

***PENN MANOR SCHOOL DISTRICT***

***YEAR ENDED JUNE 30, 2008***

**PENN MANOR SCHOOL DISTRICT**

YEAR ENDED JUNE 30, 2008

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Independent Auditors' Report

Board of School Directors  
Penn Manor School District  
Millersville, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Penn Manor School District as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Penn Manor School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Penn Manor School District as of June 30, 2008, and the respective changes in the financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Information included under management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2008 on our consideration of Penn Manor School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Penn Manor School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Nonprofit Organizations, and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Brown Schultz Sheridan + Fritz*

Lancaster, Pennsylvania  
October 31, 2008

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

The discussion and analysis of Penn Manor School District's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the 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 District's financial performance.

#### **Financial Highlights**

Key financial highlights for 2008 are as follows:

- Total assets increased by \$2.3 million, with a corresponding decrease in liabilities of \$5.9 million; therefore, total net assets increased by over \$8.2 million. This is primarily due to increased local and state revenues combined with the addition of real assets from the Marticville renovation project, security upgrades and the new artificial turf stadium.
- Revenues totaled \$65.3 million. General revenues accounted for \$51.6 million or 79% of total revenues, which is consistent with the prior year. Program specific revenues in the form of charges for services and food sales, grants and contributions accounted for \$13.7 million or 21% of total revenues, which is also consistent with the prior year.
- The District had \$55.0 million in expenses related to governmental activities; \$11.6 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$51.6 million were adequate to provide for these programs.
- Among major funds, the General Fund had \$62.1 million in revenues and \$60.9 million in expenditures and other financing uses. This resulted in the addition of about \$1.2 million to fund balance, bringing the General Fund's fund balance up to about \$11.9 million from \$10.8 million; after designations, the unreserved - undesignated fund balance is \$6.5 million. Approximately \$0.9 million of the General Fund's fund balance is budgeted to be utilized for the year ended June 30, 2009. The projected ending undesignated fund balance on June 30, 2009 of \$11.0 million represents just over 17.15% of the budgeted expenditures and other financing uses for the 2008-2009 fiscal year.
- Net assets for Enterprise Funds decreased from \$132,289 to \$91,845. This decrease resulted from the absence of additional monies being transferred from the General Fund. The large transfer in the previous year established a fund balance to be used for anticipated technology and equipment upgrades.

#### **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.

## **PENN MANOR SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2008

The statement of net assets and statement of activities provide information about the activities of the entire District, presenting both an aggregate view of the 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 present the District's most significant funds with its non-major fund presented in total in one column. In the case of Penn Manor School District, the General Fund is the most significant fund.

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

The analysis for the District as a whole begins on page 5. One of the most important questions asked about the 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 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 District's net assets and changes in net assets. The change in net assets is important because it tells the reader, for the District as a whole, whether the financial position of the 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 District's financial information is divided into two distinct kinds of activities:

- *Governmental Activities* - Most of the 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 most of the expenses of the goods or services provided. The District's food services are reported as business activities.

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

##### *Fund Financial Statements*

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. The District's two principal types of funds, governmental and proprietary, use different accounting approaches.

## **PENN MANOR SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2008

- **Governmental Funds** - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end 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 District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** - Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

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

Recall that the statement of net assets provides the perspective of the District as a whole.

**PENN MANOR SCHOOL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Table 1 provides a summary of the District's net assets for 2008 compared to 2007:

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

	Governmental activities		Business-type activities		Total	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
<b>Assets:</b>						
Current and other assets	48.15	39.34	0.17	0.14	48.32	39.48
Capital assets	<u>61.68</u>	<u>72.84</u>	<u>0.05</u>	<u>0.05</u>	<u>61.73</u>	<u>72.89</u>
Total assets	<u>109.83</u>	<u>112.18</u>	<u>0.22</u>	<u>0.19</u>	<u>110.05</u>	<u>112.37</u>
<b>Liabilities:</b>						
Current liabilities	11.83	12.91	0.05	0.06	11.88	12.97
Noncurrent liabilities	<u>52.82</u>	<u>45.82</u>	<u>0.04</u>	<u>0.04</u>	<u>52.86</u>	<u>45.86</u>
Total liabilities	<u>64.65</u>	<u>58.73</u>	<u>0.09</u>	<u>0.10</u>	<u>64.74</u>	<u>58.83</u>
<b>Net Assets:</b>						
Invested in capital assets net of debt	29.89	39.22	0.05	0.04	29.94	39.26
Restricted	0.00	0.00	0.00	0.00	0.00	0.00
Unrestricted	<u>15.29</u>	<u>14.23</u>	<u>0.08</u>	<u>0.05</u>	<u>15.37</u>	<u>14.28</u>
Total net assets	<u>45.18</u>	<u>53.45</u>	<u>0.13</u>	<u>0.09</u>	<u>45.31</u>	<u>53.54</u>
Total liabilities and net assets	<u>109.83</u>	<u>112.18</u>	<u>0.22</u>	<u>0.19</u>	<u>110.05</u>	<u>112.37</u>

In total, net assets increased just over \$8.23 million from 2007. Net assets of governmental activities increased by \$8.27 million while the net assets of business-type activities decreased by \$40,444. Due to the existence of a fund balance remaining from the large contribution in 2006-07, the annual, budgeted contribution from the general fund did not occur in 2007-08. While the food service operations suffered a slight loss in fiscal 2007-08, the presence of the normal contribution would have resulted in a net gain of just under \$10,000. Continued District support for the food service operation is expected in future years to assist with equipment and technology purchases as well as healthcare costs.

**PENN MANOR SCHOOL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

	Governmental activities		Business-type activities		Total	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services	0.7	0.7	1.4	1.4	2.1	2.1
Operating grants	10.0	11.0	0.7	0.7	10.7	11.7
General revenue:						
Property and other taxes	37.7	39.3	0.0	0.0	37.7	39.3
Grants and entitlements	9.7	10.1	0.0	0.0	9.7	10.1
Other	<u>1.4</u>	<u>2.2</u>	<u>0.2</u>	<u>0.0</u>	<u>1.6</u>	<u>2.2</u>
Total revenues	<u>59.5</u>	<u>63.3</u>	<u>2.3</u>	<u>2.1</u>	<u>61.8</u>	<u>65.4</u>
<b>Expenses:</b>						
Program expenses, instruction	34.1	35.7	0.0	0.0	34.1	35.7
Support services:						
Instructional student support	3.4	3.1	0.0	0.0	3.4	3.1
Administrative and financial support services	4.5	4.8	0.0	0.0	4.5	4.8
Operation and maintenance of plant services	4.7	4.8	0.0	0.0	4.7	4.8
Pupil transportation	2.6	2.7	0.0	0.0	2.6	2.7
Student activities	1.1	1.2	0.0	0.0	1.1	1.2
Capital outlay	2.2	0.2	0.0	0.0	2.2	0.2
Interest on long-term debt	2.5	2.5	0.0	0.0	2.5	2.5
Food service	<u>0.0</u>	<u>0.0</u>	<u>2.2</u>	<u>2.1</u>	<u>2.2</u>	<u>2.1</u>
Total expenses	<u>55.1</u>	<u>55.0</u>	<u>2.2</u>	<u>2.1</u>	<u>57.3</u>	<u>57.1</u>
Increase in net assets	<u>4.4</u>	<u>8.3</u>	<u>0.1</u>	<u>0.0</u>	<u>4.5</u>	<u>8.3</u>

***PENN MANOR SCHOOL DISTRICT***

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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 2006-07 as compared to fiscal year 2007-08. It identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

The District passed the budget for 2008-09 in June 2008 with a 3.92% property tax increase. This increase was below the adjusted index of 5.4% allowed by the state under Act 1 as the District elected not to raise taxes to the allowable limit. Management will continue to carefully control expenses during the coming years to assure that a balance is struck between the need for tax increases in conjunction with the steady structured use of fund balance to balance future budgets.

Program revenues are used to partially offset the costs of governmental activities. Those program revenues that offset expenses this year include:

- Charges for services include tuition for nonresident students, fees for extra programs, contracted rental of facilities 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.

**PENN MANOR SCHOOL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Instruction	34.1	35.7	27.3	28.1
Support services:				
Instructional student support	3.4	3.1	3.1	2.8
Administration and financial support services	4.5	4.8	4.3	4.6
Operation and maintenance of plant	4.7	4.8	4.5	4.6
Pupil transportation	2.6	2.7	0.9	1.1
Student activities	1.1	1.2	1.0	1.0
Capital outlay	2.2	0.2	2.2	0.1
Interest on long-term debt	<u>2.5</u>	<u>2.5</u>	<u>1.1</u>	<u>1.0</u>
 Total expenses	 <u>55.1</u>	 <u>55.0</u>	 <u>44.4</u>	 <u>43.3</u>

The dependence upon tax revenues and grants and entitlements for governmental activities is apparent. As in 2007, nearly 80% of instructional activities are supported in 2008 through taxes and other general revenues. When looking at the total governmental activities, general revenue and tax support remains at a similar rate of 79%. The community, as a whole, is by far the primary financial support for Penn Manor School District.

Expenses for governmental activities dipped slightly by \$184,802, which is a 0.3% overall reduction from the prior year. While increases in the instruction and support services areas were driven primarily by salary and benefit increases across all functional categories, they were offset by a large decrease in facilities acquisition, construction and improvement services over the previous year. This decrease can be attributed to the capitalization of fixed asset construction in the current year and the expensing of various repair and maintenance projects throughout the District in the prior year.

## **PENN MANOR SCHOOL DISTRICT**

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

**YEAR ENDED JUNE 30, 2008**

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

Business-type activities consist only of food service operations. This program had revenues, including state and federal support, of \$2.1million and expenses of \$2.1 million for the fiscal year. A slight increase in meal prices was instituted at the beginning of the 2007-08 school year. Net assets are listed as \$91,845 as of June 30, 2008. The decrease of net assets can be attributed to the lack of the annual infusion of operating cash transferred from the general fund. Due to the continuation of rising costs, increases in student and adult prices for meals was implemented for the 2008-09 school year. Business activities received no support from tax revenues in 2007. A \$50,000 transfer has been budgeted for the 2008-09 school year in an effort to continue assisting the food service operations build positive net assets.

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

The District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$63.1 million and expenditures of \$71.6 million. This resulted in the overall fund balance decreasing by \$8,510,343.

- General Fund transfers to other funds included the normal operating transfers to Debt Service for bond principal and interest, \$1,000,000 to the Capital Reserve Fund which represented budgeted General Fund support for these areas. At year-end, an additional transfer to Capital Reserve of \$1.3 million allowed a critical transfer of resources for planned expenditures on capital projects and the additional transfer of \$674,977 to a newly created Technology Capital Reserve Fund to be used for future replacement and investment in technology and equipment.
- The General Fund fund balance grew by \$1,168,160. Exceptional collections in various revenue categories were offset to an extent by planned use of fund balance. Legislation enacted in December 2003 mandates that a school district may not carry an unreserved, undesignated fund balance that exceeds 8% of expenditures. A redesignation of fund balance occurred during the auditing process that set the estimated unreserved fund balance at 6.19%. A redesignation of funds will occur during the budgeting process for the 2009-10 fiscal year to accommodate the current year estimates calculated each spring.
- The District started the fiscal year with a total fund balance of 17.6% of budgeted expenditures. Planned use of the fund balance during the 2009-10 fiscal year is budgeted to keep the District below the 8% limit on June 30, 2009.
- The budgeted use of fund balance allowed the District to limit the increase in tax millage for the 2008 tax levy to a 0.60 mill increase; the total millage for the July 2008 tax levy is, therefore, 15.91 mills.

**PENN MANOR SCHOOL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**General Fund Budgeting Highlights**

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

During the course of fiscal 2008, the District managed District expenditures based on its General Fund budget. The District uses 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 expenditures/other financing uses budget total amounts; budgets were transferred within the original totals approved for 2007-08.

For the General Fund, actual revenues were \$62.1 million; this was \$1.6 million above original budget estimates of \$60.5 million. Most of this difference was due to increased interest earnings on investments, high collections of earned income, transfer and delinquent taxes and unanticipated receipt of grants as well as conservative revenue estimates.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of the fiscal year, the District had \$72.9 million invested in land, buildings and equipment, with \$72.8 million in governmental activities. Table 4 shows the fiscal 2007 balance compared to 2008:

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

	Governmental activities		Business-type activities		Total	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Land	2.9	2.9	0.0	0.0	2.9	2.9
Buildings and improvements	58.5	68.8	0.0	0.0	58.5	68.8
Furniture and equipment, vehicles	<u>0.3</u>	<u>1.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.4</u>	<u>1.2</u>
Totals	<u>61.7</u>	<u>72.8</u>	<u>0.1</u>	<u>0.1</u>	<u>61.8</u>	<u>72.9</u>

**PENN MANOR SCHOOL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2008

The overall total of capital assets increased during 2007-08. The increase is attributable to several capital projects that were implemented during the year. Renovations to Marticville Middle School, security upgrades, and a new artificial turf stadium combined to account for the majority of this increase. A full appraisal was performed at the end of 2006-07 fiscal year for insurance purposes and for fixed asset accounting and continues to be updated annually.

*Debt*

At June 30, 2008, the District had \$48.9 million in bonds outstanding as compared to \$54.5 million a year ago. Table 5 summarizes bonds outstanding:

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

	Governmental activities <u>2007</u>	Governmental activities <u>2008</u>
General Obligation Bonds:		
Series of 1990 GOB	0.6	0.0
Series of 2001 GOB	0.9	0.5
Series of 2002 GOB	0.5	0.0
Series of 2003 GOB	8.5	8.4
Series of 2004 GOB	4.7	3.5
Series of 2005 GOB	5.0	4.9
Series of 2006 GOB	19.4	19.4
Series A of 2006 GOB	13.7	12.2
1990 CAB Accrued Interest	<u>1.2</u>	<u>0.0</u>
Total	<u>54.5</u>	<u>48.9</u>

The District decreased its bonds and notes by \$5.6 million during 2008 as a significant amount of principal was paid down according to the debt schedules in place. Moody's Investors Service has assigned an A1 enhanced with a stable outlook and an A2 underlying rating to the Penn Manor School District. The underlying A2 rating reflects the District's satisfactory financial operations, manageable debt position and modestly growing rural/agricultural tax base. The A1 enhanced rating is based upon the additional security for these bonds provided by the Commonwealth of Pennsylvania's Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bondholders in the event of default.

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

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

**YEAR ENDED JUNE 30, 2008**

#### **For the Future**

Penn Manor School District is strong financially. As the preceding information shows, the 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. With the passage of Act 1 of 2006, our District is faced with a cap on the amount of money that can be funded from a property tax increase. This cap is based upon a number calculated and provided by the Department of Education. While some exceptions may apply that would allow for a tax increase in excess of the index, the District will keep tax increases at or below the allowable increase for the foreseeable future. The District was required to craft a referendum question for the May 2007 primary election that gave the voters an option of shifting a portion of the property tax burden to either an increased earned income tax or the creation of a new personal income tax. This referendum failed at the polls. Limited tax relief arrived in time for the 2008-09 tax year as the state was able to send school districts a portion of the gambling revenue to be used as an offset to real estate tax increases. Penn Manor was fortunate to receive \$1,281,788 that offset property taxes due from taxpayers who had qualified for the homestead or farmstead exemptions. Other implications of the new law include earlier budgetary planning cycles and limits on the tax increases which can be levied without voter referendums. Penn Manor committed, for the 2008-09 budget cycle, to limit tax increases to the maximum adjusted index allowed by the state. This commitment allows for greater flexibility in scheduling for the budgetary cycle and will be recommended for the 2009-10 budget cycle.

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

Recent changes in the PSERS calculation of benefit expenses have extended the period of time for the actuarial calculation from 10 to 30 years, and the costs have, therefore, leveled out somewhat over the next several years compared with the huge increases previously predicted. While market performance in recent years has been much higher than projected, the effect of how the current tumultuous market has yet to be determined. Regardless, current projections still call for higher employer costs in the short-term, and dramatically higher rates in the future. It remains uncertain how current market performance will influence the rates required in the coming years as PSERS will likely revise their projections moving forward.

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

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

**YEAR ENDED JUNE 30, 2008**

The costs of medical benefits will continue to have an effect on the District budget, as we continue to offer a competitive benefits package to employees through our self-insured plan. Medical costs have leveled over the past few years as the District has implemented varying strategies to lower the pace of medical inflation. A Collective Bargaining Agreement is in effect for the 2009-12 school years and has given some relief to these costs through employee contributions, but those contributions cover only a fraction of actual expenses. Also, part of the negotiated agreement is a "mandatory generic" program for prescription drugs. It is estimated that this feature could significantly reduce the amount paid for prescription drugs while still offering effective formulary treatments for our employees. Employee contributions will continue to be implemented at competitive and reasonable levels for our employees, within and outside the bargaining unit.

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

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the 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).

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**PENN MANOR SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS - JUNE 30, 2008**

**ASSETS**

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current assets:			
Cash	\$ 2,021,158	\$ 1,570	\$ 2,022,728
Investments	15,929,525	168,061	16,097,586
Taxes receivable, net	1,997,246		1,997,246
Due from other governments	2,548,725		2,548,725
Other receivables	257,537	10,030	267,567
Internal balances	102,371	(102,371)	-
Inventories		63,935	63,935
	<hr/>	<hr/>	<hr/>
Total current assets	22,856,562	141,225	22,997,787
	<hr/>	<hr/>	<hr/>
Noncurrent assets:			
Investments held for long-term purposes	15,942,671		15,942,671
Construction in progress	12,414,130		12,414,130
Land	2,929,306		2,929,306
Site improvements, net of accumulated depreciation	678,661		678,661
Buildings and building improvements, net of accumulated depreciation	55,684,491		55,684,491
Furniture, equipment and educational media, net of accumulated depreciation	947,620	45,854	993,474
Vehicles, net of accumulated depreciation	185,550		185,550
Long-term debt issuance costs, net of accumulated amortization	545,749		545,749
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	89,328,178	45,854	89,374,032
	<hr/>	<hr/>	<hr/>
Total assets	\$ 112,184,740	\$ 187,079	\$ 112,371,819
	<hr/>	<hr/>	<hr/>

See notes to financial statements.

LIABILITIES AND NET ASSETS

	Governmental activities	Business-type activities	Total
Current liabilities:			
Accounts payable	\$ 2,298,272	\$ 12,156	\$ 2,310,428
Accrued salaries and benefits	4,248,695		4,248,695
Current portion of:			
Bonds payable	5,835,000		5,835,000
Compensated absences	253,347	4,415	257,762
Payroll deductions and withholdings	94,657		94,657
Deferred revenues	7,260	38,926	46,186
Other current liabilities	175,930		175,930
	12,913,161	55,497	12,968,658
Total current liabilities			
Noncurrent liabilities:			
Bonds payable	43,727,226		43,727,226
Accrued retirement costs	671,845		671,845
Long-term portion of compensated absences	1,419,144	39,737	1,458,881
	45,818,215	39,737	45,857,952
Total noncurrent liabilities			
	58,731,376	95,234	58,826,610
Total liabilities			
Net assets:			
Invested in capital assets, net of related debt	39,220,203	45,854	39,266,057
Unrestricted	14,233,161	45,991	14,279,152
	53,453,364	91,845	53,545,209
Total net assets			
	\$ 112,184,740	\$ 187,079	\$ 112,371,819
Total liabilities and net assets			

**PENN MANOR SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2008**

	Program revenues		Net revenue (expense) and changes in net assets			
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:						
Instruction	\$ 35,729,383	\$ 486,758	\$ 7,168,633	\$ (28,073,992)		\$ (28,073,992)
Instructional student support	3,088,627		311,268	(2,777,359)		(2,777,359)
Administrative and financial support services	4,802,107	14,842	213,073	(4,574,192)		(4,574,192)
Operation and maintenance of plant services	4,832,904	86,630	115,834	(4,630,440)		(4,630,440)
Pupil transportation	2,695,012		1,606,277	(1,088,735)		(1,088,735)
Student activities	1,145,360	52,325	47,121	(1,045,914)		(1,045,914)
Community services	4,980		4,849	(131)		(131)
Capital outlay	177,569		20,000	(157,569)		(157,569)
Bank fees	15,064			(15,064)		(15,064)
Interest on long-term debt	2,463,504		1,493,970	(969,534)		(969,534)
Miscellaneous	6,334			(6,334)		(6,334)
<b>Total governmental activities</b>	<b>54,960,844</b>	<b>640,555</b>	<b>10,981,025</b>	<b>(43,339,264)</b>		<b>(43,339,264)</b>
Business-type activities, food services	2,147,987	1,409,165	690,887		\$ (47,935)	(47,935)
<b>Total primary government</b>	<b>\$ 57,108,831</b>	<b>\$ 2,049,720</b>	<b>\$ 11,671,912</b>	<b>(43,339,264)</b>	<b>(47,935)</b>	<b>(43,387,199)</b>

(continued)

**PENN MANOR SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES (CONTINUED)**

YEAR ENDED JUNE 30, 2008

	Program revenues		Net revenue (expense) and changes in net assets		
	Expenses	Charges for services	Governmental activities	Business-type activities	Total
General revenues:					
Taxes:					
Property taxes, etc.			\$ 34,233,881		\$ 34,233,881
Other			5,130,695		5,130,695
Grants, subsidies and other nonrestricted			10,060,107		10,060,107
Interest			2,101,940	\$ 7,491	2,109,431
Miscellaneous			85,385		85,385
Total general revenues, special items and transfers			51,612,008	7,491	51,619,499
Change in net assets			8,272,744	(40,444)	8,232,300
Net assets:					
Beginning			45,180,620	132,289	45,312,909
Ending			\$ 53,453,364	\$ 91,845	\$ 53,545,209

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

**BALANCE SHEET – GOVERNMENTAL FUNDS – JUNE 30, 2008**

	ASSETS					Total governmental funds
	Major funds					
	General fund	Capital reserve	Capital projects	Debt service	Nonmajor fund, athletic fund	
Assets:						
Cash	\$ 2,020,964				\$ 194	\$ 2,021,158
Investments	12,890,577	\$ 2,957,778	\$ 15,942,671	\$ 11,470	69,700	31,872,196
Taxes receivable, net	1,997,246					1,997,246
Due from:						
Other funds		1,974,797				1,974,797
Other governments	2,548,725					2,548,725
Other receivables, net	197,224		60,292		21	257,537
	<u>\$ 19,654,736</u>	<u>\$ 4,932,575</u>	<u>\$ 16,002,963</u>	<u>\$ 11,470</u>	<u>\$ 69,915</u>	<u>\$ 40,671,659</u>

(continued)

**PENN MANOR SCHOOL DISTRICT**

**BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED) – JUNE 30, 2008**

**LIABILITIES AND FUND BALANCES**

	Major funds				Nonmajor fund, athletic fund	Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service		
Liabilities:						
Due to other funds	\$ 1,872,063		\$ 501			\$ 1,872,564
Accounts payable	1,043,220	\$ 39,180	1,215,734			2,298,134
Accrued salaries and benefits	4,248,695					4,248,695
Payroll deductions and withholdings	94,657					94,657
Deferred revenues	471,285					471,285
Other current liabilities					\$ 10,581	10,581
<b>Total liabilities</b>	<b>7,729,920</b>	<b>39,180</b>	<b>1,216,235</b>		<b>10,581</b>	<b>8,995,916</b>
Fund balances:						
Reserved				\$ 11,470		11,470
Unreserved:						
Designated	5,412,699					5,412,699
Undesignated	6,512,117	4,893,395	14,786,728		59,334	26,251,574
<b>Total fund balances</b>	<b>11,924,816</b>	<b>4,893,395</b>	<b>14,786,728</b>	<b>11,470</b>	<b>59,334</b>	<b>31,675,743</b>
<b>Total liabilities and fund balances</b>	<b>\$ 19,654,736</b>	<b>\$ 4,932,575</b>	<b>\$ 16,002,963</b>	<b>\$ 11,470</b>	<b>\$ 69,915</b>	<b>\$ 40,671,659</b>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2008

Total fund balances, governmental funds \$ 31,675,743

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

Capital assets and construction in progress used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$105,357,094 and the accumulated depreciation is \$32,517,336. 72,839,758

Property taxes receivable will be collected subsequent to year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 464,025

Long-term liabilities, net of related assets, 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	\$ (48,870,000)	
Accrued interest on the bonds	(165,349)	
Unamortized:		
Long-term debt issuance costs	545,749	
Bond premium	(956,139)	
Deferred loss on bond refunding	263,913	
Accrued retirement costs	(671,845)	
Compensated absences	(1,672,491)	(51,526,162)

Total net assets, governmental activities \$ 53,453,364

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2008

	Major funds				Nonmajor fund, athletic fund	Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service		
Revenues:						
Local sources:						
Real estate taxes	\$ 33,552,158					\$ 33,552,158
Other taxes	5,675,605					5,675,605
Investment income	1,229,617	\$ 150,498	\$ 718,147	\$ 415	\$ 3,263	2,101,940
Other revenue	1,634,233	18,232		98	52,325	1,704,888
Total local sources	42,091,613	168,730	718,147	513	55,588	43,034,591
State sources	19,476,691					19,476,691
Federal sources	589,293					589,293
Total revenues	62,157,597	168,730	718,147	513	55,588	63,100,575

(continued)

**PENN MANOR SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2008

	Major funds				Nonmajor fund, athletic fund	Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service		
Expenditures:						
Instructional services	\$ 33,540,231					\$ 33,540,231
Support services	15,319,816					15,319,816
Noninstructional services	1,019,227				\$ 64,192	1,083,419
Capital outlay		\$ 4,827,014	\$ 8,711,972			13,538,986
Bank fees	1,964		13,096			15,064
Debt service:				\$ 4		
Principal				4,419,280		4,419,280
Interest				3,693,836		3,693,836
Refunds of prior years' receipts	286					286
Total expenditures	49,881,524	4,827,014	8,725,068	8,113,120	64,192	71,610,918

(continued)

**PENN MANOR SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2008

	Major funds				Nonmajor fund, athletic fund	Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service		
Excess (deficiency) of revenues over expenditures	\$ 12,276,073	\$ (4,658,284)	\$ (8,006,921)	\$ (8,112,607)	\$ (8,604)	\$ (8,510,343)
Other financing sources (uses), interfund transfers	(11,107,913)	2,994,797		8,113,116		
Net changes in fund balances	1,168,160	(1,663,487)	(8,006,921)	509	(8,604)	(8,510,343)
Fund balances:						
July 1, 2007	10,756,656	6,556,882	22,793,649	10,961	67,938	40,186,086
June 30, 2008	\$ 11,924,816	\$ 4,893,395	\$ 14,786,728	\$ 11,470	\$ 59,334	\$ 31,675,743

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2008

Total net change in fund balances, governmental funds \$ (8,510,343)

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 net capital outlays exceed net depreciation in the period. Depreciation expense, \$(2,252,566); capital outlays expense including construction in progress, \$13,424,884.

11,172,318

Loss on disposal of fixed assets is not recorded in the governmental funds

(9,848)

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

136,813

(continued)

**PENN MANOR SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2008

Issuance of long-term debt provides current financial resources to governmental funds. The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, this transaction has no effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these transactions in the statement of activities is shown below:

Repayment of:		
Bond principal	\$ 4,419,280	
Capital appreciation bond interest, considered to be principal in the governmental funds	1,239,620	
Amortization of:		
Long-term debt issuance costs	(99,531)	
Bond premium	149,359	
Deferred loss	<u>(69,241)</u>	\$ 5,639,487

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental fund, an interest expenditure is reported when due. 10,125

In the statement of activities, certain operating expenses (compensated absences and retirement costs) are measured by the amounts incurred during the year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount incurred versus the amount used. (165,808)

Change in net assets of governmental activities \$ 8,272,744

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF NET ASSETS – PROPRIETARY FUND

JUNE 30, 2008

ASSETS

	<u>Food service</u>
Current assets:	
Cash	\$ 1,570
Investments	168,061
Other receivables	10,030
Inventories	<u>63,935</u>
Total current assets	243,596
Noncurrent assets, machinery and equipment, net of accumulated depreciation	<u>45,854</u>
Total assets	<u><u>\$ 289,450</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 12,156
Current portion of compensated absences	4,415
Deferred revenues	38,926
Due to other funds	<u>102,371</u>
Total current liabilities	157,868
Noncurrent liabilities, noncurrent portion of compensated absences	<u>39,737</u>
Total liabilities	<u>197,605</u>
Net assets:	
Invested in capital assets	45,854
Unrestricted	<u>45,991</u>
Total net assets	<u>91,845</u>
Total liabilities and net assets	<u><u>\$ 289,450</u></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, 2008

	<u>Food service</u>
Operating revenues:	
Food service revenue	\$ 1,338,681
Other operating revenue	70,484
	<u>1,409,165</u>
Total operating revenues	
Operating expenses:	
Salaries	602,274
Employee benefits	189,159
Supplies	1,288,478
Depreciation	13,129
Loss on disposal of assets	721
Other operating expenses	54,226
	<u>2,147,987</u>
Total operating expenses	
Operating loss	<u>(738,822)</u>
Nonoperating revenues:	
Earnings on investments	7,491
Sources:	
State	118,684
Federal	572,203
	<u>698,378</u>
Total nonoperating revenues	
Change in net assets	(40,444)
Total net assets:	
July 1, 2007	<u>132,289</u>
June 30, 2008	<u>\$ 91,845</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

YEAR ENDED JUNE 30, 2008

	<u>Food service</u>
Cash flows from operating activities:	
Cash received from users	\$ 1,410,483
Cash payments to:	
Suppliers for goods and services	(1,228,547)
Employees for services	<u>(848,229)</u>
Net cash used in operating activities	<u>(666,293)</u>
Cash flows from noncapital financing activities:	
Operating transfers	172,141
Sources:	
State	118,684
Federal	<u>471,630</u>
Net cash provided by noncapital financing activities	<u>762,455</u>
Cash flows used in capital and related financing activities, purchase of machinery and equipment	<u>(5,354)</u>
Cash flows from investing activities:	
Earnings on investments	7,491
Deposits to investment pools	<u>(99,867)</u>
Net cash used in investing activities	<u>(92,376)</u>
Net decrease in cash	(1,568)
Cash:	
Beginning of year	<u>3,138</u>
End of year	<u><u>\$ 1,570</u></u>

(continued)

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS – PROPRIETARY FUND (CONTINUED)

YEAR ENDED JUNE 30, 2008

	<u>Food service</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$ (738,822)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Loss on disposal of assets	721
Depreciation	13,129
Donated commodities	100,573
Decrease in:	
Accounts receivable	1,318
Inventories	10,271
Increase (decrease) in:	
Accounts payable and other liabilities	(56,110)
Deferred revenue	<u>2,627</u>
Total adjustments	<u>72,529</u>
Net cash used in operating activities	<u><u>\$ (666,293)</u></u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS

JUNE 30, 2008

	<u>Private purpose trust</u>	<u>Agency</u>
Assets:		
Cash		\$ 447
Investments	\$ 69,326	115,924
Due from other funds		138
Other		<u>2,396</u>
Total assets	<u>\$ 69,326</u>	<u>\$ 118,905</u>
Liabilities:		
Accounts payable		\$ 2,779
Other current liabilities		<u>116,126</u>
Total liabilities		<u>118,905</u>
Net assets, reserved for scholarships and endowments	<u>\$ 69,326</u>	
Total liabilities and net assets	<u>\$ 69,326</u>	<u>\$ 118,905</u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2008

	<u>Private purpose trust</u>
Additions:	
Gifts and contributions	\$ 5,025
Earnings and investments	<u>2,536</u>
	7,561
Deduction, scholarships awarded	<u>(4,600)</u>
Change in net assets	2,961
Net assets:	
July 1, 2007	<u>66,365</u>
June 30, 2008	<u><u>\$ 69,326</u></u>

See notes to financial statements.

**PENN MANOR SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2008

	Budget amounts		Actual budgetary basis	Variance with final budget positive (negative)
	Original	Final		
<b>Revenues:</b>				
Local sources:				
Real estate taxes	\$ 33,626,873	\$ 33,626,873	\$ 33,552,158	\$ (74,715)
Other taxes	5,176,732	5,176,732	5,675,605	498,873
Investment income	1,110,000	1,110,000	1,229,617	119,617
Other revenue	1,263,174	1,263,174	1,634,233	371,059
<b>Total local sources</b>	<b>41,176,779</b>	<b>41,176,779</b>	<b>42,091,613</b>	<b>914,834</b>
State sources	18,690,743	18,690,743	19,476,691	785,948
Federal sources	617,377	617,377	589,293	(28,084)
<b>Total revenues</b>	<b>60,484,899</b>	<b>60,484,899</b>	<b>62,157,597</b>	<b>1,672,698</b>
<b>Expenditures:</b>				
Instructional services:				
Regular programs	25,346,432	25,240,742	25,240,742	-
Special programs	5,627,935	5,212,053	5,212,053	-
Vocational programs	2,471,118	2,487,281	2,487,281	-
Other instructional programs	705,847	540,856	540,856	-
Adult education programs	1,730	-	-	-
Community/junior college programs	50,000	59,298	59,298	-
Support services:				
Pupil personnel	1,962,375	1,691,855	1,691,855	-
Instructional staff	949,695	887,866	887,866	-
Administrative	3,817,447	3,468,032	3,468,032	-
Pupil health	599,875	524,154	524,154	-
Business	604,425	617,806	617,806	-
Operation and maintenance of plant	5,139,466	4,755,546	4,755,546	-
Student transportation	2,652,840	2,694,559	2,694,559	-
Central and other support	645,720	630,296	630,296	-
Other support services	50,539	49,703	49,703	-

(continued)

**PENN MANOR SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2008

	Budget amounts		Actual budgetary basis	Variance with final budget positive (negative)
	Original	Final		
Expenditures (continued):				
Operation of noninstructional services:				
Student activities	\$ 946,054	\$ 1,014,247	\$ 1,014,247	\$ -
Community services	10,099	4,980	4,980	-
Debt service (principal and interest)	8,163,840	8,115,366	8,115,366	-
Total expenditures	59,745,437	57,994,640	57,994,640	-
Excess of revenues over expenditures	739,462	2,490,259	4,162,957	1,672,698
Other financing uses:				
Interfund transfers	1,050,000	2,974,797	2,994,797	(20,000)
Budgetary reserve	174,000			-
Total other financing uses	1,224,000	2,974,797	2,994,797	(20,000)
Net changes in fund balances	(484,538)	(484,538)	1,168,160	1,652,698
Fund balances:				
July 1, 2007	10,872,835	10,872,835	10,756,656	(116,179)
June 30, 2008	\$ 10,388,297	\$ 10,388,297	\$ 11,924,816	\$ 1,536,519

Note: General fund transfers for debt service and refunds of prior years' receipts are reflected as debt service expenditures in the budgetary basis presentation.

See notes to financial statements.

## **PENN MANOR SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2008**

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

Penn Manor School District (the School District), located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Conestoga Township, Manor Township, Martic Township, the Borough of Millersville and Pequea Township. These include regular, advanced academic and vocational education programs and special education programs for gifted and physically and mentally challenged children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of seven elementary schools, two middle schools and one high school, serving 5,300 students.

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

#### *Reporting entity:*

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

The School District is financially accountable for:

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

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

# **PENN MANOR SCHOOL DISTRICT**

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

*Reporting entity (continued):*

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

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

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

*Basis of presentation, fund accounting:*

The accounts of the School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, liabilities, fund equity, revenues and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

*Basis of presentation, financial statements:*

#### Government-wide financial statements

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

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

## **PENN MANOR SCHOOL DISTRICT**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

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

##### Government-wide financial statements (continued)

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

##### Fund financial statements

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

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

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

Fiduciary funds are reported using the economic resources measurement focus.

## **PENN MANOR SCHOOL DISTRICT**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

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

##### Fund financial statements (continued)

The School District reports the following major government funds:

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

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

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

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

The School District reports the following enterprise fund:

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

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

The agency fund is used to account for assets held by the School District as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund represents the student activities fund.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

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

Fund financial statements (continued)

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

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

*Basis of accounting:*

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

Government-wide, proprietary and fiduciary fund financial statements measure and report all assets, liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, except for postemployment healthcare benefits (Note 15) and the net unrealized net loss resulting from derivatives (Note 10), regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues in the year in which the eligibility requirements imposed by the provider have been met.

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

## **PENN MANOR SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2008**

#### **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, 2008, and which are not intended to finance fiscal 2007 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year-end.

##### Revenues, exchange and nonexchange transactions

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

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

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

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

*Budgetary data:*

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

- a. 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.
- b. A public hearing is conducted to obtain taxpayer comments.
- c. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- d. 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.
- e. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.
- f. 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, 2008.
- g. The budget for the general fund is adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles, except for the budgetary reserve.

*Cash:*

Cash includes amounts in bank deposits which approximates fair value.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

*Investments:*

Investments are stated at fair value. Fair value is equal to cost/principal amounts because those are the values at which those investments could be readily redeemed.

*Taxes receivable and deferred tax revenues, governmental funds:*

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

*Inventories:*

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

Inventories in the food service fund represent the cost, using the first-in, first out (FIFO) method, of food and supplies on hand at June 30, 2008, 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.

# PENN MANOR SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

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

#### *Long-term obligations:*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs and refunding losses, are deferred and amortized over the life of the bonds using the effective interest method.

## **PENN MANOR SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2008**

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

##### *Long-term obligations (continued):*

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

##### *Compensated absences:*

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

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

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

##### *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, 2008, the School District had no encumbrances.

## **PENN MANOR SCHOOL DISTRICT**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

##### *Pension plan:*

Substantially all full-time and part-time employees of the School District participate in a cost-sharing multiple employer defined benefit pension plan. The School District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in the governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) The School District made all required contributions for the year ended June 30, 2008 and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

##### *Interfund activity:*

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

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

##### *Fund equity:*

Unreserved fund balances for governmental fund types represent the amount available for budgeting future operations. Reserved fund balances for governmental fund types represent the amounts that have been identified for a specified expenditure. Net assets of the proprietary fund are available for future operations or distribution.

##### *Estimates:*

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

## **PENN MANOR SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2008**

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

##### *Derivatives:*

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

##### *Extraordinary and special items:*

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. There were no extraordinary items for the year ended June 30, 2008.

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. There were no special items for the year ended June 30, 2008.

#### **2. Cash and investments:**

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

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

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

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**2. Cash and investments (continued):**

*Custodial credit risk, deposits:*

Custodial credit risk is the risk that, in the event of a counterparty failure, the School District's deposits may not be returned to it. The District's policy requires deposits in savings accounts or time deposits or share accounts of institutions to be insured or covered by approved collateral as provided by law. As of June 30, 2008, \$2,334,501 of the District's bank balance of \$2,434,695 was uninsured, with collateral held by the pledging bank's trust department according to Act 72. This collateral is not in the District's name.

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

Uninsured amount above	\$ 2,334,501
Plus:	
Insured by Federal Depository Insurance	100,194
Petty cash	350
Less, outstanding checks	<u>(411,870)</u>
Total	<u>\$ 2,023,175</u>
Government activities, cash and cash equivalents	\$ 2,021,158
Business-type activities	1,570
Fiduciary funds, agency	<u>447</u>
Total	<u>\$ 2,023,175</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**2. Cash and investments (continued):**

*Investments:*

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statement of net assets. As of June 30, 2008, the District had the following investments:

Investment	Maturities	Fair value
PA School District Liquid Asset Fund, certificates of deposit (unrated/backed by AAAM rated collateral)	1 to 12 months	\$ 10,921,000
PA Local Government Investment Trust (rated AAAM)	None	3,400,709
PA School District MAX (rated AAAM)	None	5,021,670
Goldman Sachs Financial Square Treasury Obligations, 12,882,128 shares (a money market fund rated AAA); redeemed on July 8, 2008 and deposited into the District's PA School District MAX account	None	<u>12,882,128</u>
<b>Total</b>		<b><u><u>\$ 32,225,507</u></u></b>

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

Governmental activities:	
Investments	\$ 15,929,525
Held for long-term purposes	15,942,671
Business-type activities	168,061
Fiduciary funds:	
Private purpose trust	69,326
Agency	<u>115,924</u>
<b>Total</b>	<b><u><u>\$ 32,225,507</u></u></b>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**2. Cash and investments (continued):**

*Interest rate risk:*

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

*Credit risk:*

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

**3. Real estate taxes:**

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2008 was 15.31 mills (\$15.31 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

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

The School District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the receivable amount, which was measurable and available within 60 days, was recognized as revenue and the balance deferred in the fund financial statement. The balances at June 30, 2008 are as follows:

	Gross taxes receivable	Allowance for uncollectible taxes	Net estimated to be collectible	Tax revenue recognized	Deferred taxes
Real estate	\$ 620,058	\$ 14,590	\$ 605,468	\$ 144,152	\$ 461,316
Earned income taxes	1,311,509		1,311,509	1,311,509	
Per capita and occupation	287,348	284,474	2,874	165	2,709
Transfer tax	77,395		77,395	77,395	-
	<u>\$ 2,296,310</u>	<u>\$ 299,064</u>	<u>\$ 1,997,246</u>	<u>\$ 1,533,221</u>	<u>\$ 464,025</u>

**5. Interfund accounts:**

Individual fund receivable and payable balances at June 30, 2008 were as follows:

	Due from other funds	Due to other funds
General fund		\$ 1,872,063
Special revenue:		
Capital reserve fund	\$ 1,974,797	
Capital projects fund		501
Enterprise food service		102,371
Student activities fund	138	
	<u>\$ 1,974,935</u>	<u>\$ 1,974,935</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

	<u>Transfers to other funds</u>	<u>Transfers from other funds</u>
Major funds:		
General fund	\$ 11,107,913	
Debt service fund		\$ 8,113,116
Capital reserve		2,994,797
	<u>\$ 11,107,913</u>	<u>\$ 11,107,913</u>

**6. Due from other governments:**

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2008, the following amounts are due from other governmental units:

	<u>General fund</u>
Federal grants	\$ 197,427
State subsidy:	
Rental	1,347,552
Retirement	359,635
Social Security	121,586
Grants and programs:	
State	63,273
Local	459,252
	<u>\$ 2,548,725</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**7. Changes in capital assets:**

Capital asset activity for governmental activities for the year ended June 30, 2008 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,929,306			\$ 2,929,306
Construction in progress	<u>1,777,865</u>	<u>\$ 10,636,265</u>		<u>12,414,130</u>
Total assets not being depreciated	<u>4,707,171</u>	<u>10,636,265</u>		<u>15,343,436</u>
Capital assets being depreciated:				
Site improvements	2,102,029	2,699		2,104,728
Buildings and building improvements	84,078,389	1,867,671		85,946,060
Furniture, equipment and educational media	604,666	904,981		1,509,647
Vehicles	<u>449,803</u>	<u>32,965</u>	<u>\$ 29,545</u>	<u>453,223</u>
Total assets being depreciated	<u>87,234,887</u>	<u>2,808,316</u>	<u>29,545</u>	<u>90,013,658</u>
Accumulated depreciation:				
Site improvements	1,323,975	102,092		1,426,067
Buildings and building improvements	28,201,169	2,060,400		30,261,569
Furniture and equipment	488,089	73,938		562,027
Vehicles	<u>251,537</u>	<u>35,833</u>	<u>19,697</u>	<u>267,673</u>
Total accumulated depreciation	<u>30,264,770</u>	<u>2,272,263</u>	<u>19,697</u>	<u>32,517,336</u>
Total capital assets being depreciated, net	<u>56,970,117</u>	<u>536,053</u>	<u>9,848</u>	<u>57,496,322</u>
Governmental activities, capital assets, net	<u>\$ 61,677,288</u>	<u>\$ 11,172,318</u>	<u>\$ 9,848</u>	<u>\$ 72,839,758</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

Capital asset activity for business-type activities for the year ended June 30, 2008 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets being depreciated, equipment	\$ 559,132	\$ 5,353	\$ (6,733)	\$ 557,752
Less accumulated depreciation for equipment	<u>504,781</u>	<u>13,129</u>	<u>(6,012)</u>	<u>511,898</u>
Business-type activities, capital assets, net	<u>\$ 54,351</u>	<u>\$ (7,776)</u>	<u>\$ (721)</u>	<u>\$ 45,854</u>

Depreciation expenses were charged to governmental functions as follows:

Instruction	\$ 2,094,170
Instructional student support	2,326
Administration and financial services	3,923
Operation and maintenance of plant	107,853
Student activities	<u>63,991</u>
	<u>\$ 2,272,263</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**8. Deferred revenues:**

Deferred revenues at June 30, 2008 consist of the following:

	<u>General fund</u>	<u>Proprietary fund</u>	<u>Total</u>
Deferred taxes	\$ 464,025		\$ 464,025
Deferred grant program revenue	7,260		7,260
Prepaid ticket sales		\$ 19,233	19,233
Unused donated commodities		19,693	19,693
	<u>\$ 471,285</u>	<u>\$ 38,926</u>	<u>\$ 510,211</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**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, 2008 as follows:

<u>Issue</u>	<u>Final maturity date</u>	<u>Interest rate or yield</u>	<u>Amount</u>
Series of 2001 GOB	June 1, 2009	5.00%	\$ 480,000
Series of 2003 GOB	June 1, 2016	2.50% - 4.00%	8,380,000
Series of 2004 GOB	June 1, 2011	3.00% - 3.25%	3,490,000
Series of 2005 GOB	June 1, 2012	2.50% - 4.00%	4,930,000
Series of 2006 GOB	June 1, 2016	3.70% - 5.00%	19,425,000
Series A of 2006 GOB	June 1, 2014	3.40% - 5.00%	<u>12,165,000</u>
			48,870,000
Deferred loss			(263,913)
Bond premium			<u>956,139</u>
Total long-term debt			49,562,226
Less current portion			<u>5,835,000</u>
			<u><u>\$ 43,727,226</u></u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

*Long-term obligation activity:*

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

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
General obligation bonds	\$ 54,528,900		\$ 5,658,900	\$ 48,870,000
Accrued retirement bonus	593,160	\$ 78,685		671,845
Estimated liability for compensated absences	<u>1,585,369</u>	<u>87,122</u>		<u>1,672,491</u>
	<u>\$ 56,707,429</u>	<u>\$ 165,807</u>	<u>\$ 5,658,900</u>	<u>\$ 51,214,336</u>

*Letter of credit:*

At June 30, 2008, the School District had a letter of credit with a local bank for \$529,454 which related to the turf field project. The letter of credit is secured by property of the District.

*Debt service requirements:*

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 5,835,000	\$ 2,075,403	\$ 7,910,403
2010	5,990,000	1,862,712	7,852,712
2011	5,970,000	1,597,277	7,567,277
2012	5,865,000	1,363,133	7,228,133
2013	6,095,000	1,140,923	7,235,923
2014-2016	<u>19,115,000</u>	<u>1,794,365</u>	<u>20,909,365</u>
	<u>\$ 48,870,000</u>	<u>\$ 9,833,813</u>	<u>\$ 58,703,813</u>

## **PENN MANOR SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2008**

#### **10. Derivatives:**

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

The \$500,000 payment was based on a notional amount of \$13,745,000. The counterparty had the option to exercise the agreement on May 15, 2008; however, the option was not exercised. The next date on which the counterparty has the option to exercise the agreement is November 15, 2008. 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. The management plan will expire in 2016.

As of June 30, 2008, the swap had a negative fair value of \$238,613, estimated using the zero-coupon method.

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

As of June 30, 2008, this additional swap had a positive fair value of \$120,687, estimated using the zero-coupon method.

During the year ended June 30, 2008, the District received \$9,367 (net) from the Royal Bank of Canada relating to these agreements. Both swaps were rated Aaa by Moody's and AA- by Standard and Poor's as of June 30, 2008.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**11. Operating leases:**

On September 11, 1995, the School District entered into a 40-year operating lease with Millersville University of the Pennsylvania State System of Higher Education. The School District agreed to construct and maintain a two-tier parking garage on land owned by Millersville University. In lieu of rent, the School District agreed to allow Millersville University primary use of the lower tier of the parking garage.

On December 11, 1995, the School District entered into a 40-year operating lease with Millersville University. The School District agreed to lease approximately 2.32 acres of land, referred to as the "Athletic Field," to Millersville University. In lieu of rent, Millersville University agreed to lease to the School District .34 acres of land, referred to as the "Parking Lot."

Lease Rental Debt, Series of 1998 dated October 7, 1998, was issued by the Lancaster County Vocational Technical School Authority (the Authority) to advance refund the Authority's Series of 1995 Lease Revenue Bonds. The 1998 bonds were issued to provide funds for the upgrading and modernization of the facilities of the Lancaster County Career and Technical Center. The Lancaster County Career and Technical Center and the 16 member school districts have entered into a lease agreement with the Authority and each school district will pay its proportionate share of the lease rentals in order to fund the Series of 1998 debt.

Minimum future rental payments under this operating lease as of June 30, 2008 are as follows:

Fiscal year ending <u>June 30,</u>	
2009	\$ 150,108
2010	<u>150,186</u>
Total minimum future rental payments	<u>\$ 300,294</u>

## **PENN MANOR SCHOOL DISTRICT**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

#### **12. Risk management:**

##### *Property and liability:*

For losses incurred prior to July 1, 1999 and subsequent to June 30, 2002, the School District joined together with other school districts in the area to form the Lancaster-Lebanon Public Schools Insurance Pool (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for 11 member school districts, the Lancaster-Lebanon Intermediate Unit, the Lancaster County Academy and the Lancaster County Career and Technical Center. This agreement states that the School District pays an annual premium to the Pool for the purpose of seeking the prevention or lessening of casualty losses to members from injuries to persons or properties which might result in claims being made against members and to pool the insurance risks, reserves, claims and losses and providing self-insurance and reinsurance. It is the intent of the members of the Pool that the Pool will utilize funds contributed by the members to provide self-insurance and reimbursement to the members for certain losses, to defend and protect each member of the Pool in accordance with the agreement against certain liabilities and losses and to purchase excess and aggregate stop-loss insurance for claims greater than \$75,000 per occurrence.

As of June 30, 2008, the School District is not aware of any additional assessments relating to the Pool.

##### *Hospitalization:*

The School District has a self-insured hospitalization plan with Health Assurance Management Services Company, the claims administrator, who processes and pays the claims. For the year ended June 30, 2008, the School District was limited in liability for claims to \$150,000 per individual and \$7,162,779 in total for the Point of Service Plan. A liability for claims incurred prior to June 30, 2008 and paid subsequently is recorded in the amount of \$325,142 in accounts payable in the general fund. In addition, a reinsurance reimbursement receivable in the amount of \$134,640 has also been recorded in the general fund.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

*Hospitalization (continued):*

Changes in the School District's claims liability amount in fiscal years 2007 and 2008 were:

	Beginning of fiscal year liability	Current year claims and changes in estimates	Claims payment	Balance at fiscal year-end
2006-2007	\$ 247,126	\$ 5,196,773	\$ 5,005,665	\$ 438,234
2007-2008	438,234	5,227,054	5,340,146	325,142

*Vision fund:*

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

The plan requires submission of receipted invoices for eligible services and operates on a fiscal year from July 1 to June 30. Payment by the School District is made monthly and items submitted by the end of each month will be reimbursed by the 15th of the following month. In order to be eligible for payment, bills incurred must be less than six months old. Payment for the fiscal year ended June 30, 2008 is limited to \$165. An eligible employee may carry over any unused amount in his/her account to the following year to a maximum usage of \$330. For the fiscal year beginning July 1, 2008, payment is limited to \$180 per year and the carryover is limited to a maximum of \$360.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

*Workers' compensation:*

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for 19 member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Worker's Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2008, the School District is not aware of any additional assessments relating to the Fund.

*Unemployment compensation:*

The School District has elected to self-insure for unemployment compensation rather than contribute to the state fund. Transactions relating to this plan are reflected in the general fund.

*Other risks:*

The School District is exposed to various risks of loss related to theft and destruction of assets, errors and omissions and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2008 and the two previous fiscal years, no settlements exceeded insurance coverage.

## **PENN MANOR SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2008**

#### **13. 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. This publication is also available on the PSERS website at [www.pfers.state.pa.us/publications/cafr/index.htm](http://www.pfers.state.pa.us/publications/cafr/index.htm).

*Funding policy:*

The contribution policy is set by the Code and requires contributions by active employees, by participating employers and the Commonwealth. Plan members may belong to two membership classes. Class TC and Class TD are available to plan members. Active members who joined the plan before July 22, 1983 are required to contribute 5.25% of their compensation if they are in Class TC or 6.5% for Class TD. Members who joined on or after July 22, 1983 and were active or inactive as of July 1, 2001 are required to contribute 6.25% for Class TC or 7.5% for Class TD. Members who joined the plan after June 30, 2001 are automatically in Class TD and are required to contribute 7.5%. The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period for which the amount is determined. For the fiscal year ended June 30, 2008, the rate of employer contribution was 7.13% of covered payroll. The 7.13% rate is composed of a pension contribution rate of 6.44% for pension benefits and .69% for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate.

Penn Manor School District's contributions to PSERS for the years ended June 30, 2008, 2007 and 2006 were \$2,009,724, \$1,697,412, and \$1,197,058, respectively. Those amounts are equal to the required contribution for each year.

## **PENN MANOR SCHOOL DISTRICT**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

#### **14. Joint ventures:**

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

The School District is one of 16 member school districts of the Lancaster County Career and Technology Center (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the Career and Technology Board for Lancaster County, which is composed of school board members of all the member school districts. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services in the year ended June 30, 2008 was approximately \$1,219,873. Complete financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

##### *Lancaster County Vocational Technical School Authority:*

The School District is also a member of the Lancaster County Vocational Technical School Authority (the Authority). In 1968, the Authority entered into an agreement with the member school districts and the Lancaster County Career and Technology Center to acquire land and construct buildings to provide the facilities for the operations of LCCTC. In 1995, the Authority entered into an additional agreement with the same parties to provide funding for the upgrading and modernization of the LCCTC facilities. In 1998, the Authority entered into an additional agreement with the member school districts and the Authority Board to advance refund the Authority's 1995 bonds. The School District has an ongoing financial responsibility to the Authority for a portion of the debt obligation relating to these improvements. The balance of the School District's share of this obligation at June 30, 2008 is \$300,294. The School District's lease payment to the Authority for the year ended June 30, 2008 was \$151,004 which has been reported in the School District's general fund. Complete financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

##### *Lancaster-Lebanon Joint Authority:*

The School District is a member in the Lancaster-Lebanon Joint Authority (the Joint Authority). The Joint 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 Joint 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 Joint Authority is not reported as part of the School District's reporting entity.

## **PENN MANOR SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2008**

#### **14. Joint ventures (continued):**

##### *Lancaster-Lebanon Joint Authority (continued):*

The School District did not have any financial transactions with the Joint Authority during the year ended June 30, 2008. Complete financial statements for the Joint Authority can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

##### *Lancaster-Lebanon Intermediate Unit (LLIU):*

The LLIU Board of Directors consists of 22 members from the intermediate units constituent school districts. The LLIU Board members are school district board members, who are elected by the public and are appointed to the LLIU Board by the member school districts' Board of Directors. Penn Manor School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Penn Manor School District contracts with the LLIU for special education services for School District students. The amount paid for these services and various other support services during the year ended June 30, 2008 was approximately \$1,194,316. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

##### *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, 2008 was \$27,439. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

##### *Lancaster County Tax Collection Bureau (Bureau):*

The School District participates with 16 other school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee. The Bureau's operating expenditures are deducted from the distributions which are made quarterly. The School District's portion of the operating expenditures for the year ended June 30, 2008 was \$110,262. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

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

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

**15. Postemployment healthcare benefits:**

The School District permits any professional employee who retires at age 50 or later to continue group insurance coverage to age 65 by remitting the monthly premium to the School District. The retiree's cost of group insurance is calculated by the plan administrator and is based on projected expenditures for the year. The retiree's premium for the group insurance is payable in advance on a monthly basis. The School District has elected to finance postemployment benefits on a pay-as-you-go basis. The School District recognizes expenditures for postemployment group insurance when claims are filed with the plan administrator. The School District is responsible for all claims in excess of the premiums received by the qualified retirees. Currently there are 53 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, 2008 were \$792,970 and \$301,324, respectively.

Because of GASB approval of Statement Nos. 43 and 45, which set forth guidelines and a future implementation timetable for accounting and reporting for other postemployment benefits, the School District retained an actuary to calculate its obligation and future funding requirements for other postemployment benefits.

**16. Specific reserved fund balances:**

Specific reserves represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. At June 30, 2008, the School District has included the following amounts as specific reserved fund balances:

Fiduciary funds, reserve for:	
Scholarships	\$ 32,467
Endowments	<u>36,859</u>
	<u>\$ 69,326</u>
Debt service fund, reserve for debt service payments	<u>\$ 11,470</u>

**PENN MANOR SCHOOL DISTRICT**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

**17. 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, 2008, the School District has included the following as a designated fund balance:

General fund, designated for:	
Future health insurance costs	\$ 3,835,699
Technology replacement	1,000,000
Potential swap repayment	<u>577,000</u>
	<u>\$ 5,412,699</u>

**18. Commitments:**

As of June 20, 2008, the School District was committed under various construction contracts totaling \$6,799,061 for the the high school and the Marticville Middle School. Of that total, \$1,199,560 was recorded in accounts payable at year-end.

In addition, the School District was committed under various contracts totaling \$343,238 for security upgrades, lighting, ventilation, paving and other repairs.

**PENN MANOR SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2008

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (deferred) revenue at July 1, 2007	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2008
<u>U.S. Department of Agriculture:</u>										
Passed through the Pennsylvania Department of Education: School Breakfast Program:	I/F	10.553	N/A	07/01/07-06/30/08	N/A	\$ 61,929	\$	63,040	\$ 63,040	\$ 1,111
	S	N/A	N/A	07/01/07-06/30/08	N/A	7,804		7,941	7,941	137
National School Lunch Program:	I/F	10.555	N/A	07/01/07-06/30/08	N/A	401,794		408,590	408,590	6,796
	S	N/A	N/A	07/01/07-06/30/08	N/A	66,639		67,704	67,704	1,065
Total passed through the Pennsylvania Department of Education						538,166		547,275	547,275	9,109
Passed through the Pennsylvania Department of Agriculture, value of U.S. donated commodities	I/F	10.550	N/A	07/01/07-06/30/08	N/A	102,331	\$ (17,935)	100,573	100,573	(19,683)
Total U.S. Department of Agriculture						640,497	(17,935)	647,848	647,848	(10,584)

(continued)

**PENN MANOR SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

YEAR ENDED JUNE 30, 2008

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (deferred) revenue at July 1, 2007	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2008
U.S. Department of Education:										
Passed through the Pennsylvania Department of Education:										
Academic Achievement Title I Grants to Local Educational Agencies:	**	I/F 84.010	077-060324	07/01/06-09/30/08	\$ 10,380	\$ 4,152	\$	\$ 10,380	\$ 10,380	\$ 6,228
	**	I/F 84.010	013-060324	07/01/06-09/30/07	293,288	52,152	\$ 42,205	31,860	31,860	21,913
	**	I/F 84.010	013-070324	07/01/07-09/30/08	265,801	212,613		248,051	248,051	35,438
Safe and Drug-free Schools and Communities State Grants:	I/F	84.186	100-060324	07/01/06-09/30/07	14,042	4,681	4,681			
	I/F	84.186	100-070324	07/01/07-09/30/08	14,036	11,229		14,036	14,036	2,807
State Grants for Innovative Programs:	I/F	84.298	011-060324	07/01/06-09/30/07	5,142	1,028	1,028			
	I/F	84.298	011-070324	07/01/07-09/30/08	5,137	5,137		4,948	4,948	(189)
Improving Teacher Quality State Grants:	I/F	84.367	020-060324	07/01/06-09/30/07	121,558	24,286	24,286			
	I/F	84.367	020-070324	07/01/07-09/30/08	122,113	97,690		118,147	118,147	20,457
Total passed through the Pennsylvania Department of Education						412,968	72,200	427,422	427,422	86,654
Passed through the Lancaster-Lebanon Intermediate Unit #13, IDEIA Part B:	*	I/F 84.027	062-070013	07/01/06-06/30/07	658,948	15,829	15,829			
	*	I/F 84.027	062-080013	07/01/07-06/30/08	921,897	921,897		921,897	921,897	
Total passed through Intermediate Unit #13						937,726	15,829	921,897	921,897	
Total U.S. Department of Education						1,350,694	88,029	1,349,319	1,349,319	86,654

(continued)

**PENN MANOR SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

YEAR ENDED JUNE 30, 2008

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (deferred) revenue at July 1, 2007	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2008
<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	07/01/07-06/30/08	7,827 \$	7,827 \$		7,827 \$	7,827 \$	
Passed through the Pennsylvania Department of Education, Access:	I/F	93.778	N/A	07/01/05-06/30/07	2,469 \$	2,469 \$	2,469 \$		679	
	I/F	93.778	N/A	07/01/07-06/30/08	679	679			679	
<b>Total U.S. Department of Health and Human Services</b>					<u>10,975</u>	<u>10,975</u>	<u>2,469</u>	<u>8,506</u>	<u>8,506</u>	
<u>U.S. Institute of Museum and Library Services</u>										
Passed through the Pennsylvania Department of Education, grants to states:	I/F	45.310	202-609085	07/01/05-06/30/06	15,000		(1,244)	1,244	1,244	(3,461)
	I/F	45.310	202-609085	07/01/07-06/30/08	45,000	3,461				(3,461)
<b>Total U.S. Institute of Museum and Library Services</b>					<u>3,461</u>	<u>3,461</u>	<u>(1,244)</u>	<u>1,244</u>	<u>1,244</u>	<u>(3,461)</u>
<b>Total expenditures of federal awards</b>					<u>\$ 2,005,627</u>	<u>\$ 2,005,627</u>	<u>\$ 71,319</u>	<u>\$ 2,006,917</u>	<u>\$ 2,006,917</u>	<u>\$ 72,609</u>

(continued)

**PENN MANOR SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

YEAR ENDED JUNE 30, 2008

<b>Source codes:</b>		
I =	Indirect funding	
F =	Federal share	\$ 2,006,917
S =	State share	<u>75,645</u>
CFDA =	Catalog of Federal Domestic Assistance	
** =	Denotes major program	<u><u>\$ 1,931,272</u></u>

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

Total expenditures per above  
Less state share of National School Lunch and School Breakfast Program expenditures

IDEIA, Part B	\$ 921,897 *	
Title I	<u>290,291 **</u>	
	<u>\$ 1,212,188</u>	
	<u>\$ 1,212,188</u>	
	1,931,272 =	62.8% Programs meet the 25% requirement

for low-risk auditee

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Note 1 - Significant accounting policies**

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

**Note 2 - Food donation**

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



Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance  
with Government Auditing Standards

Board of School Directors  
Penn Manor School District  
Millersville, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Penn Manor School District as of and for the year ended June 30, 2008, which collectively comprise Penn Manor School District's basic financial statements, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered Penn Manor School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Penn Manor School District in a separate letter dated October 31, 2008.

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

*Brown Schultz Sheridan + Fritz*

Lancaster, Pennsylvania  
October 31, 2008

Report on Compliance with Requirements  
Applicable to each of the Major Programs and  
on Internal Control over Compliance  
in Accordance with OMB Circular A-133

Board of School Directors  
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 each of its major federal programs for the year ended June 30, 2008. Penn Manor School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Penn Manor School District's management. Our responsibility is to express an opinion on Penn Manor School District's compliance based on our audit.

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

In our opinion, Penn Manor School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

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

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

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

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

*Brown Schultz Sheridan + Fritz*

Lancaster, Pennsylvania  
October 31, 2008

**PENN MANOR SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2008**

**I. SUMMARY OF AUDITORS' RESULTS:**

*Financial statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes  X  none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

*Federal awards*

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes  X  none reported

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

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

Identification of major programs:

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
84.010	Title I Grants to Local Education Agencies
84.010	Academic Achievement
84.027	IDEIA, Part B

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

Auditee qualified as low-risk auditee?  X  yes \_\_\_\_\_ no

***PENN MANOR SCHOOL DISTRICT***

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

***PENN MANOR SCHOOL DISTRICT***  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2008

There are no prior findings.