

**PENN MANOR SCHOOL DISTRICT**

**YEAR ENDED JUNE 30, 2004**

PENN MANOR SCHOOL DISTRICT

Lancaster County, Pennsylvania

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ANNUAL REPORT

For the Fiscal Year ended June 30, 2004

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SCHOOL BOARD OFFICERS and MEMBERS  
as of June 30, 2004

C. Willis Herr, President

Dr. Richard L. Frerichs, Vice President

Joseph P. DeLuca

Johnna M. Friedman

Frank T. Geist

Jeffrey G. Kreider

Jeffrey E. Lyon

Carlton L. Rintz

Donna Wert

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Donald F. Stewart, Superintendent

Ellen P. Griffis, Administrative Assistant  
for Curriculum and Instruction

Christopher Johnston, Administrative Assistant for Business

Hartman Underhill & Brubaker LLP - Solicitor

Penn Manor School District

Financial Statements with Supplementary Information

Year ended June 30, 2004

TABLE of CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 & 2
Supplementary Information:	
Management's Discussion and Analysis	3 - 11
Financial Statements:	
Statement of Net Assets	12 & 13
Statement of Activities	14 & 15
Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	19 & 20
Statement of Net Assets - Proprietary Fund	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund	22
Statement of Cash Flows - Proprietary Fund	23
Statement of Net Assets - Fiduciary Funds	24
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	25
Notes to Financial Statements	26 - 47
Supplementary Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	48 & 49
Combining Balance Sheet - Nonmajor Governmental Funds	50
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	51

Penn Manor School District

Financial Statements with Supplementary Information

Year ended June 30, 2004

TABLE of CONTENTS

(Continued)

	<u>Page</u>
Schedule of Expenditures of Federal Awards	52 - 54
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	55
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	56 & 57
Schedule of Findings and Questioned Costs	58
Summary Schedule of Prior Audit Findings	59

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INDEPENDENT AUDITORS' REPORT

To the Board Officers and Members  
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 as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Penn Manor School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 11, and budgetary comparison information on pages 48 and 49, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2004 on our consideration of Penn Manor School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Penn Manor School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 14, 2004  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*

TROUT, EBERSOLE and GROFF, LLP  
Certified Public Accountants

Penn Manor School District  
Management's Discussion and Analysis  
Year ended June 30, 2004

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, 2004. 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 2004 are as follows:

- Total Assets decreased by \$1.1 million, with a corresponding decrease in liabilities of \$5.0 million; therefore Total Net Assets increased by almost \$3.9 million. This is primarily due to the payment of debt service. As discussed in Note 23 of the financial statements, the beginning net assets of the governmental activities were decreased by \$.53 million at the beginning of the year due to the reclassification of the retirement bonuses to a supplemental benefit.
- Revenues totaled \$50.5 million. General revenues accounted for \$39.8 million or 79 percent 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 \$10.7 million or 21 percent of total revenues, which is also consistent with the prior year.
- The School District had \$44.7 million in expenses related to governmental activities; \$8.8 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes) of \$39.8 million were adequate to provide for these programs.
- Among major funds, the General Fund had \$49.0 million in revenues and \$49.6 million in expenditures. This resulted in the use of about \$549 thousand of Fund Balance reserves, bringing the General Fund's fund balance down to about \$8.9 million from \$9.4 million; after designations, the unreserved - undesignated fund balance is \$5.87 million. Approximately \$2.1 million of the general fund's undesignated fund balance is budgeted to be utilized for the year ended June 30, 2005. The projected ending undesignated fund balance on June 30, 2005, of \$4.0 million represents just under 8% of the budgeted expenditures for the 2004-05 fiscal year.
- Net assets for Enterprise Funds declined significantly from \$39,451 to a deficit of \$18,315. This decline resulted from operating expenses of \$2.0 million exceeding operating revenues of \$1.4 million. Federal, State and investment funding sources also offset \$507 thousand of costs in the food service fund, however, the pricing of sales items (lunch prices) was insufficient to meet expenses.

### **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.

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

### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. The fund financial statements begin on page 16 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 fund 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.

Penn Manor School District  
Management's Discussion and Analysis  
(Continued)  
Year ended June 30, 2004

**The School District as a Whole**

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

**Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:**

**(Table 1)**  
**Net Assets**  
**(In Millions)**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>Assets</b>						
Current and Other Assets	18.69	19.46	0.09	0.09	18.78	19.55
Capital Assets	<u>63.78</u>	<u>64.16</u>	<u>0.10</u>	<u>0.10</u>	<u>63.88</u>	<u>64.26</u>
Total Assets	<u>82.47</u>	<u>83.62</u>	<u>0.19</u>	<u>0.19</u>	<u>82.66</u>	<u>83.81</u>
<b>Liabilities</b>						
Current Liabilities	9.02	9.63	0.18	0.12	9.20	9.75
Noncurrent Liabilities	<u>42.89</u>	<u>47.39</u>	<u>0.02</u>	<u>0.03</u>	<u>42.91</u>	<u>47.42</u>
Total Liabilities	<u>51.91</u>	<u>57.02</u>	<u>0.20</u>	<u>0.15</u>	<u>52.11</u>	<u>57.17</u>
<b>Net Assets</b>						
Invested in Capital						
Assets Net of Debt	18.77	16.13	0.10	0.10	18.87	16.23
Restricted	0.05	0.22	0.00	0.00	0.05	0.22
Unrestricted (Deficit)	<u>11.74</u>	<u>10.25</u>	<u>(0.11)</u>	<u>(0.06)</u>	<u>11.63</u>	<u>10.19</u>
Total Net Assets	<u>30.56</u>	<u>26.60</u>	<u>(0.01)</u>	<u>0.04</u>	<u>30.55</u>	<u>26.64</u>
Total Liabilities and Net Assets	<u>82.47</u>	<u>83.62</u>	<u>0.19</u>	<u>0.19</u>	<u>82.66</u>	<u>83.81</u>

In total, net assets increased by about \$3.9 million from 2003. Net assets of governmental activities increased by almost \$3.9 million while the net assets of business-type activities decreased by \$58 thousand. While the food service operations suffered another loss in fiscal 2003-04, a new method of allocating healthcare costs as well as a budgeted contribution of \$100,000 from the general fund should help to ensure that the enterprise fund remain self supporting.

Most of the School District's net assets are invested in capital assets (buildings, land and equipment). The remaining unrestricted net assets are comprised of designated and undesignated amounts. The designated balances are amounts set aside to fund future purchases or capital projects as planned by the School District.

Penn Manor School District  
Management's Discussion and Analysis  
(Continued)  
Year ended June 30, 2004

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

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	0.44	0.34	1.37	1.35	1.81	1.69
Operating Grants	6.29	5.90	0.51	0.48	6.80	6.38
Capital Grants	2.10	2.29	0.00	0.00	2.10	2.29
General Revenues:						
Property & Other Taxes	26.26	26.09	0.00	0.00	26.26	26.09
Grants and Entitlements	8.81	8.63	0.00	0.00	8.81	8.63
Other	<u>4.75</u>	<u>4.45</u>	<u>0.00</u>	<u>0.00</u>	<u>4.75</u>	<u>4.45</u>
Total Revenues	<u>48.65</u>	<u>47.70</u>	<u>1.88</u>	<u>1.83</u>	<u>50.53</u>	<u>49.53</u>
<b>Expenses</b>						
Program Expenses:						
Instruction	29.43	27.65	0.00	0.00	29.43	27.65
Support Services:						
Instructional Student Support	2.87	2.62	0.00	0.00	2.87	2.62
Administrative and Financial Support Services	3.74	3.47	0.00	0.00	3.74	3.47
Operation and Maintenance of Plant Services	3.20	3.70	0.00	0.00	3.20	3.70
Pupil Transportation	2.23	2.27	0.00	0.00	2.23	2.27
Student Activities	0.80	0.83	0.00	0.00	0.80	0.83
Interest on Long-Term Debt	2.43	2.64	0.00	0.00	2.43	2.64
Food Service	<u>0.00</u>	<u>0.00</u>	<u>1.98</u>	<u>1.90</u>	<u>1.98</u>	<u>1.90</u>
Total Expenses	<u>44.70</u>	<u>43.18</u>	<u>1.98</u>	<u>1.90</u>	<u>46.68</u>	<u>45.08</u>
Increase(Decrease) In Net Assets	<u>3.95</u>	<u>4.52</u>	<u>(0.10)</u>	<u>(0.07)</u>	<u>3.85</u>	<u>4.45</u>

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 2003-04 as compared to fiscal year 2002-03. It identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

The School District passed a 2005 budget in June of 2004 with a 5% 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.

Penn Manor School District  
Management's Discussion and Analysis  
(Continued)  
Year ended June 30, 2004

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 non-resident 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.
- Capital grants may include Federal and State grants for purchase of instructional equipment as well as state subsidies for rental payments.

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.

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

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Instruction	29.43	27.65	24.92	23.60
Support Services:				
Instructional Student Support	2.87	2.62	2.60	2.36
Administration and Financial Support Services	3.74	3.47	3.55	3.32
Operation and Maintenance of Plant	3.20	3.70	3.07	3.55
Pupil Transportation	2.23	2.27	0.65	0.65
Student Activities	0.80	0.83	0.47	0.76
Interest on Long-Term Debt	<u>2.43</u>	<u>2.64</u>	<u>0.61</u>	<u>0.40</u>
 Total Expenses	 <u>44.70</u>	 <u>43.18</u>	 <u>35.87</u>	 <u>34.64</u>

The dependence upon tax revenues for governmental activities is apparent. As in 2003, nearly 85 percent of instructional activities are supported in 2004 through taxes and other general revenues. When looking at all governmental activities, general revenue and tax support remains constant at 80 percent. The community, as a whole is by far the primary financial support for Penn Manor School District.

Expenses for Governmental Activities increased by \$1.52 million, which is a 3.52% 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, significantly higher retirement costs, and a relatively higher FICA tax expense due to the higher salaries. Interest expense on Long-Term Debt decreased slightly due to the refunding of a portion of the Series of 1998 Bonds which resulted in savings to the district of \$107,000.

### **Business-Type Activities**

Business-type activities consist only of food service operations. These programs had revenues, including State and Federal support, of almost \$1.9 million and expenses of almost \$2.0 million for fiscal year 2004. No increase in meal prices was instituted at the beginning of the 2003-04 school year. Net Assets are listed as negative \$18,315 as of June 30, 2004. The decline of net assets into the negative area can be attributed mainly to three consecutive years of abnormally high healthcare claims that were allocated to the food service operations. Moving forward into the 2004-05 fiscal year, a new method of charging healthcare costs will be implemented to more realistically approximate the cost of a non self-funded plan. Due to the continuation of rising costs, increases in student and adult prices for meals was implemented for the 2004-05 school year. Business activities received no support from tax revenues with the exception of a \$50,000 transfer from the general fund in 2004. A \$100,000 transfer has been budgeted for the 2004-05 school year in an effort to move the food service operations back to positive net assets.

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

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$48.8 million and expenditures of \$48.9 million. Other Financing Sources provided a net of \$687 thousand to the various funds, and the overall fund balance increased \$561 thousand.

- ◆ General Fund Transfers to other funds included the normal operating transfers to Debt Service for bond principal and interest and \$50 thousand to the Food Service Fund which represented budgeted General Fund support for these areas. At year-end, additional transfers to Capital Reserve of \$1.565 million allowed a critical transfer of resources for planned expenditures on capital projects.
  - The General Fund balance was drawn down \$549 thousand to move the district toward compliance with the new legislation enacted in December 2003, which will target a fund balance not to exceed 8% of expenditures.
  - At July 1, 2003, the district started the year with a fund balance of 19.0% of budgeted expenditures. By designating \$2.985 million of the fund balance for Future Defined Benefit Pension Plan Contributions and spending down a portion of fund balance within 2003-04, the undesignated fund balance at June 30, 2004 was lowered to 11.5% of the budgeted expenditures for 2004-05. Planned use of the fund balance during the 2004-05 fiscal year will keep the district below the 8% limit by June 30, 2005.
  - The legislation enacted in December 2003 by the Commonwealth of Pennsylvania will require districts (as of July 1, 2005) to budget for an unrestricted, undesignated fund balance of no more than 8% of budgeted expenditures, so reduction of our previously existing fund was necessary. Use of fund balance to fall within the required restriction also allowed the district to limit the increase in tax millage again for the 2004 tax levy to a 0.73 mill increase; the total millage for the July 2004 tax levy is therefore 15.40 mills. Collection begins in July 2004.

Penn Manor School District  
Management's Discussion and Analysis  
(Continued)  
Year ended June 30, 2004

**General Fund Budgeting Highlights**

The School District's General Fund budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

During the course of fiscal 2004, 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 expense budget total amounts; budgets were transferred within the original totals approved for 2003-04.

For the General Fund, actual revenues were \$48.51 million; this was \$1.38 million above original budget estimates of \$47.13 million. Most of this difference was due to one time occurrences such as \$500,000 from entering into a SWAP transaction and collection of a significant delinquent tax as well as conservative revenue estimates.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2004, the School District had \$63.87 million invested in land, buildings, and equipment, with \$63.77 million in governmental activities. Table 4 shows the fiscal 2004 balance compared to 2003:

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

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	1.43	1.43	0.00	0.00	1.43	1.43
Buildings and Improvements	60.71	57.20	0.00	0.00	60.71	57.20
Construction in Progress	0.00	4.49	0.00	0.00	0.00	4.49
Furniture and Equipment, Vehicles, and Library Books	<u>1.63</u>	<u>1.04</u>	<u>0.10</u>	<u>0.10</u>	<u>1.73</u>	<u>1.14</u>
<b>Totals</b>	<u>63.77</u>	<u>64.16</u>	<u>0.10</u>	<u>0.10</u>	<u>63.87</u>	<u>64.26</u>

The overall total of Capital Assets declined during 2003-04. This is due to depreciation expense being higher than the amount of newly invested capital assets. The construction in progress figure in 2003 has been eliminated as the renovations at Eshleman Elementary School have been completed. The capitalized costs of those assets are now part of the Buildings and Improvements total.

Penn Manor School District  
Management's Discussion and Analysis  
(Continued)  
Year ended June 30, 2004

***Debt***

At June 30, 2004, the School District had \$45.3 million in bonds outstanding as compared to \$49.5 million a year ago. Table 5 summarizes bonds outstanding:

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

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
General Obligation Bonds:		
Series of 1990 GOB	2.28	2.87
Series of 1996 GOB	20.25	22.29
Series of 1998 GOB	0.00	8.41
Series of 2001 GOB	2.42	2.94
Series A of 2001 GOB	4.92	4.99
Series of 2003	8.76	0.00
Series of 2002 GOB	2.75	3.62
1990 CAB Accrued Interest	<u>3.88</u>	<u>4.37</u>
<u>Total</u>	<u>45.26</u>	<u>49.49</u>

The district lowered its bonds and notes by \$4.2 million during the 2004 year. In addition to refunding the Series of 1998 into the series of 2003, a significant amount of principal was paid down according to the debt schedules in place. Absent additional borrowing, the School District will experience a significant reduction in 7 years. Starting with the 2011 year, the school district will reduce its annual principal and interest payments by over \$4.0 million in a two year period. The school district maintains a "Aaa" rating from Moody's.

**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.

Challenges face many districts in Pennsylvania on a number of issues. The legislature has passed, and the governor has signed, Act 72 of 2004 into law. These 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 the new requirements. There is great uncertainty about the timing of increased education funding becoming available from the Commonwealth. A stronger emphasis on Personal / Earned Income Taxes, to bring relief to Property Tax rates, will likely be required by 2006-07. This 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 an earlier budgetary planning cycle, limits on the tax increases which can be levied without voter referendums, and restrictions on the amount of fund balance held in reserve.

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.

Penn Manor School District  
Management's Discussion and Analysis  
(Continued)  
Year ended June 30, 2004

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 fall firmly 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 15-25% rates over most of the past five years. The new Collective Bargaining Agreement has given some relief to these costs through employee contributions, but those contributions cover only a fraction of actual expenses. Employee contributions will continue to be implemented at competitive and reasonable levels for our employees, within and outside the bargaining unit.

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 are 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, Business Manager 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, 2004

<u>ASSETS</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Current Assets:			
Cash and Cash Equivalents	1,116,680	2,008	1,118,688
Investments	13,549,499	3,055	13,552,554
Taxes Receivable, net	1,374,670		1,374,670
Internal Balances	112,942		112,942
Due from Other Governments	1,881,392		1,881,392
Other Receivables	402,060	6,898	408,958
Inventories		<u>78,340</u>	<u>78,340</u>
<u>Total Current Assets</u>	<u>18,437,243</u>	<u>90,301</u>	<u>18,527,544</u>
Noncurrent Assets:			
Land	1,429,306		1,429,306
Site Improvements (net of Accumulated Depreciation)	888,707		888,707
Building and Building Improvements (net of Accumulated Depreciation)	59,824,422		59,824,422
Furniture and Equipment (net of Accumulated Depreciation)	1,453,723	95,441	1,549,164
Vehicles (net of Accumulated Depreciation)	180,707		180,707
Long-Term Debt Issuance Costs (net of Accumulated Amortization)	<u>253,387</u>		<u>253,387</u>
<u>Total Noncurrent Assets</u>	<u>64,030,252</u>	<u>95,441</u>	<u>64,125,693</u>
 <u>TOTAL ASSETS</u>	 <u>82,467,495</u>	 <u>185,742</u>	 <u>82,653,237</u>

See notes to financial statements.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Internal Balances		112,942	112,942
Due to Other Governments	13,637		13,637
Accounts Payable	740,674	28,182	768,856
Bonds Payable	25,000		25,000
Current Portion of Long-Term Debt	4,303,279		4,303,279
Accrued Salaries and Benefits	3,520,271		3,520,271
Current Portion of Compensated Absences	211,139	2,760	213,899
Payroll Deductions and Withholdings	6,637		6,637
Deferred Revenues	590	35,333	35,923
Other Current Liabilities	<u>196,982</u>		<u>196,982</u>
<b><u>Total Current Liabilities</u></b>	<b><u>9,018,209</u></b>	<b><u>179,217</u></b>	<b><u>9,197,426</u></b>
Noncurrent Liabilities:			
Bonds Payable	40,980,224		40,980,224
Lease Purchase Obligations	21,449		21,449
Accrued Retirement Bonuses	545,812		545,812
Long-Term Portion of Compensated Absences	<u>1,344,578</u>	<u>24,840</u>	<u>1,369,418</u>
<b><u>Total Noncurrent Liabilities</u></b>	<b><u>42,892,063</u></b>	<b><u>24,840</u></b>	<b><u>42,916,903</u></b>
<b><u>TOTAL LIABILITIES</u></b>	<b><u>51,910,272</u></b>	<b><u>204,057</u></b>	<b><u>52,114,329</u></b>
<b><u>NET ASSETS (DEFICIT)</u></b>			
Invested in Capital Assets, net of Related Debt	18,768,106	95,441	18,863,547
Restricted	54,122		54,122
Unrestricted	<u>11,734,995</u>	<u>(113,756)</u>	<u>11,621,239</u>
<b><u>TOTAL NET ASSETS (DEFICIT)</u></b>	<b><u>30,557,223</u></b>	<b><u>(18,315)</u></b>	<b><u>30,538,908</u></b>
<b><u>TOTAL LIABILITIES and NET ASSETS (DEFICIT)</u></b>	<b><u>82,467,495</u></b>	<b><u>185,742</u></b>	<b><u>82,653,237</u></b>

Penn Manor School District  
STATEMENT of ACTIVITIES  
Year ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expense) and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
Instruction	29,428,323	285,108	4,195,519	31,713	(24,915,983)		(24,915,983)
Instructional Student Support	2,874,262		277,464		(2,596,798)		(2,596,798)
Administrative and Financial Support Services	3,737,946	58,110	130,654		(3,549,182)		(3,549,182)
Operation and Maintenance of Plant Services	3,189,368	40,642	75,466		(3,073,260)		(3,073,260)
Pupil Transportation	2,234,976		1,584,691		(650,285)		(650,285)
Student Activities	793,043	52,363	26,564	240,367	(473,749)		(473,749)
Community Services	6,187				(6,187)		(6,187)
Interest on Long-Term Debt	<u>2,435,940</u>			<u>1,832,039</u>	<u>(603,901)</u>		<u>(603,901)</u>
<u>Total Governmental Activities</u>	44,700,045	436,223	6,290,358	2,104,119	(35,869,345)	-0-	(35,869,345)
<b>Business-Type Activities:</b>							
Food Services	<u>1,981,458</u>	<u>1,366,827</u>	<u>506,362</u>			<u>(108,269)</u>	<u>(108,269)</u>
<u>Total Primary Government</u>	<u>46,681,503</u>	<u>1,803,050</u>	<u>6,796,720</u>	<u>2,104,119</u>	<u>(35,869,345)</u>	<u>(108,269)</u>	<u>(35,977,614)</u>

See notes to financial statements.

Penn Manor School District  
STATEMENT of ACTIVITIES

(Continued)

Year ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expense) and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
General Revenues:							
Taxes:							
	Property Taxes, Levied for General Purposes				26,266,517		26,266,517
	Net Public Utility Realty, Earned Income and Per Capital Taxes Levied for General Purposes, net				4,009,214		4,009,214
	Grants, Subsidies, and Contributions not Restricted				8,810,301		8,810,301
	Investment Earnings				252,101	503	252,604
	Miscellaneous Income				36,126		36,126
	Transfers				(50,000)	50,000	-0-
	Proceeds from Interest Rate Swaption				500,000		500,000
	<u>Total General Revenues, Special Items, and Transfers</u>				<u>39,824,259</u>	<u>50,503</u>	<u>39,874,762</u>
	<u>CHANGE in NET ASSETS</u>				<u>3,954,914</u>	<u>(57,766)</u>	<u>3,897,148</u>
	<u>NET ASSETS - Beginning</u>				27,127,587	39,451	27,167,038
	Prior Period Adjustment (Note 23)				(525,278)	-0-	(525,278)
	<u>NET ASSETS - Beginning (Restated)</u>				<u>26,602,309</u>	<u>39,451</u>	<u>26,641,760</u>
	<u>NET ASSETS (DEFICIT) - Ending</u>				<u>30,557,223</u>	<u>(18,315)</u>	<u>30,538,908</u>

See notes to financial statements.

Penn Manor School District  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2004

	General <u>Fund</u>	<u>Major Funds</u>		<u>Other Funds</u>	<u>Total Governmental Funds</u>
		<u>Capital Reserve</u>	<u>Debt Service</u>		
<b><u>ASSETS</u></b>					
Cash and Cash Equivalents	1,113,553			3,127	1,116,680
Investments	10,162,439	3,203,322	34,624	149,114	13,549,499
Taxes Receivable, net	1,374,670				1,374,670
Due from Other Funds	118,177	1,564,834			1,683,011
Due from Other Governments	1,881,392				1,881,392
Other Receivables	401,954			106	402,060
<b><u>TOTAL ASSETS</u></b>	<b><u>15,052,185</u></b>	<b><u>4,768,156</u></b>	<b><u>34,624</u></b>	<b><u>152,347</u></b>	<b><u>20,007,312</u></b>
<b><u>LIABILITIES and FUND BALANCES</u></b>					
<b><u>LIABILITIES</u></b>					
Due to Other Funds	1,570,069				1,570,069
Due to Other Governments		13,637			13,637
Accounts Payable	669,695	70,439		540	740,674
Bonds Payable			25,000		25,000
Accrued Salaries and Benefits	3,520,271				3,520,271
Payroll Deductions and Withholding	6,637				6,637
Deferred Revenues	432,311				432,311
Other Current Liabilities			390	11,586	11,976
<b><u>TOTAL LIABILITIES</u></b>	<b><u>6,198,983</u></b>	<b><u>84,076</u></b>	<b><u>25,390</u></b>	<b><u>12,126</u></b>	<b><u>6,320,575</u></b>
<b><u>FUND BALANCES</u></b>					
Specific Reserves			9,234	44,888	54,122
Unreserved - Designated	2,985,817				2,985,817
Unreserved - Undesignated:					
General Fund	5,867,385				5,867,385
Special Revenue Fund		4,684,080		72,415	4,756,495
Capital Projects Fund				22,918	22,918
<b><u>TOTAL FUND BALANCES</u></b>	<b><u>8,853,202</u></b>	<b><u>4,684,080</u></b>	<b><u>9,234</u></b>	<b><u>140,221</u></b>	<b><u>13,686,737</u></b>
<b><u>TOTAL LIABILITIES and FUND BALANCES</u></b>	<b><u>15,052,185</u></b>	<b><u>4,768,156</u></b>	<b><u>34,624</u></b>	<b><u>152,347</u></b>	<b><u>20,007,312</u></b>

See notes to financial statements.

Penn Manor School District  
RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET  
to the STATEMENT of NET ASSETS  
June 30, 2004

Total Fund Balances - Governmental Funds	13,686,737
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Amounts reported for governmental activities in the statement of net assets are different because:

<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$87,840,578, and the accumulated depreciation is \$24,063,713.</p>	63,776,865
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<p>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.</p>	431,721
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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	(45,260,925)	
Accrued Interest on the Bonds	(185,006)	
Unamortized long-term debt issuance costs	253,387	
Capital Leases Payable	(44,027)	
Accrued Retirement Bonuses	(545,812)	
Compensated Absences	<u>(1,555,717)</u>	<u>(47,338,100)</u>

<u>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</u>	<u>30,557,223</u>
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See notes to financial statements.

Penn Manor School District  
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -  
GOVERNMENTAL FUNDS  
Year ended June 30, 2004

	General <u>Fund</u>	<u>Major Funds</u>		Other <u>Funds</u>	Total <u>Governmental Funds</u>
		Capital <u>Reserve</u>	Debt <u>Service</u>		
<u>REVENUES</u>					
Local Sources:					
Real Estate Taxes	26,893,609				26,893,609
Other Taxes	4,009,236				4,009,236
Investment Income	221,445	23,975	4,051	2,630	252,101
Other Revenue	758,375	7,277		52,363	818,015
<u>Total Local Sources</u>	<u>31,882,665</u>	<u>31,252</u>	<u>4,051</u>	<u>54,993</u>	<u>31,972,961</u>
State Sources	16,215,267	240,367			16,455,634
Federal Sources	417,520				417,520
<u>Total Revenues</u>	<u>48,515,452</u>	<u>271,619</u>	<u>4,051</u>	<u>54,993</u>	<u>48,846,115</u>
<u>EXPENDITURES</u>					
Instructional Services	27,249,046				27,249,046
Support Services	12,289,416				12,289,416
Noninstructional Services	758,260			47,357	805,617
Capital Outlay	1,448	1,448,359		6,198	1,456,005
Bank Fees			41	99	140
Debt Service (Principal and Interest)	13,222		7,158,527		7,171,749
<u>Total Expenditures</u>	<u>40,311,392</u>	<u>1,448,359</u>	<u>7,158,568</u>	<u>53,654</u>	<u>48,971,973</u>
<u>EXCESS (DEFICIENCY)</u> of REVENUES over <u>EXPENDITURES</u>					
	<u>8,204,060</u>	<u>(1,176,740)</u>	<u>(7,154,517)</u>	<u>1,339</u>	<u>(125,858)</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Refunding Bond Proceeds			8,865,000		8,865,000
Interfund Transfers	(9,263,498)	3,901,988	6,763,387	(1,451,877)	(50,000)
Proceeds from Interest Rate Swaption	500,000				500,000
Capital Lease Obligation Incurred	24,500				24,500
Debt Service (Payment to Refunded Bond Escrow Agent)			(8,592,639)		(8,592,639)
Bond Discount			(45,673)		(45,673)
Sale/Compensation for Fixed Assets	4				4
Refunds of Prior Year Receipts	(14,047)				(14,047)
<u>Total Other Financing         Sources (Uses)</u>	<u>(8,753,041)</u>	<u>3,901,988</u>	<u>6,990,075</u>	<u>(1,451,877)</u>	<u>687,145</u>
<u>NET CHANGES in FUND BALANCES</u>					
	(548,981)	2,725,248	(164,442)	(1,450,538)	561,287
<u>FUND BALANCE - July 1, 2003</u>	<u>9,402,183</u>	<u>1,958,832</u>	<u>173,676</u>	<u>1,590,759</u>	<u>13,125,450</u>
<u>FUND BALANCE - June 30, 2004</u>	<u>8,853,202</u>	<u>4,684,080</u>	<u>9,234</u>	<u>140,221</u>	<u>13,686,737</u>

See notes to financial statements.

Penn Manor School District  
RECONCILIATION of the GOVERNMENTAL FUNDS  
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCE  
to the STATEMENT of ACTIVITIES  
Year ended June 30, 2004

Total net change in fund balances - Governmental Funds 561,287

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 exceed capital outlays in the period.

Depreciation Expense	(2,202,629)	
Capital Outlays	<u>1,816,837</u>	(385,792)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. (627,114)

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. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The effect of these transactions in the statement of activities is shown below:

Issuance of refunding bonds	(8,865,000)	
Capital lease obligation incurred	(24,500)	
Repayment of bond principal	13,098,890	
Long-term debt issuance costs	268,525	
Less: Amortization	(15,138)	
Principal payments on capital leases	<u>10,480</u>	4,473,257

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental fund, an interest expenditure is reported when due. 11,364

See notes to financial statements.

Penn Manor School District  
RECONCILIATION of the GOVERNMENTAL FUNDS  
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCE  
to the STATEMENT of ACTIVITIES  
(Continued)  
Year ended June 30, 2004

In the statement of activities, certain operating expenses - compensated absences and retirement bonuses - are measured by the amounts earned 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 earned versus the amount used.

(78,088)

Change in Net Assets of Governmental Activities

3,954,914

See notes to financial statements.

Penn Manor School District  
STATEMENT of NET ASSETS -  
PROPRIETARY FUND  
June 30, 2004

	<u>Food Service</u>
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents	2,008
Investments	3,055
Due from Other Funds	5,235
Other Receivables	6,898
Inventories	<u>78,340</u>
<u>Total Current Assets</u>	95,536
Noncurrent Assets:	
Machinery and Equipment (net of Accumulated Depreciation)	<u>95,441</u>
<u>TOTAL ASSETS</u>	<u>190,977</u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Due to Other Funds	118,177
Accounts Payable	28,182
Current Portion of Compensated Absences	2,760
Deferred Revenues	<u>35,333</u>
<u>Total Current Liabilities</u>	184,452
Noncurrent Liabilities:	
Noncurrent Portion of Compensated Absences	<u>24,840</u>
<u>TOTAL LIABILITIES</u>	<u>209,292</u>
 <u>NET ASSETS (DEFICIT)</u>	
Invested in Capital Assets, net of Related Debt	95,441
Unrestricted	<u>(113,756)</u>
<u>TOTAL NET ASSETS (DEFICIT)</u>	<u>(18,315)</u>
<u>TOTAL LIABILITIES and NET ASSETS (DEFICIT)</u>	<u>190,977</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, 2004

	<u>Food Service</u>
<u>OPERATING REVENUES</u>	
Food Service Revenue	1,281,905
Other Operating Revenue	<u>84,922</u>
<u>Total Operating Revenues</u>	<u>1,366,827</u>
<u>OPERATING EXPENSES</u>	
Salaries	578,083
Employee Benefits	184,741
Supplies	1,157,927
Depreciation	22,455
Other Operating Expenses	<u>38,252</u>
<u>Total Operating Expenses</u>	<u>1,981,458</u>
<u>OPERATING (LOSS)</u>	<u>(614,631)</u>
<u>NONOPERATING REVENUES</u>	
Earnings on Investments	503
State Sources	99,774
Federal Sources	<u>406,588</u>
<u>Total Nonoperating Revenues</u>	<u>506,865</u>
<u>CHANGE in NET ASSETS before OPERATING TRANSFERS</u>	(107,766)
<u>OPERATING TRANSFERS</u>	<u>50,000</u>
<u>CHANGE in NET ASSETS</u>	(57,766)
<u>TOTAL NET ASSETS - July 1, 2003</u>	<u>39,451</u>
<u>TOTAL NET ASSETS (DEFICIT) - June 30, 2004</u>	<u>(18,315)</u>

See notes to financial statements.

Penn Manor School District  
STATEMENT of CASH FLOWS -  
PROPRIETARY FUND  
Year ended June 30, 2004

	<u>Food Service</u>
<u>CASH FLOWS from OPERATING ACTIVITIES</u>	
Cash Received from Users	1,369,755
Cash Payments to Employees for Services	(578,481)
Cash Payments to Suppliers for Goods and Services	<u>(1,455,443)</u>
<u>Net Cash (Used) by Operating Activities</u>	<u>(664,169)</u>
 <u>CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES</u>	
Operating Transfers	50,000
State Sources	99,415
Federal Sources	<u>418,312</u>
<u>Net Cash Provided by Noncapital Financing Activities</u>	<u>567,727</u>
 <u>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</u>	
Purchase of Equipment	<u>(19,483)</u>
 <u>CASH FLOWS from INVESTING ACTIVITIES</u>	
Earnings on Investments	503
Withdrawals from Investment Pools	<u>55,584</u>
<u>Net Cash Provided by Investing Activities</u>	<u>56,087</u>
<u>NET (DECREASE) in CASH and CASH EQUIVALENTS</u>	(59,838)
 <u>CASH and CASH EQUIVALENTS</u>	
Beginning of Year	<u>61,846</u>
End of Year	<u>2,008</u>
 <u>RECONCILIATION of OPERATING (LOSS)</u>	
<u>to NET CASH PROVIDED by OPERATING ACTIVITIES</u>	
Operating (Loss)	<u>(614,631)</u>
 <u>ADJUSTMENTS to RECONCILE OPERATING (LOSS)</u>	
<u>to NET CASH PROVIDED by OPERATING ACTIVITIES</u>	
Depreciation	22,455
Decrease in Accounts Receivable	443
(Increase) in Inventory	(26,050)
(Decrease) in Accounts Payable	(60,877)
Increase in Accrued Salaries and Benefits	12,006
Increase in Deferred Revenue	<u>2,485</u>
<u>Total Adjustments</u>	<u>(49,538)</u>
<u>Net Cash (Used) by Operating Activities</u>	<u>(664,169)</u>

See notes to financial statements.

Penn Manor School District  
STATEMENT of NET ASSETS -  
FIDUCIARY FUNDS  
June 30, 2004

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Cash and Cash Equivalents		938
Investments	<u>59,589</u>	<u>111,108</u>
<u>TOTAL ASSETS</u>	<u>59,589</u>	<u>112,046</u>
 <u>LIABILITIES</u>		
Accounts Payable		892
Other Current Liabilities	_____	<u>111,154</u>
<u>TOTAL LIABILITIES</u>	-0-	112,046
 <u>NET ASSETS</u>		
Restricted	<u>59,589</u>	_____ -0-
<u>TOTAL LIABILITIES and NET ASSETS</u>	<u>59,589</u>	<u>112,046</u>

See notes to financial statements.

Penn Manor School District  
STATEMENT of CHANGES in FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS  
Year ended June 30, 2004

	<u>Private Purpose Trust</u>
 <u>ADDITIONS</u>	
Gifts and Contributions	3,500
Earnings on Investments	<u>809</u>
	4,309
 <u>DEDUCTIONS</u>	
Scholarships Awarded	<u>13,773</u>
<u>CHANGE in NET ASSETS</u>	(9,464)
 <u>NET ASSETS</u> - July 1, 2003	 <u>69,053</u>
 <u>NET ASSETS</u> - June 30, 2004	 <u><u>59,589</u></u>

See notes to financial statements.

NOTE 1 - Summary of Significant Accounting Policies

Penn Manor School District, located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through twelfth to students living in Conestoga Township, Manor Township, Martic Township, the Borough of Millersville, and Pequea Township. These include regular, advanced academic, and vocational education programs, and special education programs for gifted and physically and mentally challenged children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the board of School Directors. The School District is comprised of seven elementary schools, two middle schools, and one high school, serving approximately 5,336 students.

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

Reporting Entity

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

The School District is financially accountable for:

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

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

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

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

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

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Joint Ventures

Lancaster County Career and Technology Center (LCCTC)

The School District is one of sixteen member school districts of the Lancaster County Career and Technology Center (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member 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. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services in the year ended June 30, 2004 was approximately \$907,448. 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 (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Lancaster County Career and Technology Center to acquire land and construct buildings to provide the facilities for the operation of LCCTC. In 1995, the Authority entered into an additional agreement with the same parties to provide funding for the upgrading and modernization of the LCCTC facilities. 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, 2004 is \$769,705. The School District's lease payment to the Authority for the year ended June 30, 2004 was \$150,623 which has been reported in the School District's General Fund. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P. O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority

The School District is a member in the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980 under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The Authority is not reported as part of the School District's reporting entity.

The School District did not have any financial transactions with the Authority during the year ended June 30, 2004. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Joint Ventures (Continued)

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members, who are elected by the public, and are appointed to the LLIU Board by the member school districts' Boards of Directors. Penn Manor School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Penn Manor School District contracts with the LLIU for special education services for School District students. The amount paid for these services and various other support services during the year ended June 30, 2004 was approximately \$1,004,153. 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 30, 2004 was approximately \$20,852. 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 sixteen 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, 2004 was \$52,500. Financial information for the Bureau can be obtained from the Administrative Office at 299 Hess Blvd., Lancaster, PA 17601.

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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. 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.

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 from 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 enterprise funds are reported in separate columns with composite columns for non-major funds. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. 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 on the statement of net assets. The statement of 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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation – Financial Statements (Continued)

The 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 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.

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 1990 Sinking Fund, the 1993 Series A Sinking Fund, the 1996 Sinking Fund, the 1996 Series A Sinking Fund, the 1998 Sinking Fund, the 2001 Sinking Fund, the 2001 Series A Sinking Fund, the 2002 Sinking Fund, and the 2003 Sinking Fund.

The 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 district in a trustee capacity in a private purpose trust fund. This fund accounts for the 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 includes the student activities fund.

Additionally, the district reports the following nonmajor governmental funds:

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

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, 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

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, 2004, and which are not intended to finance fiscal 2004 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year end.

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.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the School District follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Revenues - Exchange and Non-exchange 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.

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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Data (Continued)

2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.
5. Budgetary data are included in the School District's management information system and are employed as a management control device during the year.
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, 2004.
7. The budget for the general fund is adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits and in money market accounts and are carried at cost plus accrued interest, which approximates fair value.

Investments

Investments are recorded at market value.

Taxes Receivable and Deferred Tax Revenues

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

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, 2004, 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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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 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. 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 year, for depreciable assets are generally as follows:

School Buildings	40 years
Building Improvements	20 years
Land Improvements	20 years
Furniture, Fixtures, and Equipment	5-12 years
Vehicles	5-10 years
Textbooks	5 years
Library Books	5 years

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, 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 debt service expenditures.

Compensated Absences

The School District accrues vacation leave as a liability 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.

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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued)

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.

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, 2004, 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, 2004, 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 after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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. Unreserved retained earnings for proprietary fund types represent the net assets available for future operations or distribution.

Estimates

The preparation of the 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.

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 fiscal year 2004.

Penn Manor School District  
NOTES to FINANCIAL STATEMENTS  
(Continued)

NOTE 2 - Deposits and Investments

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

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

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

The deposit and investment policy of the School District adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the School District.

Deposits

The School District's checking and savings accounts at June 30, 2004, were insured by the Federal Deposit Insurance Corporation (category 1) or were collateralized in accordance with Act 72, which requires the institution to pool collateral for all its government deposits and to have the collateral held by an approved custodian in the institution's name (category 3).

	<u>Category</u>	<u>Total Bank</u>	<u>Total</u>
	<u>1</u>	<u>Balance</u>	<u>Carrying</u>
			<u>Amount</u>
Checking and Savings Accounts	<u>68,599</u>	<u>68,599</u>	<u>67,904</u>

Reconciliation to the Balance Sheet - Cash and Cash Equivalents

Total Carrying Amount of:	
Deposits	67,904
Repurchase Agreement	1,051,372
Petty Cash	<u>350</u>
	<u>1,119,626</u>

Investments

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

Penn Manor School District  
NOTES to FINANCIAL STATEMENTS  
(Continued)

NOTE 2 - Deposits and Investments (Continued)

The School District invests in the Pennsylvania Local Government Investment Trust. The Pennsylvania Local Government Investment Trust (PLGIT) insures that it will not place deposits with any single issuing institution if the largest participant's pro rata share of such deposits exceeds \$100,000, unless such deposits are collateralized as prescribed by Act 72 of the Commonwealth of Pennsylvania. PLGIT funds have the characteristics of open-end mutual funds and are not subject to credit risk classification. The fair value of the School District's portion in these investment pools is equivalent to the value of the pool shares. The National Association of Securities Dealers acts as the formal external regulatory oversight for the investment pools.

The School District's investments at June 30, 2004 are stated at market value. The School District has no investments which would be classified in category 1 or 2. However, the School District does have investments which are not in any of the three defined categories. Such investments are separately identified. The School District's investments at June 30, 2004 are as follows:

	<u>Category</u> <u>3</u>	<u>Non-</u> <u>Categorized</u>	<u>Market</u> <u>Value</u>	<u>Cost</u> <u>Value</u>
Repurchase Agreement	1,051,372	-0-	1,051,372	1,051,372
Investment in Money Market Funds	-0-	10,188,410	10,188,410	10,188,410
Investment Pools: PLGIT	-0-	<u>3,731,573</u>	<u>3,731,573</u>	<u>3,731,573</u>
	<u>1,051,372</u>	<u>13,919,983</u>	<u>14,971,355</u>	<u>14,971,355</u>

Reconciliation of Investments to Balance Sheet:

Total Investments per Above	14,971,355
Add: Deposits in Transit	8,466
Less: Repurchase Agreement	1,051,372
Outstanding Checks	<u>205,198</u>
	<u>13,723,251</u>

NOTE 3 - Real Estate Taxes

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2004 was 14.67 mills (\$14.67 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 - September 2	- 2% Discount Period
September 3 - October 31	- Face Payment Period
November 1 - December 31	- 10% Penalty Period
January 1	- Lien Date (Lancaster County Tax Claim Bureau)

Penn Manor School District  
NOTES to FINANCIAL STATEMENTS  
(Continued)

NOTE 4 - Taxes Receivable and Deferred Taxes

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, 2004 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	602,107	43,774	558,333	129,584	428,749
Earned Income Taxes	734,793	-0-	734,793	734,793	-0-
Per Capita and Occupation	297,181	294,209	2,972	-0-	2,972
Transfer Tax	<u>78,572</u>	<u>-0-</u>	<u>78,572</u>	<u>78,572</u>	<u>-0-</u>
	<u>1,712,653</u>	<u>337,983</u>	<u>1,374,670</u>	<u>942,949</u>	<u>431,721</u>

NOTE 5 - Interfund Accounts

Individual fund receivable and payable balances at June 30, 2004 are as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	118,177	1,570,069
Special Revenue - Capital Reserve	1,564,834	-0-
Enterprise Food Service	<u>5,235</u>	<u>118,177</u>
	<u>1,688,246</u>	<u>1,688,246</u>

NOTE 6 - Due from Other Governments

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2004, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>
Federal Grants	48,334
State Rental Subsidy	1,417,499
State Retirement Subsidy	167,324
State Social Security Subsidy	110,526
State Grants and Programs	28,945
Local Grants and Programs	<u>108,764</u>
	<u>1,881,392</u>

Penn Manor School District  
NOTES to FINANCIAL STATEMENTS  
(Continued)

NOTE 7 - Changes in Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2004 is as follows:

	Balance July 1, <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2004</u>
Historical Cost:				
Capital Assets not being Depreciated:				
Land	1,429,306	-0-	-0-	1,429,306
Construction in Progress	<u>4,488,468</u>	<u>-0-</u>	<u>4,488,468</u>	<u>-0-</u>
<u>Total Cost</u>	<u>5,917,774</u>	<u>-0-</u>	<u>4,488,468</u>	<u>1,429,306</u>
Capital Assets being Depreciated:				
Site Improvements	1,925,252	-0-	-0-	1,925,252
Buildings and Building				
Improvements	76,448,036	5,504,011	-0-	81,952,047
Furniture, Fixtures, and Equipment	1,392,336	776,794	-0-	2,169,130
Vehicles	<u>340,343</u>	<u>24,500</u>	<u>-0-</u>	<u>364,843</u>
<u>Total Cost</u>	<u>80,105,967</u>	<u>6,305,305</u>	<u>-0-</u>	<u>86,411,272</u>
Accumulated Depreciation:				
Site Improvements	941,283	95,262	-0-	1,036,545
Buildings and Building				
Improvements	20,231,186	1,896,439	-0-	22,127,625
Furniture, Fixtures, and Equipment	535,311	180,096	-0-	715,407
Vehicles	<u>153,304</u>	<u>30,832</u>	<u>-0-</u>	<u>184,136</u>
<u>Total Accumulated Depreciation</u>	<u>21,861,084</u>	<u>2,202,629</u>	<u>-0-</u>	<u>24,063,713</u>
<u>Net Capital Assets being Depreciated</u>	<u>58,244,883</u>	<u>4,102,676</u>	<u>-0-</u>	<u>62,347,559</u>
<u>Net Capital Assets</u>	<u>64,162,657</u>	<u>4,102,676</u>	<u>4,488,468</u>	<u>63,776,865</u>

Penn Manor School District  
NOTES to FINANCIAL STATEMENTS  
(Continued)

NOTE 7 - Changes in Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2004 is as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Historical Cost:				
Capital Assets being Depreciated:				
Equipment	523,672	19,482	-0-	543,154
Accumulated Depreciation:				
Equipment	<u>425,258</u>	<u>22,455</u>	<u>-0-</u>	<u>447,713</u>
<u>Net Capital Assets</u>	<u>98,414</u>	<u>(2,973)</u>	<u>-0-</u>	<u>95,441</u>

Depreciation expenses are charged to governmental functions as follows:

Instruction	2,024,865
Instructional Student Support	16,220
Administration and Financial Services	22,683
Operation and Maintenance of Plant	91,365
Student Activities	<u>47,497</u>
<u>Total Depreciation Expense - Governmental Activities</u>	<u>2,202,630</u>

NOTE 8 - Deferred Revenue

Deferred revenue consists of the following as of June 30, 2004:

	<u>General Fund</u>	<u>Enterprise Total</u>	<u>Total</u>
Deferred Taxes	431,721	-0-	431,721
Deferred Grant Program Revenue	590	-0-	590
Prepaid Ticket Sales	-0-	10,743	10,743
Unused Donated Commodities	<u>-0-</u>	<u>24,590</u>	<u>24,590</u>
	<u>432,311</u>	<u>35,333</u>	<u>467,644</u>

Penn Manor School District  
NOTES to FINANCIAL STATEMENTS  
(Continued)

NOTE 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 six general obligation bond series with interest rates and outstanding principal amounts at June 30, 2004 as follows:

<u>Issue</u>	<u>Final Maturity Date</u>	<u>Interest Rate or Yield</u>	<u>Amount</u>
Series of 1990 GOB	June 1, 2008	7.00% - 7.10%	2,278,780
Series of 1996 GOB	June 1, 2014	3.40% - 5.20%	20,255,000
Series of 2001 GOB	June 1, 2009	4.00% - 5.00%	2,420,000
Series A of 2001 GOB	February 15, 2011	3.20% - 4.45%	4,915,000
Series of 2002 GOB	June 1, 2008	3.50% - 3.90%	2,750,000
Series of 2003 GOB	June 1, 2016	1.00% - 4.00%	<u>8,755,000</u>
			41,373,780
Accrued Interest on 1990 Capital Appreciation Bonds			<u>3,887,145</u>
			<u>45,260,925</u>

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

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>
General Obligation Bonds and Notes	49,494,815	8,865,000	13,098,890	45,260,925
Capital Lease Obligations	30,007	24,500	10,480	44,027
Accrued Retirement Bonus	525,278	20,534		545,812
Estimated Liability for Compensated Absences	<u>1,498,163</u>	<u>57,554</u>		<u>1,555,717</u>
	<u>51,548,263</u>	<u>8,967,588</u>	<u>13,109,370</u>	<u>47,406,481</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Commitment</u>
2005	4,280,701	2,764,894	7,045,595
2006	4,387,298	2,661,810	7,049,108
2007	4,121,501	2,876,529	6,998,030
2008	4,239,280	2,762,513	7,001,793
2009	5,720,000	1,091,228	6,811,228
2010-2014	15,350,000	2,182,548	17,532,548
2015-2016	<u>3,275,000</u>	<u>195,393</u>	<u>3,470,393</u>
	<u>41,373,780</u>	<u>14,534,915</u>	<u>55,908,695</u>

Penn Manor School District  
NOTES to FINANCIAL STATEMENTS  
(Continued)

NOTE 9 - General Long-Term Debt (Continued)

Capital Lease

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 other long-term obligations.

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, 2004.

<u>Year Ending</u> <u>June 30,</u>	<u>Capital Leases</u>
2005	24,444
2006	6,797
2007	4,069
2008	<u>11,972</u>
Minimum Lease Payments for Capital Leases	47,282
Less: Amount Representing Interest	<u>3,255</u>
Present Value of Minimum Lease Payments	<u>44,027</u>

NOTE 10 - Compensated Absences

A summary of the amount recorded as a liability in the governmental activities and business-type activities for compensated absences is as follows as of June 30, 2004:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Accumulated Compensated Absences	1,445,162	25,638
Employer Social Security and Medicare on Leave Amounts Above	<u>110,555</u>	<u>1,962</u>
	<u>1,555,717</u>	<u>27,600</u>

NOTE 11 - Retirement Bonus

Upon voluntary retirement, a professional employee with qualifying years of service according to either the collective bargaining agreement or Act 93 agreement will receive a lump sum retirement bonus. A summary of the amount recorded as a liability for this retirement bonus is as follows as of June 30, 2004:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Estimated Accrued Retirement Benefit	507,025	-0-
Employer Social Security and Medicare on Amounts Above	<u>38,787</u>	<u>-0-</u>
	<u>545,812</u>	<u>-0-</u>

NOTE 12 - Derivatives Swaption

Objective - The School District entered into a swaption contract that provided the district an up-front payment of \$500,000. 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 of 1996 and a portion of the School District's outstanding General Obligation Bonds, Series of 2003 would convert to a synthetic variable rate.

Terms - The swaption was entered into in May 2004. The \$500,000 payment was based on a notional amount of \$13,745,000. The counterparty has the option to exercise the agreement on May 15, 2005. 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.

Fair Value - As of June 30, 2004, the swap had a negative fair value of \$646,278, estimated using the zero-coupon method. This method calculated the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

NOTE 13 - Employment Termination Agreement

On June 13, 2002, the School District entered into an employment termination agreement with a former administrator. Effective July 1, 2002, and on the first day of each month through September 1, 2003, the School District shall pay \$7,000 per month. Effective October 1, 2003, and on the first day of each month through September 1, 2013, the School District shall pay \$500 per month. In recognition of prior 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:

June 30, 2005	6,000
2006	6,000
2007	6,000
2008	6,000
2009	6,000
2010 - 2014	25,500

NOTE 14 - Operating Leases

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

Penn Manor School District  
NOTES to FINANCIAL STATEMENTS  
(Continued)

NOTE 14 - Operating Leases (Continued)

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

Lease Rental Debt, Series of 1998 dated October 7, 1998, was issued by the Lancaster County 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 sixteen member school districts have entered into a lease agreement with the Authority and each school district will pay its proportionate share of the lease rentals in order to fund the Series of 1998 debt.

Minimum future rental payments under this operating lease having remaining terms in excess of one year as of June 30, 2004 are as follows:

Fiscal Year Ending June 30, 2005	150,689
2006	150,471
2007	150,704
2008	150,648
2009	150,743
2010	<u>150,821</u>
Total Minimum Future Rental Payments	<u>904,076</u>

On January 24, 2003, the School District entered into an operating lease with the Penn Manor Band Boosters. The Boosters agreed to lease a pick-up and trailer to the School District to assist the School District in providing students who participate in the Penn Manor Band with opportunities to participate in co-curricular activities related to the band. The School District will pay for liability and comprehensive/collision insurance on the vehicle and trailer. The School District has agreed to pay \$1 annually for the lease. The lease has no stated term.

NOTE 15 - 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 eleven 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.

Penn Manor School District  
NOTES to FINANCIAL STATEMENTS  
(Continued)

NOTE 15 - Risk Management (Continued)

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

As of June 30, 2004, the School District is not aware of any additional assessments relating to the Pool.

Hospitalization

The School District has a self-insured hospitalization plan with Health Guard Management Services Company, the claims administrator, who processes and pays the claims. For the year ended June 30, 2004, the School District was limited in liability for claims to \$75,000 per individual and \$3,615,007 in total for the Point of Service Plan. A liability for claims incurred prior to June 30, 2004 and paid subsequently is recorded in the amount of \$346,120 in accounts payable in the general fund. In addition, a reinsurance reimbursement receivable in the amount of \$330,250 has also been recorded in the General Fund.

Changes in the School District's claims liability amount in fiscal years 2003 and 2004 were:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year End</u>
2002-2003	224,662	2,931,193	2,938,298	217,557
2003-2004	217,557	4,040,725	3,912,162	346,120

Vision Fund

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

The Plan requires submission of receipted invoices for eligible services and operates on a fiscal year from July 1 to June 30. Payment by the School District is made monthly and items submitted by the end of each month will be reimbursed by the 15th of the following month. In order to be eligible for payment, bills incurred must be less than six months old. Payment for the fiscal year ending June 30, 2004 is limited to \$145. An eligible employee may carry over any unused amount in his/her account to the following year to a maximum usage of \$295. For the fiscal year beginning July 1, 2004, payment is limited to \$150 per year and the carryover is limited to a maximum of \$300.

Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for nineteen member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims, and losses and providing self-insurance and reinsurance thereof. It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2004, the School District is not aware of any additional assessments relating to the Fund.

NOTE 15 - Risk Management (Continued)

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 of, damage to, 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, 2004 and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 16 - Defined Benefit Pension Plan

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

Funding Policy - The contribution policy is set by the Code and requires contributions by active employees and by participating employers. Plan members may belong to two membership classes. Class TC and Class TD are available to plan members. Active members who joined the Plan before July 22, 1983 are required to contribute 5.25 percent of their compensation if they are in Class TC or 6.5 percent for Class TD. Members who joined on or after July 11, 1983 and were active or inactive as of July 1, 2001, are required to contribute 6.25 percent for Class TC or 7.5 percent for Class TD. Members who joined the Plan after June 30, 2001 are automatically in Class TD and are required to contribute 7.5 percent. The contributions required of participating employers 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, 2004, the rate of employer contribution was 3.77 percent of covered payroll. The 3.77 percent rate is composed of a pension contribution rate of 2.98 percent for pension benefits and .79 percent for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate.

Penn Manor School District's contributions to PSERS for the years ending June 30, 2004, 2003, and 2002 were \$903,780, \$262,967, and \$241,148, respectively. Those amounts are equal to the required contribution for each year.

Penn Manor School District  
NOTES to FINANCIAL STATEMENTS  
(Continued)

NOTE 17 - Post-Employment 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 post employment benefits on a pay-as-you-go basis. The School District recognizes expenditures for post employment 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 fifty-seven 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, 2004, were \$873,904 and \$184,018, respectively.

NOTE 18 - Specific Reserved Fund Balances

Specific reserves represent portions of fund balances that are legally segregated for a specific future use or are not appropriate for expenditure. At June 30, 2004, the School District has included the following amounts as specific reserved fund balances:

<u>Fiduciary Funds</u> - Reserve for Scholarships	25,904
Reserve for Endowments	<u>33,685</u>
	<u>59,589</u>
<u>Capital Projects Fund</u> - Reserve for Auditorium Improvements	44,888
<u>Debt Service Fund</u> - Reserve for Debt Service Payments	<u>9,234</u>

NOTE 19 - 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, 2004, the School District has included the following as a designated fund balance:

<u>General Fund</u> - Designated for Future Defined Benefit Pension Plan Contributions	<u>2,985,817</u>
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NOTE 20 - Deficit Net Assets - Food Service Fund

At June 30, 2004, the food service fund established for providing meals to students had a deficit net asset balance of \$18,315. This deficit will be remedied during the 2005 fiscal year with transfers from the general fund.

NOTE 21 - Contingencies and Commitments

Grant Programs

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

Construction Projects

The School District is undergoing renovations to the Fred S. Eshleman Elementary School. Outstanding contract commitments total \$59,100 for this project at June 30, 2004.

Legal Matters

The School District is involved in various claims and legal actions arising in the ordinary course of business. The outcome of these matters cannot be determined at this time.

NOTE 22 - Current Debt Refunding

On November 1, 2003, the School District issued General Obligation Bonds, Series of 2003, for \$8,865,000 to currently refund and redeem General Obligation Bonds Series of 1998 with a principal balance of \$8,415,000. 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 General Obligation Bond Series of 1998, the School District reduced its total debt service requirements by \$102,136 which resulted in an economic gain (difference between the present value of the debt service payments on the old and the new debt) of \$107,313.

NOTE 23 - Prior Period Adjustment

The School District has reclassified the retirement bonus offered to retiring employees from other post employment benefit (OPEB) to a supplement pension benefit. The effect of this reclassification on the government-wide financial statement is the need to accrue this benefit over the service years of the employee versus on the pay-as-you-go method of an OPEB. The beginning net assets for the governmental activities have been adjusted to correctly accrue the estimated accrual for this retirement benefit at July 1, 2003 of \$525,278.

Penn Manor School District  
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -  
BUDGET and ACTUAL  
GENERAL FUND  
Year ended June 30, 2004

	Budget Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>REVENUES</u>				
Local Sources:				
Real Estate Taxes	25,849,523	25,849,523	26,893,609	1,044,086
Other Taxes	4,015,847	4,015,847	4,009,236	(6,611)
Investment Income	338,616	338,616	221,445	(117,171)
Other Revenue	653,686	653,686	758,375	104,689
<u>Total Local Sources</u>	30,857,672	30,857,672	31,882,665	1,024,993
State Sources	15,939,779	15,939,779	16,215,267	275,488
Federal Sources	335,018	335,018	417,520	82,502
<u>Total Revenues</u>	47,132,469	47,132,469	48,515,452	1,382,983
<u>EXPENDITURES</u>				
Instructional Services:				
Regular Programs	21,653,321	20,721,468	20,721,468	-0-
Special Programs	3,861,505	3,950,907	3,950,907	-0-
Vocational Programs	2,201,544	2,077,068	2,077,068	-0-
Other Instructional Programs	462,569	498,313	498,313	-0-
Adult Education Programs	2,684	1,290	1,290	-0-
Support Services:				
Pupil Personnel Services	1,506,714	1,476,046	1,476,046	-0-
Instructional Staff Services	857,283	963,765	963,765	-0-
Administrative Services	2,838,752	2,748,736	2,748,736	-0-
Pupil Health	433,131	422,813	422,813	-0-
Business Services	580,256	499,800	499,800	-0-
Operation and Maintenance of				
Plant Services	3,681,156	3,468,786	3,468,786	-0-
Student Transportation Services	2,277,561	2,235,369	2,235,369	-0-
Central and Other Support Services	496,867	474,101	474,101	-0-
Operation of Noninstructional Services:				
Student Activities	756,035	752,073	752,073	-0-
Community Services	-0-	6,187	6,187	-0-
Facilities Acquisition and Construction	-0-	1,448	1,448	-0-
Debt Service (Principal and Interest)	10,384	13,222	13,222	-0-
<u>Total Expenditures</u>	41,619,762	40,311,392	40,311,392	-0-
 <u>EXCESS of REVENUES over</u> <u>EXPENDITURES</u>				
(Carried Forward)	5,512,707	6,821,077	8,204,060	1,382,983

See auditors' report.

Penn Manor School District  
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -  
BUDGET and ACTUAL  
GENERAL FUND  
(Continued)  
Year ended June 30, 2004

	<u>Budget Amounts</u>		<u>Actual</u> <u>Budgetary</u> <u>Basis</u>	<u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>EXCESS of REVENUES over</u>				
<u>EXPENDITURES</u>				
(Brought Forward)	<u>5,512,707</u>	<u>6,821,077</u>	<u>8,204,060</u>	<u>1,382,983</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Interfund Transfers	(7,823,175)	(9,267,498)	(9,263,498)	4,000
Proceeds from Interest Rate Swaption	-0-	-0-	500,000	500,000
Capital Lease Obligation Incurred	-0-	-0-	24,500	24,500
Sale/Compensation for Fixed Assets	-0-	-0-	4	4
Refunds of Prior Year Receipts	-0-	(14,047)	(14,047)	-0-
Budgetary Reserve	<u>(150,000)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>Total Other Financing</u>				
<u>Sources (Uses)</u>	<u>(7,973,175)</u>	<u>(9,281,545)</u>	<u>(8,753,041)</u>	<u>528,504</u>
<u>NET CHANGES in</u>				
<u>FUND BALANCES</u>				
	(2,460,468)	(2,460,468)	(548,981)	1,911,487
<u>FUND BALANCE - July 1, 2003</u>	<u>9,402,183</u>	<u>9,402,183</u>	<u>9,402,183</u>	<u>-0-</u>
<u>FUND BALANCE - June 30, 2004</u>	<u>6,941,715</u>	<u>6,941,715</u>	<u>8,853,202</u>	<u>1,911,487</u>

See auditors' report.

Penn Manor School District  
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2004

	<u>Special Revenue</u>		<u>Total</u>
	<u>Athletic</u>	<u>Capital</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Projects</u>	<u>Funds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	114	3,013	3,127
Investments	84,321	64,793	149,114
Other Receivables	<u>106</u>	<u>          </u>	<u>106</u>
<u>TOTAL ASSETS</u>	<u>84,541</u>	<u>67,806</u>	<u>152,347</u>
 <u>LIABILITIES and FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	540		540
Other Current Liabilities	<u>11,586</u>	<u>          </u>	<u>11,586</u>
<u>TOTAL LIABILITIES</u>	<u>12,126</u>	<u>-0-</u>	<u>12,126</u>
 <u>FUND BALANCES</u>			
Specific Reserves		44,888	44,888
Unreserved-Undesignated:			
Special Revenue Fund	72,415		72,415
Capital Projects Fund	<u>          </u>	<u>22,918</u>	<u>22,918</u>
<u>TOTAL FUND BALANCES</u>	<u>72,415</u>	<u>67,806</u>	<u>140,221</u>
<u>TOTAL LIABILITIES and</u>			
<u>FUND BALANCES</u>	<u>84,541</u>	<u>67,806</u>	<u>152,347</u>

See auditors' report.

Penn Manor School District  
COMBINING STATEMENT of REVENUES, EXPENDITURES, and  
CHANGES in FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS  
Year ended June 30, 2004

	<u>Special Revenue</u>		<u>Total</u>
	<u>Athletic</u>	<u>Capital</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Projects</u>	<u>Funds</u>
<u>REVENUES</u>			
Local Sources:			
Investment Income	702	1,928	2,630
Revenues from Student Activities	52,363		52,363
<u>Total Revenues</u>	53,065	1,928	54,993
<u>EXPENDITURES</u>			
Noninstructional Services	47,357		47,357
Capital Outlay		6,198	6,198
Bank Fees		99	99
<u>Total Expenditures</u>	47,357	6,297	53,654
<u>EXCESS (DEFICIENCY) of</u>			
<u>REVENUES over EXPENDITURES</u>	5,708	(4,369)	1,339
<u>OTHER FINANCING (USES)</u>			
Interfund Transfers	(4,000)	(1,447,877)	(1,451,877)
<u>NET CHANGES in FUND BALANCES</u>	1,708	(1,452,246)	(1,450,538)
<u>FUND BALANCE</u> - July 1, 2003	70,707	1,520,052	1,590,759
<u>FUND BALANCE</u> - June 30, 2004	72,415	67,806	140,221

See auditors' report.

Penn Manor School District  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 Year ended June 30, 2004

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2003	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2004
<u>U.S. Department of Agriculture</u>									
Passed through the Pennsylvania Department of Education:									
School Breakfast Program***	I/F	10.553	N/A	07/01/03 - 06/30/04	N/A	-0-	33,324	33,324	-0-
	S	N/A	N/A	07/01/03 - 06/30/04	N/A	-0-	5,512	5,512	-0-
National School Lunch Program***	I/F	10.555	N/A	07/01/03 - 06/30/04	N/A	-0-	290,184	290,184	-0-
	S	N/A	N/A	07/01/03 - 06/30/04	N/A	-0-	<u>61,577</u>	<u>61,577</u>	-0-
						-0-	390,597	390,597	-0-
Passed through the Pennsylvania Department of Agriculture:									
Food Donation (Note 2)	I/F	10.550	N/A	07/01/03 - 06/30/04	N/A	(12,867)	83,080	71,357	(24,590)
<u>Total U.S. Department of Agriculture</u>						<u>(12,867)</u>	<u>473,677</u>	<u>461,954</u>	<u>(24,590)</u>
<u>U.S. Department of Education</u>									
Passed through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	I/F	84.010	013-040324	07/01/03 - 09/30/04	234,429	-0-	216,083	230,834	14,751
Title I Grants to Local Educational Agencies	I/F	84.010	013-030324	07/01/02 - 09/30/03	164,001	43,734	43,734	-0-	-0-
Title I Grants to Local Educational Agencies	I/F	84.010	107-030324	07/01/02 - 09/30/03	18,320	3,815	6,107	2,292	-0-
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-040324	07/01/03 - 09/30/04	16,437	-0-	10,115	16,437	6,322
State Grants for Innovative Programs	I/F	84.298	011-040324	07/01/03 - 09/30/04	20,713	-0-	17,951	20,713	2,762

See auditors' report.

Penn Manor School District  
SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
(Continued)  
Year ended June 30, 2004

<u>Federal Grantor Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>	<u>Grant Amount</u>	<u>Accrued (Deferred) Revenue at July 1, 2003</u>	<u>Total Received for the Year</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue at June 30, 2004</u>
<u>U.S. Department of Education (Continued)</u>									
Passed through the Pennsylvania Department of Education (Continued):									
State Grants for Innovative Programs	I/F	84.298	011-030324	07/01/02 - 09/30/03	20,103	4,021	4,021	-0-	-0-
Education Technology State Grants	I/F	84.318	055-030324	07/01/03 - 09/30/04	5,518	-0-	5,518	5,518	-0-
Improving Teacher Quality State Grants	I/F	84.367	020-040324	07/01/03 - 09/30/04	122,497	-0-	97,998	122,497	24,499
Improving Teacher Quality State Grants	I/F	84.367	020-030324	07/01/02 - 09/30/03	112,007	<u>15,781</u>	<u>22,401</u>	<u>6,620</u>	<u>-0-</u>
<u>Total Passed through the Pennsylvania Department of Education</u>						<u>67,351</u>	<u>423,928</u>	<u>404,911</u>	<u>48,334</u>
Passed through the Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States	I/F	84.027	N/A	07/01/02 - 06/30/03	127,162	<u>52,373</u>	<u>52,373</u>	<u>-0-</u>	<u>-0-</u>
<u>Total U.S. Department of Education</u>						<u>119,724</u>	<u>476,301</u>	<u>404,911</u>	<u>48,334</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	07/01/03 - 06/30/04	11,439	<u>-0-</u>	<u>11,439</u>	<u>11,439</u>	<u>-0-</u>
<u>TOTAL EXPENDITURES of FEDERAL AWARDS</u>						<u>106,857</u>	<u>961,417</u>	<u>878,304</u>	<u>23,744</u>

Legend

I = Indirect funding

F = Federal share

S = State share

CFDA = Catalog of Federal Domestic Assistance

\*\*\* = Component of Child Nutrition Cluster

See auditors' report.

Penn Manor School District  
SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year ended June 30, 2004

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 including \$3,708 of bonus commodities.
- C) Total amount of commodities used.
- D) Ending inventory at June 30.

See auditors' report.

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

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

We have audited the financial statements of Penn Manor School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

September 14, 2004  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

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

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

Compliance

We have audited the compliance of Penn Manor School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2004. Penn Manor School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of Penn Manor School District's management. Our responsibility is to express an opinion on Penn Manor School District's compliance based on our audit.

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

In our opinion, Penn Manor School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Penn Manor School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Penn Manor School District's internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

September 14, 2004  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

Penn Manor School District  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
Year ended June 30, 2004

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Penn Manor School District.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Penn Manor School District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal programs are reported in the Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Penn Manor School District expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Penn Manor School District are reported in Part C of this Schedule.
7. The programs tested as major programs are: School Breakfast Program - CFDA #10.553 and National School Lunch Program - CFDA #10.555.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Penn Manor School District was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None

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

None

Penn Manor School District  
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS  
Year ended June 30, 2004

There are no prior audit findings.