM)	None	5,513,861
PA School District Liquid Asset Fund (rated AAAM)	None	98,157
PA School District MAX (rated AAAM)	None	1,086,297
Goldman Sachs Financial Square Treasury Obligations, 11,385,398 shares (a money market fund rated AAAM)	None	11,385,398
Pennsylvania School District Liquid Asset Fund, Federal Home Loan Bank Discount Notes (rated AAA)	1 to 12 months	<u>19,855,979</u>
Total		<u>\$ 40,839,692</u>

The reconciliation of investments to the financial statements is as follows:

Government activities:	
Investments	\$ 16,704,455
Held for long-term purposes	23,940,433
Business-type activities	22,094
Fiduciary funds:	
Private purpose trust	62,557
Agency	<u>110,153</u>
Total	<u>\$ 40,839,692</u>

*Interest rate risk:*

The District has a formal investment policy that permits investments as authorized by law. The policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**2. Cash, cash equivalents and investments (continued):**

*Credit risk:*

The District's investment policy requires that its investment companies be registered under the Investment Company Act of 1940 with shares registered under the Securities Act of 1933. In addition, the investment companies used by the District must be rated in the highest category by a nationally recognized rating agency.

**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, 2006 was 14.07 mills (\$14.07 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 - December 31	10% penalty period
January 1	Lien date

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**4. Taxes receivable and deferred revenue:**

The School District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the receivable amount, which was measurable and available within 60 days, was recognized as revenue and the balance deferred in the fund financial statement. The balances at June 30, 2006 are as follows:

	<u>Gross taxes receivable</u>	<u>Allowance for uncollectible taxes</u>	<u>Net estimated to be collectible</u>	<u>Tax revenue recognized</u>	<u>Deferred taxes</u>
Real estate	\$ 397,657	\$ 14,669	\$ 382,988	\$ 126,653	\$ 256,335
Earned income taxes	879,494		879,494	879,494	
Per capita and occupation	287,877	284,998	2,879	157	2,722
Transfer tax	<u>97,601</u>		<u>97,601</u>	<u>97,601</u>	
	<u>\$ 1,662,629</u>	<u>\$ 299,667</u>	<u>\$ 1,362,962</u>	<u>\$ 1,103,905</u>	<u>\$ 259,057</u>

**5. Interfund accounts:**

Individual fund receivable and payable balances at June 30, 2006 were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 39,302	\$ 1,876,292
Special revenue, capital reserve	1,888,057	
Enterprise food service		39,234
Capital projects fund		<u>11,833</u>
	<u>\$ 1,927,359</u>	<u>\$ 1,927,359</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**5. Interfund accounts (continued):**

	<u>Transfers to other funds</u>	<u>Transfers from other funds</u>
Major funds:		
General fund	\$ 9,173,671	
Cafeteria		\$ 50,000
Capital reserve		1,876,292
Nonmajor fund, debt service fund	<u>                    </u>	<u>7,247,379</u>
	<u>\$ 9,173,671</u>	<u>\$ 9,173,671</u>

**6. Due from other governments:**

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2006, the following amounts are due from other governmental units:

	<u>General fund</u>
Federal grants	\$ 86,448
State subsidy:	
Rental	1,326,441
Retirement	213,967
Social Security	105,131
Grants and programs:	
State	7,347
Local	<u>192,302</u>
	<u>\$ 1,931,636</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**7. Changes in capital assets:**

Capital asset activity for governmental activities for the year ended June 30, 2006 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Ending balance</u>
Governmental activities:			
Capital assets not being depreciated:			
Land	\$ 1,429,306		\$ 1,429,306
Construction in progress		\$ 417,507	417,507
Total assets not being depreciated	<u>1,429,306</u>	<u>417,507</u>	<u>1,846,813</u>
Capital assets being depreciated:			
Site improvements	1,925,252		1,925,252
Buildings and building improvements	82,337,658	1,038,994	83,376,652
Furniture and equipment	2,548,867	508,344	3,057,211
Vehicles	<u>364,843</u>	<u>106,064</u>	<u>470,907</u>
Total assets being depreciated	<u>87,176,620</u>	<u>1,653,402</u>	<u>88,830,022</u>
Accumulated depreciation:			
Site improvements	1,131,066	94,521	1,225,587
Buildings and building improvements	24,097,380	1,985,773	26,083,153
Furniture and equipment	967,829	301,621	1,269,450
Vehicles	<u>212,831</u>	<u>30,976</u>	<u>243,807</u>
Total accumulated depreciation	<u>26,409,106</u>	<u>2,412,891</u>	<u>28,821,997</u>
Total capital assets being depreciated, net	<u>60,767,514</u>	<u>( 759,489)</u>	<u>60,008,025</u>
Governmental activities, capital assets, net	<u>\$ 62,196,820</u>	<u>\$ ( 341,982)</u>	<u>\$ 61,854,838</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**7. Changes in capital assets (continued):**

Capital asset activity for business-type activities for the year ended June 30, 2006 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Ending balance</u>
Business-type activities:			
Capital assets being depreciated, equipment	\$ 544,352		\$ 544,352
Less accumulated depreciation for equipment	<u>467,037</u>	\$ 20,153	<u>487,190</u>
Business-type activities, capital assets, net	<u>\$ 77,315</u>	<u>\$( 20,153)</u>	<u>\$ 57,162</u>

Depreciation expenses were charged to governmental functions as follows:

Instruction	\$ 2,157,933
Instructional student support	36,098
Administration and financial services	21,080
Operation and maintenance of plant	134,113
Central support services	13,038
Student activities	<u>50,629</u>
	<u>\$ 2,412,891</u>

**8. Deferred revenues:**

Deferred revenues at June 30, 2006 consist of the following:

	<u>General fund</u>	<u>Proprietary fund</u>	<u>Total</u>
Deferred taxes	\$ 259,057		\$ 259,057
Deferred grant program revenue	6,512		6,512
Prepaid ticket sales		\$ 15,779	15,779
Unused donated commodities		<u>19,216</u>	<u>19,216</u>
	<u>\$ 265,569</u>	<u>\$ 34,995</u>	<u>\$ 300,564</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**9. General long-term debt:**

*General obligation bonds:*

The School District issues general obligation bonds to provide funds for major capital improvements. These bonds are direct obligations and pledge the full faith and credit of the School District. Currently, the School District has eight general obligation bond series with interest rates and outstanding principal amounts at June 30, 2006 as follows:

<u>Issue</u>	<u>Final maturity date</u>	<u>Interest rate</u>	<u>Amount</u>
Series of 1990 GOB	June 1, 2008	7.10%	\$ 1,210,781
Series of 2001 GOB	June 1, 2009	4.00% - 5.00%	1,415,000
Series of 2002 GOB	June 1, 2008	3.75% - 3.90%	935,000
Series of 2003 GOB	June 1, 2016	1.80% - 4.00%	8,575,000
Series of 2004 GOB	June 1, 2011	2.50% - 3.25%	5,855,000
Series of 2005 GOB	June 1, 2012	2.30% - 4.00%	4,985,000
Series of 2006 GOB	June 1, 2016	3.65% - 5.00%	19,430,000
Series A of 2006 GOB	June 1, 2014	3.25% - 5.00%	<u>14,845,000</u>
			57,250,781
Accrued interest on Series of 1990 GOB Capital Appreciation Bonds			<u>2,568,518</u>
			59,819,299
Deferred loss			( 402,395)
Bond premium			<u>1,254,857</u>
Total long-term debt			60,671,761
Less current portion			<u>3,961,501</u>
			<u>\$ 56,710,260</u>

On June 1, 2006, the School District issued General Obligation Bonds, Series of 2006 in the amount of \$19,430,000 to provide funds to finance various capital projects and pay the costs of issuing and insuring the bonds. Interest is payable semiannually on June 1 and December 1 of each year.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**9. General long-term debt (continued):**

*Advance debt refunding:*

On March 15, 2006, the School District issued General Obligation Bonds, Series A of 2006, for \$16,215,000 to advance refund a portion of the General Obligation Bonds, Series A of 2001 with a principal balance of \$4,685,000 and currently refund the balance of \$11,580,000 of the General Obligation Bonds of 1996. Proceeds from the new bond issue were also used to pay the costs of issuance of the bonds.

As a result of the refunding of the portion of the General Obligation Bonds, Series of 1996, the School District reduced its total debt service requirements by \$35,800 which resulted in an economic gain (difference between the present value of the debt service payments on the old and the new debt) of \$84,893.

The School District defeased portions of the General Obligation Bonds, Series of 1996 and 2001A by placing the proceeds of new issues in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2006, \$4,685,000 of the General Obligation Bonds, Series A of 2001 outstanding were considered defeased. There was no balance outstanding as of June 30, 2006 for the General Obligation Bonds of 1996.

*Long-term obligation activity:*

Long-term obligation activity for governmental activities can be summarized as follows:

	Beginning balance	Increases	Decreases	Ending balance
General obligation bonds	\$ 45,845,983	\$ 35,645,000	\$ 21,671,684	\$ 59,819,299
Capital lease obligations	31,623		10,994	20,629
Accrued retirement bonus	562,962	11,849		574,811
Estimated liability for compensated absences	1,531,864		26,922	1,504,942
	<u>\$ 47,972,432</u>	<u>\$ 35,656,849</u>	<u>\$ 21,709,600</u>	<u>\$ 61,919,681</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**9. General long-term debt (continued):**

*Letter of credit:*

At June 30, 2006, the School District had a letter of credit with a local bank for \$205,501 relating to the construction of a maintenance facility.

*Debt service requirements:*

Annual debt service requirements to maturity for the above governmental bond obligations are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,961,501	\$ 3,764,807	\$ 7,726,308
2008	4,419,280	3,703,202	8,122,482
2009	5,835,000	2,075,403	7,910,403
2010	5,990,000	1,862,712	7,852,712
2011	5,970,000	1,597,278	7,567,278
2012 - 2016	<u>31,075,000</u>	<u>4,298,420</u>	<u>35,373,420</u>
	<u>\$ 57,250,781</u>	<u>\$ 17,301,822</u>	<u>\$ 74,552,603</u>

*Capital leases:*

The School District leases equipment through capital lease agreements. The leases are accounted for in the government activities capital assets and the related liability in the governmental activities long-term obligations.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**9. General long-term debt (continued):**

*Capital leases (continued):*

The following is a schedule of future minimum lease payments under the capital lease arrangements, together with the net present value of the minimum lease payments as of June 30, 2006:

<u>Year ending June 30,</u>	<u>Capital leases</u>
2007	\$ 9,540
2008	<u>11,972</u>
Minimum lease payments for capital leases	21,512
Less amount representing interest	<u>883</u>
Present value of minimum lease payments	<u>\$ 20,629</u>

**10. Derivative:**

In May 2004, the School District entered into an interest rate management plan (swaption) that provided the School District an up-front payment of \$500,000 that was recorded as revenue in 2004. The swaption gave the counterparty the option to make the School District enter into a pay-variable, receive-fixed interest rate swap. If the option is exercised, a portion of the School District's outstanding General Obligation Bonds, Series A of 2006 and a portion of the School District's outstanding General Obligation Bonds, Series of 2003 would convert to a synthetic variable rate.

The \$500,000 payment was based on a notional amount of \$13,745,000. The counterparty had the option to exercise the agreement on May 15, 2006; however, the option was not exercised. The next date on which the counterparty has the option to exercise the agreement is November 15, 2006. If the swap is exercised, the swap will also commence on that date. The fixed swap rate would be 3.66% and the swap's variable payment would be based on the Bond Market Association (BMA) Swap Index.

As of June 30, 2006, the swap had a negative fair value of \$351,522, estimated using the zero-coupon method.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**10. Derivative (continued):**

In May 2006, the School District modified the original agreement from May 2004 and added an additional interest rate management plan in conjunction with the General Obligation Bond Issue, Series of 2006. The supplemental provisions are based on the notional amount of \$19,430,000 and provide for the quarterly interest rate payments for ten years beginning September 2006 by the counterparty. Payments by the counterparty are based on a floating rate (63.7% of one-year LIBOR) in exchange for a different floating rate (BMA).

As of June 30, 2005, this additional swap had a negative fair value of \$361,450, using the zero-coupon method.

Both swaps were rated Aa2 by Moody's and AA- by Standard and Poor's as of June 30, 2006.

**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 paid \$7,000 per month. Effective October 1, 2003 and on the first day of each month through September 1, 2013, the School District pays \$500 per month. In recognition of prior year's service, the School District has also paid a single lump-sum payment of \$15,000 on January 15, 2003.

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

<u>June 30,</u>	
2007	\$ 6,000
2008	6,000
2009	6,000
2010	6,000
2011	6,000
2012-2014	<u>13,500</u>
	<u>\$ 43,500</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**12. Operating leases:**

On September 11, 1995, the School District entered into a 40-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 40-year operating lease with Millersville University. 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 .34 acres of land, referred to as the "Parking Lot."

Lease Rental Debt, Series of 1998 dated October 7, 1998, was issued by the Lancaster County Vocational Technical School Authority (the Authority) to advance refund the Authority's Series of 1995 Lease Revenue Bonds. The 1998 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 16 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.

Minimum future rental payments under this operating lease in excess of one year as of June 30, 2006 are as follows:

Fiscal year ending <u>June 30,</u>	
2007	\$ 150,069
2008	150,013
2009	150,108
2010	<u>150,186</u>
Total minimum future rental payments	<u>\$ 600,376</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**13. Risk management:**

*Property and liability:*

For losses incurred prior to July 1, 1999 and subsequent to June 30, 2002, 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 11 member school districts, the Lancaster-Lebanon Intermediate Unit, the Lancaster County Academy and the Lancaster County Career and Technical Center. This agreement 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 members from injuries to persons or properties 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. 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 excess and aggregate stop-loss insurance for claims greater than \$75,000 per occurrence.

For the period July 1, 1999 to June 30, 2002, the Pool purchased property and liability insurance to cover all claims of the member school districts.

As of June 30, 2006, 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 Assurance Management Services Company, the claims administrator, who processes and pays the claims. For the year ended June 30, 2006, the School District was limited in liability for claims to \$75,000 per individual and \$5,435,680 in total for the Point of Service Plan. A liability for claims incurred prior to June 30, 2006 and paid subsequently is recorded in the amount of \$247,126 in accounts payable in the general fund. In addition, a reinsurance reimbursement receivable in the amount of \$35,864 has also been recorded in the general fund.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**13. Risk management (continued):**

*Hospitalization (continued):*

Changes in the School District's claims liability amount in fiscal years 2005 and 2006 were:

	Beginning of fiscal year liability	Current year claims and changes in estimates	Claims payment	Balance at fiscal year-end
2004-2005	\$ 346,120	\$ 4,528,354	\$ 4,446,396	\$ 428,078
2005-2006	428,078	4,367,318	4,548,270	247,126

*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 ended June 30, 2006 is limited to \$155. An eligible employee may carry over any unused amount in his/her account to the following year to a maximum usage of \$320. For the fiscal year beginning July 1, 2006, payment is limited to \$160 per year and the carryover is limited to a maximum of \$330.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**13. Risk management (continued):**

*Workers' compensation:*

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for 19 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, 2006, 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.

*Other risks:*

The School District is exposed to various risks of loss related to theft and destruction of assets, errors and omissions and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2006 and the two previous fiscal years, no settlements exceeded insurance coverage.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**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% of their compensation if they are in Class TC or 6.5% for Class TD. Members who joined on or after July 22, 1983 and were active or inactive as of July 1, 2001 are required to contribute 6.25% for Class TC or 7.5% for Class TD. Members who joined the plan after June 30, 2001 are automatically in Class TD and are required to contribute 7.5%. The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period for which the amount is determined. For the fiscal year ended June 30, 2006, the rate of employer contribution was 4.69% of covered payroll. The 4.69% rate is composed of a pension contribution rate of 4.0% for pension benefits and .69% 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 total employer rate.

Penn Manor School District's contributions to PSERS for the years ended June 30, 2006, 2005 and 2004 were \$1,197,058, \$1,049,725 and \$903,780, respectively. Those amounts are equal to the required contribution for each year.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**15. Joint ventures:**

*Lancaster County Career and Technology Center (LCCTC):*

The School District is one of 16 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 school 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 school districts. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services in the year ended June 30, 2006 was \$1,057,720. Complete 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 (the 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 operations 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. In 1998, the Authority entered into an additional agreement with the member school districts and the Authority Board to advance refund the Authority's 1995 bonds. 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, 2006 is \$600,376. The School District's lease payment to the Authority for the year ended June 30, 2006 was \$152,014 which has been reported in the School District's general fund. Complete 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 (the 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.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**15. Joint ventures (continued):**

*Lancaster-Lebanon Joint Authority (continued):*

The School District did not have any financial transactions with the Authority during the year ended June 30, 2006. Complete financial statements for the Authority can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

*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' Board 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, 2006 was approximately \$881,844. Complete financial information for LLIU can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

*Lancaster County Academy (Academy):*

The Academy is an alternative public school organized by ten public school districts in Lancaster County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member district, the School District has an ongoing financial responsibility to fund the operations of the Academy. The amount paid to the Academy in the year ended June 20, 2006 was \$19,914. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

*Lancaster County Tax Collection Bureau (Bureau):*

The School District participates with 16 other school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee. The Bureau's operating expenditures are deducted from the distributions which are made quarterly. The School District's portion of the operating expenditures for the year ended June 30, 2006 was \$79,560. Financial information for the Bureau can be obtained from the Administrative Office at 299 Hess Boulevard, Lancaster, PA 17601.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**15. Joint ventures (continued):**

No member school district exercises specific control over the fiscal policies or operations of these joint ventures. As a result, these entities are not reported as part of the School District's reporting entity.

**16. Postemployment health care benefits:**

The School District permits any professional employee who retires at age 50 or later to continue group insurance coverage to age 65 by remitting the monthly premium to the School District. The retiree's cost of group insurance is calculated by the plan administrator and is based on projected expenditures for the year. The retiree's premium for the group insurance is payable in advance on a monthly basis. The School District has elected to finance postemployment benefits on a pay-as-you-go basis. The School District recognizes expenditures for postemployment group insurance when claims are filed with the plan administrator. The School District is responsible for all claims in excess of the premiums received by the qualified retirees. Currently there are 64 participants receiving benefits. The total claims paid on behalf of these participants and premiums paid by the participants to the School District, for the year ended June 30, 2006, were \$1,151,569 and \$272,768, respectively.

**17. Specific reserved fund balances:**

Specific reserves represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. At June 30, 2006, the School District has included the following amounts as specific reserved fund balances:

Fiduciary funds, reserve for:	
Scholarships	\$ 27,648
Endowments	<u>34,909</u>
	<u>\$ 62,557</u>
Capital projects fund, reserve for improvements	<u>\$ 23,769,522</u>
Debt service fund, reserve for debt service payments	<u>\$ 17,799</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

**18. Designated fund balance:**

Designated fund balances represent fund balances that are segregated for tentative plans to use financial resources in a future period. At June 30, 2006, the School District has included the following as a designated fund balance:

General fund, designated for future health insurance costs and potential swap repayment	<u>\$ 5,632,088</u>
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**19. Subsequent event:**

In August 2006, the School District purchased approximately 26 acres of land in Manor Township for \$1,500,000.

**20. Commitments:**

As of June 30, 2006, the School District was committed under various construction contracts totaling \$743,112 for the Comet Fieldhouse. Of that total, \$195,641 was recorded in accounts payable at year-end.

**PENN MANOR SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2006**

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (deferred) revenue at July 1, 2005	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2006
<u>U.S. Department of Agriculture:</u>										
Passed through the Pennsylvania Department of Education:										
School Breakfast Program:										
	I/F	10.553	N/A	07/01/04-06/30/05	N/A	\$ 1,177	\$ 1,177			
	S	N/A	N/A	07/01/04-06/30/05	N/A	177	177			
	I/F	10.553	N/A	07/01/05-06/30/06	N/A	44,759		\$ 45,813	\$ 45,813	\$ 1,054
	S	N/A	N/A	07/01/05-06/30/06	N/A	6,387		6,540	6,540	153
National School Lunch Program:										
	I/F	10.555	N/A	07/01/04-06/30/05	N/A	9,019	9,019			
	S	N/A	N/A	07/01/04-06/30/05	N/A	1,745	1,745			
	I/F	10.555	N/A	07/01/05-06/30/06	N/A	345,787		353,436	353,436	7,649
	S	N/A	N/A	07/01/05-06/30/06	N/A	64,771		66,209	66,209	1,438
Total passed through the Pennsylvania Department of Education						473,822	12,118	471,998	471,998	10,294
Passed through the Pennsylvania Department of Agriculture:										
Value of U.S. donated commodities										
	I/F	10.550	N/A	07/01/05-09/30/06	N/A	94,289 (b)	( 22,135) (a)	97,208 (c)	97,208	( 19,216) (d)
Total U.S. Department of Agriculture						568,111	( 10,017)	569,206	569,206	( 8,922)
<u>U.S. Department of Education:</u>										
Passed through the Pennsylvania Department of Education:										
Academic Achievement Title I Grants to Local Educational Agencies:										
	I/F	84.010	077-050324	07/01/05-09/30/06	\$ 11,998	2,664		11,998	11,998	9,334
	I/F	84.010	013-060324	07/01/05-09/30/06	254,175	198,856		243,087	243,087	44,231
	I/F	84.010	013-050324	07/01/04-09/30/05	234,556		( 6,169)	6,169	6,169	
Safe and Drug-free Schools and Communities State Grant										
	I/F	84.186	100-060324	07/01/05-09/30/06	17,585	14,068		9,277	9,277	( 4,791)
State Grants for Innovative Programs										
	I/F	84.298	011-050324	07/01/04-09/30/05	15,299		( 254)	254	254	
	I/F	84.298	011-060324	07/01/05-09/30/06	10,060	8,048		9,998	9,998	1,950

(continued)

**PENN MANOR SCHOOL DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (deferred) revenue at July 1, 2005	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2006
<u>U.S. Department of Education (continued):</u>										
Passed through the Pennsylvania Department of Education (continued):										
Education Technology State Grants:										
	I/F	84.318	055-060324	07/01/05-09/30/06	\$ 3,907	\$ 2,605		\$ 3,907	\$ 3,907	\$ 1,302
	I/F	84.318	055-050324	07/01/04-09/30/05	5,458	2,183	\$ 2,075	108	108	
Improving Teacher Quality State Grants:										
	I/F	84.367	020-050324	07/01/04-09/30/05	122,865		( 2,666)	2,666	2,666	
	I/F	84.367	020-060324	07/01/05-09/30/06	122,436	<u>97,949</u>		<u>118,875</u>	<u>118,875</u>	<u>20,926</u>
Total passed through the Pennsylvania Department of Education						326,373	( 7,014)	406,339	406,339	72,952
Passed through the Lancaster-Lebanon Intermediate Unit #13, IDEA Part B*										
	I/F	84.027	062-060013	07/01/05-06/30/06	639,136	<u>639,136</u>		<u>639,136</u>	<u>639,136</u>	
Total U.S. Department of Education						<u>965,509</u>	<u>( 7,014)</u>	<u>1,045,475</u>	<u>1,045,475</u>	<u>72,952</u>
<u>U.S. Department of Health and Human Services:</u>										
Passed through the Lancaster-Lebanon Intermediate Unit #13, Medical Assistance Program										
	I/F	93.778	N/A	07/01/05-6/30/06	12,646	12,646		12,646	12,646	
Passed through the Pennsylvania Department of Education, Access										
	I/F	93.778	N/A	07/01/05-6/30/06	110,425	<u>100,000</u>		<u>110,425</u>	<u>110,425</u>	<u>10,425</u>
Total U.S. Department of Health and Human Services						<u>112,646</u>		<u>123,071</u>		<u>123,071</u>
<u>U.S. Institute of Museum and Library Services:</u>										
Passed through the Pennsylvania Department of Education, grants to states										
	I/F	45.310	202-609085	07/01/05-06/30/06	15,000	<u>1,154</u>				<u>( 1,154)</u>
Total expenditures of federal awards						<u>\$ 1,647,420</u>	<u>\$( 17,031)</u>	<u>\$ 1,737,752</u>	<u>\$ 1,737,752</u>	<u>\$ 73,301</u>

(continued)

**PENN MANOR SCHOOL DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2006

Source codes:

I = Indirect funding  
 F = Federal share  
 S = State share  
 CFDA = Catalog of Federal Domestic Assistance  
 \* = Denotes major program

Calculation of 50% rule (25% for low risk auditee):

Total expenditures per above	\$ 1,737,752
Less state share of National School Lunch Program and School Breakfast Program expenditures	<u>72,749</u>
	<u>\$ 1,665,003</u>

IDEA, Part B

<u>\$ 639,136</u> *	
1,665,003 = 38.4%	Program meets the 25% requirement for low risk auditee

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 donation

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









**PENN MANOR SCHOOL DISTRICT**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

I. SUMMARY OF AUDITORS' RESULTS:

*Financial statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Reportable condition(s) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal awards*

Internal control over major program:

- Material weakness(es) identified?  yes  no
- Reportable condition(s) identified that are not considered to be material weakness(es)?  yes  none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  yes  no

Identification of major program:

<u>CFDA number</u>	<u>Name of federal program or cluster</u>
84.027	IDEA, Part B

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

Auditee qualified as low-risk auditee?  yes  no

(continued)

***PENN MANOR SCHOOL DISTRICT***

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

***PENN MANOR SCHOOL DISTRICT***

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2006

There are no prior findings.