

PENN MANOR SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2011

PENN MANOR SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2011

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YEAR ENDED JUNE 30, 2011

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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, 2011, 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, 2011, 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2011 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.

Information included under management's discussion and analysis and the information about other postemployment benefits – schedule of funding progress 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.

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

Brown Schultzy Sheridan + Fritz

Lancaster, Pennsylvania
October 31, 2011

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011
(Unaudited)

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, 2011. 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 2011 are as follows:

- Capital assets, net of depreciation, increased by \$9.9 million. The additions included capitalized construction in progress for the Central Manor renovation project and the acquisition of property between the existing Manor Middle School site and the District owned Fisher Farm property.
- Revenues totaled \$68.3 million. General revenues accounted for \$53.2 million or 78% of total revenues, which is slightly higher than the prior year. Program specific revenues in the form of charges for services and food sales, grants and contributions accounted for \$15.1 million or 22% of total revenues, which is slightly lower than the prior year. The changes in the ratio of revenues were minimal as the District was in the second and final year of Federal Stimulus funding. The loss of stimulus funding should affect the ratio in the 2011-12 fiscal year.
- The District had \$61.3 million in expenses related to governmental activities; \$12.6 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$53.2 million were adequate to provide for these programs.
- Among major funds, the General Fund had \$65.9 million in revenues and \$63.8 million in expenditures and other financing uses. This resulted in the addition of about \$2.1 million to fund balance, bringing the General Fund's fund balance up to \$13.8 million from \$11.7 million; after commitments, the unassigned fund balance is \$4.5 million. Approximately \$0.5 million of the General Fund's fund balance is budgeted to be utilized for the year ended June 30, 2012. The projected ending unassigned fund balance on June 30, 2012 of \$4.0 million represents just over 6.2% of the budgeted expenditures and other financing uses for the 2011-12 fiscal year.
- Net assets for Enterprise Funds increased from \$50,780 to \$325,359. This increase is attributed to an increase in state and federal subsidies received by the District. In addition, self-funded healthcare costs for the food service operation declined in the 2010-11 fiscal year. The expansion of the school breakfast program in all buildings and high meal counts continue to provide our students with healthy, nutritional meals and our operation with valuable funding.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2011
(Unaudited)

Using this Annual Report

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

The statement of net assets and statement of activities provide information about the activities of the entire 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 – 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.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2011
(Unaudited)

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.

- **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, 2011
(Unaudited)

Table 1 provides a summary of the District's net assets for 2011 compared to 2010.

(Table 1)
Net Assets
(In Millions)

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
Assets:						
Current and other assets	\$ 27.73	\$ 23.95	\$ 0.04	\$ 0.33	\$ 27.77	\$ 24.28
Capital assets	94.59	98.23	0.11	0.10	94.70	98.33
Total assets	\$ 122.32	\$ 122.18	\$ 0.15	\$ 0.43	\$ 122.47	\$ 122.61
Liabilities:						
Current liabilities	\$ 12.62	\$ 13.78	\$ 0.06	\$ 0.05	\$ 12.68	\$ 13.83
Noncurrent liabilities	44.95	39.19	0.04	0.05	44.99	39.24
Total liabilities	57.57	52.97	0.10	0.10	57.67	53.07
Net assets:						
Invested in capital assets net of debt	46.58	56.03	0.11	0.10	46.69	56.13
Unrestricted	18.17	13.18	(0.06)	0.23	18.11	13.41
Total net assets	64.75	69.21	0.05	0.33	64.80	69.54
Total liabilities and net assets	\$ 122.32	\$ 122.18	\$ 0.15	\$ 0.43	\$ 122.47	\$ 122.61

In total, net assets increased just over \$4.7 million from 2010. Net assets of governmental activities increased by \$4.46 million while the net assets of business-type activities increased by \$274,579. The food service operations operated with a profit in fiscal 2010-11 with a fund contribution of \$150,000. As in past years, continued District General Fund support for the food service operation is expected to assist with equipment and technology purchases as well as fluctuating healthcare costs.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2011
(Unaudited)

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

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program revenues:						
Charges for services	\$ 0.5	\$ 0.5	\$ 1.4	\$ 1.3	\$ 1.9	\$ 1.8
Operating grants	12.2	12.2	1.0	1.1	13.2	13.3
General revenue:						
Property and other taxes	39.7	41.3	0.0	0.0	39.7	41.3
Grants and entitlements	10.9	11.5	0.0	0.0	10.9	11.5
Other	0.6	0.3	0.0	0.1	0.6	0.4
Total revenues	<u>63.9</u>	<u>65.8</u>	<u>2.4</u>	<u>2.5</u>	<u>66.3</u>	<u>68.3</u>
Expenses:						
Program expenses, instruction	38.8	40.6	0.0	0.0	38.8	40.6
Support services:						
Instructional student support	3.3	3.6	0.0	0.0	3.3	3.6
Administrative and financial support services	5.3	5.2	0.0	0.0	5.3	5.2
Operation and maintenance of plant services	5.2	4.9	0.0	0.0	5.2	4.9
Pupil transportation	2.8	3.0	0.0	0.0	2.8	3.0
Student activities	1.3	1.3	0.0	0.0	1.3	1.3
Capital outlay	1.6	0.8	0.0	0.0	1.6	0.8
Interest on long-term debt	1.9	1.9	0.0	0.0	1.9	1.9
Food service	0.0	0.0	2.4	2.3	2.4	2.3
Total expenses	<u>60.2</u>	<u>61.3</u>	<u>2.4</u>	<u>2.3</u>	<u>62.6</u>	<u>63.6</u>
Increase in net assets	<u>\$ 3.7</u>	<u>\$ 4.5</u>	<u>\$ -</u>	<u>\$ 0.2</u>	<u>\$ 3.7</u>	<u>\$ 4.7</u>

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**YEAR ENDED JUNE 30, 2011
(Unaudited)**

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 for fiscal year 2009-10 as compared to fiscal year 2010-11. It identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

The District passed the budget for 2011-12 in June 2011 with a 1.4% property tax increase. Under Act 1, the state allowed the District to increase up to the adjusted index of 1.7%. While preparing for the 2012-13 budget, the state has set the adjusted index at 2.1%. The adjusted index is well below the 10-year average of 3.71% and coupled with the possibility of reduced state subsidized support presents significant financial challenges for the District. 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 which 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, 2011
(Unaudited)

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)

	Total cost of services		Net cost of services	
	2010	2011	2010	2011
Instruction	\$ 38.8	\$ 40.6	\$ 29.8	\$ 31.5
Support services:				
Instructional student support	3.3	3.6	2.9	3.2
Administrative and financial support services	5.3	5.2	5.1	5.0
Operation and maintenance of plant	5.2	4.9	5.0	4.7
Pupil transportation	2.8	3.0	1.2	1.4
Student activities	1.3	1.3	1.2	1.2
Capital outlay	1.6	0.8	1.6	0.8
Interest on long-term debt	1.9	1.9	0.7	0.9
Total expenses	\$ 60.2	\$ 61.3	\$ 47.5	\$ 48.7

The dependence upon tax revenues and grants and entitlements for governmental activities is apparent. Nearly 78% of instructional activities are supported through taxes and other general revenues as compared with 77% in the previous year. 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 rose by \$1,160,801, which is a 1.9% increase over the prior year. While increases in the instruction and support services areas were driven primarily by salary and benefit increases, they were largely offset by lowered expenditures in operations, administration and debt service. The loss of Federal Stimulus funds at the end of the 2010-11 fiscal year coupled with the reduction in state funding caused a 3.4% reduction in budgeted expenses for the 2011-12 fiscal year.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2011
(Unaudited)

Business-Type Activities

Business-type activities consist only of food service operations. This program had revenues, including state and federal support and a \$150,000 transfer from the General Fund, of \$2.6 million and expenses of \$2.3 million for the fiscal year. A modest increase in meal prices for some tiers was instituted at the beginning of the 2010-11 school year. Net assets are listed as \$325,359 as of June 30, 2011. The increase of net assets can be attributed to an increase in state and federal meal subsidies received as a result of higher meal counts and the expansion of the student breakfast program. While self-funded healthcare costs continue to be a concern for the food service operation, the operation saw reduced utilization in the 2010-11 fiscal year. The food service operation again received support from tax revenues in 2010-11 in the form of a \$150,000 budgeted transfer from the District's General Fund. A \$100,000 transfer has been budgeted for the 2011-12 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 and other financing sources of \$66.0 million and expenditures of \$76.7 million. This resulted in the overall fund balance decreasing by \$10,849,008.

- General Fund transfers to other funds included the normal operating transfers to the Debt Service Fund for bond principal and interest, \$500,000 to the Capital Reserve Fund and \$150,000 to the Food Service Fund which represented budgeted General Fund support for these areas. At year-end, it was decided to commit nearly \$2.1 million in the General Fund, representing the difference between actual revenues and actual expenditures. These funds were committed for future use to offset potential costs associated with replacing the original Hambright Elementary School with a redesigned, larger facility.
- The General Fund fund balance increased by \$2,094,964. Legislation enacted in December 2003 mandates that a school district may not carry an unassigned fund balance that exceeds 8% of expenditures. A commitment of fund balance occurred during the year-end process that set the estimated unassigned fund balance at 7.0%. A re-commitment of funds will occur during the budgeting process for the 2012-13 fiscal year to accommodate the current year estimates calculated each spring.
- The District starts the next fiscal year with a total fund balance of 21.3% of budgeted expenditures. A large portion of the fund balance is committed for planned and expected expenses related to the projected increase in employer retirement costs associated with the PSERS program, future capital costs associated with the Hambright Elementary Replacement Project and a new elementary textbook series. Planned use of the fund balance during the 2011-12 fiscal year is budgeted to keep the District below the 8% limit on June 30, 2012.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2011
(Unaudited)

- The planned, budgeted use of fund balance has allowed the District to temper the impact of rising costs on the local tax levy. A tax increase was implemented for the 2011 tax levy in addition to planned use of fund balance to assist the District in balancing the budget. Tough economic years are expected in coming years although the Act 1 Index unexpectedly rose for the 2012-13 budget year. The adjusted index for Penn Manor School District has been set at 2.1% for the 2012-13 fiscal year, which is considerably lower than the 10-year average of 3.71% or the 15-year average of 3.85%.

General Fund Budgeting Highlights

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

During the course of fiscal 2011, the District administered 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 2010-11.

For the General Fund, actual revenues were \$65.9 million; this was \$84,525 under the original budget estimates of \$66.0 million. While the difference between actual and budgeted revenue was minimal, there were fluctuations between several of the accounts. Notably, the actual revenues generated by real estate transfer taxes and interim taxes were less than budgeted, while revenue generated by earned income taxes was in excess of the anticipated amount.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2011
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year, the District had \$88.8 million invested in land, buildings and equipment, with \$88.7 million in governmental activities. Table 4 shows the fiscal 2010 balance compared to 2011.

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

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
Land	\$ 2.9	\$ 6.8	\$ 0.0	\$ 0.0	\$ 2.9	\$ 6.8
Buildings and improvements	74.5	80.6	0.0	0.0	74.5	80.6
Furniture and equipment, vehicles	1.4	1.3	0.1	0.1	1.5	1.4
Totals	<u>\$ 78.8</u>	<u>\$ 88.7</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ 78.9</u>	<u>\$ 88.8</u>

The overall total of capital assets increased during 2010-11. The increase is attributed largely to the addition of construction in progress payments on the renovation project at Central Manor Elementary School. In addition, the land account was increased by \$3.9 million from the purchase of the Herr Tract between the Fisher Tract and Manor Middle School. A full appraisal was performed at the end of the 2006-07 fiscal year for insurance purposes and for fixed asset accounting and continues to be updated annually.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2011
(Unaudited)

Debt

At June 30, 2011, the District had \$41.6 million in bonds outstanding as compared to \$47.3 million a year ago. Table 5 summarizes bonds outstanding.

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

	<u>Governmental activities</u>	
	<u>2010</u>	<u>2011</u>
General Obligation Bonds:		
Series of 2004 GOB	\$ 1.0	\$ 0.0
Series of 2005 GOB	4.6	0.0
Series of 2006 GOB	19.4	19.4
Series A of 2006 GOB	3.8	1.2
Series of 2009 GOB	7.9	7.7
Series A of 2010 GOB	10.6	10.6
Series B of 2010 GOB	<u>0.0</u>	<u>2.7</u>
Total	<u>\$ 47.3</u>	<u>\$ 41.6</u>

The District decreased its bonds and notes by \$5.7 million during 2011. A significant amount of principal was paid down according to the debt schedules. In addition, the District issued general obligation bonds to refund the Series of 2005 and to pay for the costs of issuance. 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, 2011

(Unaudited)

For the Future

While Penn Manor School District continues to be strong financially, there are growing concerns regarding the economic and political outlook for the state and the local community. As the preceding information shows, the District maintains a healthy investment in fixed assets to support and provide comprehensive educational services. The District also 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.

As we have seen throughout the nation, the economic situation is having an effect on the public sector. 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 face pressure to keep tax increases at or below the allowable increase for the foreseeable future. In addition, recent legislation has severely hampered the potential benefits of using special exceptions in future years. Limited tax relief arrived in 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. In 2010-11, Penn Manor was fortunate to receive \$1,287,879 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.

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.

Market performance of the invested PSERS funds have resulted in estimated increases that will affect our employer contributions for years to come. While the actual effect of the current market has yet to be determined, higher employer costs in the short term and dramatically higher rates in the future are being planned for by the District through the use of committed fund balance integrated with millage increases. This condition will have an alarming effect on school district budgeting across the Commonwealth and may lead to significant reductions in programs and services. The portion of funds designated in the District's fund balance to be used to contain the projected increases in the employer share of PSERS will not be enough to alleviate the problem, but it will allow the District to prudently plan for any potential changes. The District is fortunate to have anticipated the looming crisis and fortunate to have committed funds available to help lessen the dramatic impact that other districts may experience.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2011
(Unaudited)

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. The District continues to implement various strategies to lower the pace of medical inflation. A Collective Bargaining Agreement is in effect for the 2011-12 school year and has given some relief to these costs through employee contributions, but those contributions cover only a fraction of actual expenses. Any changes to the employee healthcare plan will be a result of negotiating a comprehensive package with the education association.

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.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET ASSETS - JUNE 30, 2011

ASSETS

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 1,727,214	\$ 8,737	\$ 1,735,951
Investments	18,314,060	310,239	18,624,299
Taxes receivable, net	1,504,642		1,504,642
Due from other governments	2,073,652		2,073,652
Other receivables	280,825	1,136	281,961
Internal balances	54,848	(54,848)	-
Inventories		64,144	64,144
	<hr/>	<hr/>	<hr/>
Total current assets	<u>23,955,241</u>	<u>329,408</u>	<u>24,284,649</u>
Noncurrent assets:			
Cash and cash equivalents held for long-term purposes	9,000,328		9,000,328
Investments held for long-term purposes	230,422		230,422
Construction in progress	11,712,517		11,712,517
Land	6,815,677		6,815,677
Site improvements, net of accumulated depreciation	1,791,983		1,791,983
Buildings and building improvements, net of accumulated depreciation	67,030,674		67,030,674
Furniture, equipment and educational media, net of accumulated depreciation	1,094,869	99,030	1,193,899
Vehicles, net of accumulated depreciation	253,234		253,234
Long-term debt issuance costs, net of accumulated amortization	300,561		300,561
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	<u>98,230,265</u>	<u>99,030</u>	<u>98,329,295</u>
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 122,185,506</u>	<u>\$ 428,438</u>	<u>\$ 122,613,944</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

	Governmental activities	Business-type activities	Total
Current liabilities:			
Accounts payable	\$ 2,635,057	\$ 8,756	\$ 2,643,813
Accrued salaries and benefits	4,509,552		4,509,552
Current portion of:			
Bonds payable	5,910,000		5,910,000
Compensated absences	290,409	5,225	295,634
Payroll deductions and withholdings	283,693		283,693
Deferred revenues	10,615	42,077	52,692
Other current liabilities	138,214		138,214
Total current liabilities	13,777,540	56,058	13,833,598
Noncurrent liabilities:			
Bonds payable	36,289,623		36,289,623
Accrued retirement costs	737,141		737,141
Other postemployment benefits	456,999		456,999
Long-term portion of compensated absences	1,709,655	47,021	1,756,676
Total noncurrent liabilities	39,193,418	47,021	39,240,439
Total liabilities	52,970,958	103,079	53,074,037
Net assets:			
Invested in capital assets, net of related debt	56,030,642	99,030	56,129,672
Unrestricted	13,183,906	226,329	13,410,235
Total net assets	69,214,548	325,359	69,539,907
Total liabilities and net assets	\$ 122,185,506	\$ 428,438	\$ 122,613,944

PENN MANOR SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

	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	\$ 40,576,108	\$ 287,430	\$ 8,754,539	\$ (31,534,139)		\$ (31,534,139)
Instructional student support	3,565,514		379,229	(3,186,285)		(3,186,285)
Administrative and financial support services	5,223,486		201,140	(5,022,346)		(5,022,346)
Operation and maintenance of plant services	4,895,314	81,028	101,157	(4,713,129)		(4,713,129)
Pupil transportation	3,026,828		1,623,340	(1,403,488)		(1,403,488)
Student activities	1,304,853	82,464	42,453	(1,179,936)		(1,179,936)
Community services	10,157		10,153	(4)		(4)
Capital outlay	830,415			(830,415)		(830,415)
Interest on long-term debt	1,864,681		1,066,164	(798,517)		(798,517)
Miscellaneous	34,042			(34,042)		(34,042)
Total governmental activities	61,331,398	450,922	12,178,175	(48,702,301)		(48,702,301)
Business-type activities, food services	2,281,514	1,353,201	1,052,623		\$ 124,310	124,310
Total primary government	<u>\$ 63,612,912</u>	<u>\$ 1,804,123</u>	<u>\$ 13,230,798</u>	<u>(48,702,301)</u>	<u>124,310</u>	<u>(48,577,991)</u>

(continued)

PENN MANOR SCHOOL DISTRICT
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2011

	Program revenues		Net revenue (expense) and changes in net assets		
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities
General revenues:					
Taxes:					
Property taxes, etc.				\$ 36,063,261	\$ 36,063,261
Other				5,276,598	5,276,598
Grants, subsidies and other nonrestricted				11,538,047	11,538,047
Interest				174,664	\$ 269
Gain on sale of assets				6,682	6,682
Miscellaneous				256,713	256,713
Transfers				(150,000)	150,000
				<u>53,165,965</u>	<u>150,269</u>
Total general revenues, special items and transfers				<u>53,165,965</u>	<u>150,269</u>
Change in net assets				4,463,664	274,579
Net assets:					
Beginning				<u>64,750,884</u>	<u>50,780</u>
Ending				<u>\$ 69,214,548</u>	<u>\$ 325,359</u>
				<u>\$ 69,214,548</u>	<u>\$ 69,539,907</u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS – JUNE 30, 2011

	ASSETS				Total governmental funds
	Major funds				
	General fund	Capital reserve	Capital projects	Debt service	
Assets:					
Cash and cash equivalents	\$ 5,727,214		\$ 5,000,328		\$ 10,727,542
Investments	11,539,985	\$ 6,774,075	230,422		18,544,482
Taxes receivable, net	1,504,642				1,504,642
Due from:					
Other funds	104,848	500,000			604,848
Other governments	2,073,652				2,073,652
Other receivables, net	272,125	8,700			280,825
	<u>\$ 21,222,466</u>	<u>\$ 7,282,775</u>	<u>\$ 5,230,750</u>		<u>\$ 33,735,991</u>

(continued)

PENN MANOR SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED) – JUNE 30, 2011

LIABILITIES AND FUND BALANCES

	Major funds				Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service	
Liabilities:					
Due to other funds	\$ 550,000				\$ 550,000
Accounts payable	1,580,410	\$ 82,599	\$ 972,039	\$ 9	2,635,057
Accrued salaries and benefits	4,509,552				4,509,552
Payroll deductions and withholdings	283,693				283,693
Deferred revenues	516,114				516,114
Total liabilities	7,439,769	82,599	972,039	9	8,494,416
Fund balances:					
Committed	9,252,634				9,252,634
Assigned		7,200,176	4,258,711		11,458,887
Unassigned	4,530,063			(9)	4,530,054
Total fund balances	13,782,697	7,200,176	4,258,711	(9)	25,241,575
Total liabilities and fund balances	\$ 21,222,466	\$ 7,282,775	\$ 5,230,750	\$ -	\$ 33,735,991

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, 2011

Total fund balances, governmental funds		\$ 25,241,575
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 \$129,524,397 and the accumulated depreciation is \$40,825,443.		
		88,698,954
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.		
		505,499
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	\$ (41,595,000)	
Accrued interest on the bonds	(138,214)	
Unamortized:		
Long-term debt issuance costs	300,561	
Bond premium, net of discount	(820,165)	
Deferred loss on bond refunding	215,542	
Accrued retirement costs	(737,141)	
Other postemployment benefits	(456,999)	
Compensated absences	(2,000,064)	(45,231,480)
Total net assets, governmental activities		<u>\$ 69,214,548</u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2011

	Major funds				Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service	
Revenues:					
Local sources:					
Real estate taxes	\$ 36,092,846				\$ 36,092,846
Other taxes	5,276,598				5,276,598
Investment income	144,388	\$ 5,500	\$ 24,777	\$ 3	174,668
Other revenue	1,803,703	8,700			1,812,403
Total local sources	43,317,535	14,200	24,777	3	43,356,515
State sources	18,713,495				18,713,495
Federal sources	3,896,754				3,896,754
Total revenues	65,927,784	14,200	24,777	3	65,966,764

(continued)

PENN MANOR SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2011

	Major funds				Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service	
Expenditures:					
Instructional services	\$ 37,966,379				\$ 37,966,379
Support services	16,547,442				16,547,442
Noninstructional services	1,045,515				1,045,515
Capital outlay		\$ 2,574,640	\$ 10,899,646		13,474,286
Debt service:					
Principal				\$ 5,700,000	5,700,000
Interest				1,921,260	1,921,260
Refunds of prior years' receipts	34,042				34,042
Total expenditures	<u>55,593,378</u>	<u>2,574,640</u>	<u>10,899,646</u>	<u>7,621,260</u>	<u>76,688,924</u>

(continued)

PENN MANOR SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2011

	Major funds				Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service	
Excess (deficiency) of revenues over expenditures	<u>\$ 10,334,406</u>	<u>\$ (2,560,440)</u>	<u>\$ (10,874,869)</u>	<u>\$ (7,621,257)</u>	<u>\$ (10,722,160)</u>
Other financing sources (uses):					
Bond proceeds				4,590,000	4,590,000
Bond discount				(40,162)	(40,162)
Bond refunding				(4,595,000)	(4,595,000)
Interfund transfers	(8,249,338)	500,000		7,599,338	(150,000)
Other	<u>9,896</u>			<u>58,418</u>	<u>68,314</u>
Total other financing sources (uses)	<u>(8,239,442)</u>	<u>500,000</u>		<u>7,612,594</u>	<u>(126,848)</u>
Net changes in fund balances	2,094,964	(2,060,440)	(10,874,869)	(8,663)	(10,849,008)
Fund balances:					
July 1, 2010, as adjusted for GASB 54	<u>11,687,733</u>	<u>9,260,616</u>	<u>15,133,580</u>	<u>8,654</u>	<u>36,090,583</u>
June 30, 2011	<u>\$ 13,782,697</u>	<u>\$ 7,200,176</u>	<u>\$ 4,258,711</u>	<u>\$ (9)</u>	<u>\$ 25,241,575</u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2011

Total net change in fund balances, governmental funds \$ (10,849,008)

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 capital outlay exceeds depreciation expenses for the period.

Depreciation expense (\$2,913,168)

Capital outlay \$12,797,495

9,884,327

Loss on disposal of assets is not recorded in the governmental funds (2,014)

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

Deferred tax revenues decreased by this amount this year.

(29,585)

(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, 2011

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:

Issuance of debt:			
Bond proceeds		\$ (4,590,000)	
Bond discount/premium net		(53,741)	
Bond issue costs		35,485	
Repayment of bond principal		10,295,000	
Amortization of:			
Long-term debt issuance costs		(93,171)	
Bond premium, net of discount		224,498	
Deferred loss		(72,101)	
		<u> </u>	\$ 5,745,970

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental fund, an interest expenditure is reported when due. (2,647)

In the statement of activities, certain operating expenses (compensated absences, other postemployment benefits 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. (283,379)

Change in net assets of governmental activities \$ 4,463,664

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET ASSETS – PROPRIETARY FUND

JUNE 30, 2011

ASSETS

	<u>Food service</u>
Current assets:	
Cash and cash equivalents	\$ 8,737
Investments	310,239
Due from other funds	50,000
Other receivables	1,136
Inventories	<u>64,144</u>
Total current assets	434,256
Noncurrent assets, machinery and equipment, net of accumulated depreciation	<u>99,030</u>
Total assets	<u><u>\$ 533,286</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 8,756
Current portion of compensated absences	5,225
Deferred revenues	42,077
Due to other funds	<u>104,848</u>
Total current liabilities	160,906
Noncurrent liabilities, noncurrent portion of compensated absences	<u>47,021</u>
Total liabilities	<u>207,927</u>
Net assets:	
Invested in capital assets	99,030
Unrestricted	<u>226,329</u>
Total net assets	<u>325,359</u>
Total liabilities and net assets	<u><u>\$ 533,286</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, 2011

	<u>Food service</u>
Operating revenues:	
Food service revenue	\$ 1,291,986
Other operating revenue	<u>61,215</u>
Total operating revenues	<u>1,353,201</u>
Operating expenses:	
Salaries	667,900
Employee benefits	185,341
Supplies	1,361,912
Depreciation	12,677
Other operating expenses	<u>53,684</u>
Total operating expenses	<u>2,281,514</u>
Operating loss	<u>(928,313)</u>
Nonoperating revenues:	
Earnings on investments	269
Sources:	
State	126,946
Federal	<u>925,677</u>
Total nonoperating revenues	<u>1,052,892</u>
Change in net assets before operating transfers	124,579
Transfers in	<u>150,000</u>
Change in net assets	274,579
Total net assets:	
July 1, 2010	<u>50,780</u>
June 30, 2011	<u><u>\$ 325,359</u></u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

YEAR ENDED JUNE 30, 2011

	<u>Food service</u>
Cash flows from operating activities:	
Cash received from users	\$ 1,356,228
Cash payments to:	
Suppliers for goods and services	(1,326,435)
Employees for services	<u>(916,676)</u>
Net cash used in operating activities	<u>(886,883)</u>
Cash flows from noncapital financing activities:	
Operating transfers	150,000
Sources:	
State	126,946
Federal	<u>782,887</u>
Net cash provided by noncapital financing activities	<u>1,059,833</u>
Cash flows from investing activities:	
Earnings on investments	269
Withdrawals or redemptions from investment securities	2,156,192
Purchase of investment securities	<u>(2,325,084)</u>
Net cash used in investing activities	<u>(168,623)</u>
Net increase in cash	4,327
Cash:	
Beginning of year	<u>4,410</u>
End of year	<u><u>\$ 8,737</u></u>

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND (CONTINUED)

YEAR ENDED JUNE 30, 2011

	<u>Food service</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$ (928,313)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	12,677
Donated commodities	142,790
(Increase) decrease in:	
Accounts receivable	3,027
Inventories	(1,118)
Due from other funds	(49,940)
Increase (decrease) in:	
Accounts payable and other liabilities	(70,739)
Deferred revenue	<u>4,733</u>
Total adjustments	<u>41,430</u>
Net cash used in operating activities	<u><u>\$ (886,883)</u></u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS

JUNE 30, 2011

	<u>Private purpose trust</u>	<u>Agency</u>
Assets:		
Cash and cash equivalents		\$ 2,578
Investments	<u>\$ 68,344</u>	<u>95,976</u>
Total assets	<u><u>\$ 68,344</u></u>	<u><u>\$ 98,554</u></u>
Liabilities:		
Accounts payable		\$ 6,005
Other current liabilities		<u>92,549</u>
Total liabilities		<u><u>98,554</u></u>
Net assets, reserved for:		
Scholarships	\$ 32,924	
Endowments	<u>35,420</u>	
Total liabilities and net assets	<u><u>\$ 68,344</u></u>	<u><u>\$ 98,554</u></u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2011

	<u>Private purpose trust</u>
Additions:	
Gifts and contributions	\$ 3,000
Earnings and investments	<u>32</u>
	3,032
Deduction, scholarships awarded	<u>(3,393)</u>
Change in net assets	(361)
Net assets:	
July 1, 2010	<u>68,705</u>
June 30, 2011	<u><u>\$ 68,344</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, 2011

	Budget amounts		Actual budgetary basis	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Local sources:				
Real estate taxes	\$ 36,235,413	\$ 36,235,413	\$ 36,092,846	\$ (142,567)
Other taxes	4,822,000	4,822,000	5,276,598	454,598
Investment income	145,150	145,150	144,388	(762)
Other revenue	1,543,792	1,543,792	1,803,703	259,911
Total local sources	42,746,355	42,746,355	43,317,535	571,180
State sources	21,681,973	21,681,973	18,713,495	(2,968,478)
Federal sources	1,583,981	1,583,981	3,896,754	2,312,773
Total revenues	66,012,309	66,012,309	65,927,784	(84,525)
Expenditures:				
Instructional services:				
Regular programs	29,807,589	28,643,079	28,643,079	-
Special programs	7,508,368	7,401,266	7,401,266	-
Vocational programs	1,778,536	1,740,149	1,740,149	-
Other instructional programs	235,721	181,885	181,885	-
Support services:				
Pupil personnel	2,112,772	2,017,452	2,017,452	-
Instructional staff	943,830	930,509	930,509	-
Administrative	3,908,445	3,706,356	3,706,356	-
Pupil health	661,792	614,711	614,711	-
Business	916,846	610,402	610,402	-
Operation and maintenance of plant	5,707,662	4,789,632	4,789,632	-
Student transportation	2,920,304	3,005,021	3,005,021	-
Central and other support	818,229	820,948	820,948	-
Other support services	64,515	52,411	52,411	-

(continued)

PENN MANOR SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2011

	Budget amounts		Actual budgetary basis	Variance with final budget positive (negative)
	Original	Final		
Expenditures (continued):				
Operation of noninstructional services:				
Student activities	\$ 1,025,614	\$ 1,035,361	\$ 1,035,361	\$ -
Community services		10,154	10,154	-
Debt service (principal and interest)	7,813,853	7,599,338	7,599,338	-
Total expenditures	66,224,076	63,158,674	63,158,674	-
Excess of revenues over expenditures	(211,767)	2,853,635	2,769,110	(84,525)
Other financing sources (uses):				
Refund of prior year receipts		(34,042)	(34,042)	-
Interfund transfers	(600,000)	(3,781,360)	(650,000)	3,131,360
Budgetary reserve	(150,000)			-
Miscellaneous			9,896	9,896
Total other financing uses	(750,000)	(3,815,402)	(674,146)	3,141,256
Net changes in fund balances	(961,767)	(961,767)	2,094,964	3,056,731
Fund balances:				
July 1, 2010, actual as adjusted for GASB 54	11,593,569	11,593,569	11,687,733	94,164
June 30, 2011	\$ 10,631,802	\$ 10,631,802	\$ 13,782,697	\$ 3,150,895

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

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, etc.) 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, 2011

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, 2011

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 on 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. 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, 2011

1. Summary of significant accounting policies (continued):

Basis of presentation, financial statements (continued):

Fund financial statements (continued)

The School District reports the following major governmental 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 2005 Settlement Fund, the 2009 Sinking Fund, the 2010A Sinking Fund and the 2010B 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, 2011

1. Summary of significant accounting policies (continued):

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). 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 School District has elected not to follow subsequent private-sector guidance.

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, 2011, and which are not intended to finance 2010-2011 school year operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year-end.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Basis of accounting (continued):

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 in which 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.

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 alters the total revenues and expenditures of any fund, must be approved by the Board.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Budgetary data (continued):

- 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, 2011.
- g. The budget for the general fund is adopted on the modified accrual basis of accounting, except that a budgetary reserve is provided.
- h. For budgetary purposes the School District includes debt service payments (principal and interest) in the general fund. In accordance with generally accepted accounting principles these amounts are shown as transfers to the debt service fund on the fund level financial statements.

Cash and cash equivalents:

Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with maturities of three months or less when purchased.

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits which approximates fair value.

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.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

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, 2011, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as deferred revenue until used.

Capital assets and depreciation:

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

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

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Long-term obligations:

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

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

Compensated absences:

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

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

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

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Encumbrances:

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. Encumbrances outstanding at year-end are reported as reservations of fund balances because they do not constitute expenditures or liabilities. As of June 30, 2011, the School District had no encumbrances.

Pension plan:

Substantially all full-time and part-time employees of the School District participate in a cost-sharing, multiple-employer defined benefit pension plan. The School District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in the governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) The School District made all required contributions for the year ended June 30, 2011 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.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Estimates:

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

Fund equity:

Beginning with fiscal year 2011, the School District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a district's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that cannot be spent because they are in a nonspendable form (i.e., inventory) or legally or contractually required to be maintained intact (i.e., principal of a permanent fund).

Restricted fund balance - amounts limited by external parties or legislations (i.e., debt covenants and grants).

Committed fund balance – amounts limited by Board policy or Board action (i.e., future anticipated costs).

Assigned fund balance - amounts that are intended for a particular purpose. Generally balances in special revenue funds or capital project funds will be designated as assigned.

Unassigned fund balance – amounts available for consumption or not restricted in any manner.

Beginning fund balances for the School District's governmental funds have been restated to reflect the above classifications.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Use of fund balance:

The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated.

If the School District experiences an excess of expenditures over revenues for a given fiscal year, the fund balance shall be consumed in the following order:

Restricted fund balance to the extent that expenditures related to the restriction contributed to the excess of expenditures over revenues.

Committed fund balance to the extent that expenditures related to the commitment contributed to the excess of expenditures over revenues. If a plan for periodic use of committed fund balance is reviewed and approved by the Board, the committed fund balance will not be reduced by more than the amount designated in the plan.

Assigned fund balance to the extent that expenditures related to the assignment contributed to the excess of expenditures and revenues.

Unassigned fund balance for any remaining excess of expenditures over revenues.

Minimum fund balance:

The School District will strive to maintain an unassigned general fund fund balance of not less than 6% and not more than 8% of the budgeted expenditures for that fiscal year. The total fund balance, consisting of several portions including restricted, committed, assigned and unassigned, may exceed 8%. If the unassigned portion of the fund balance falls below the threshold of 6% of budgeted expenditures, the Board may pursue options for increasing revenues and decreasing expenditures, or a combination of both until 6% is attained. If the unassigned portion of the fund balance exceeds 8% of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for expenditures. The goal shall be to use any excess fund balance for nonrecurring expenditures, not for normal operating costs.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Change in accounting principle:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, modified the definition of special revenue funds which resulted in the following effect on the June 30, 2010 fund balance:

	<u>General fund</u>	<u>Nonmajor fund, athletic fund</u>
Fund balance June 30, 2010, as previously reported	\$ 11,655,023	\$ 32,710
Classification change, athletic fund	<u>32,710</u>	<u>(32,710)</u>
June 30, 2010 balance, as adjusted	<u>\$ 11,687,733</u>	<u>\$ -</u>

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, 2011.

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, 2011.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

2. Cash, cash equivalents and investments:

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

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

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

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 School 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, 2011, \$10,768,617 of the School District's bank balance of \$11,050,488 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.

Financial statement amounts, cash and cash equivalents:

Government activities:	
Cash and cash equivalents	\$ 1,727,214
Held for long-term purposes	9,000,328
Business-type activities	8,737
Fiduciary funds, agency	<u>2,578</u>
Total	<u>\$ 10,738,857</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

2. Cash, cash equivalents 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, 2011, the School 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	\$ 15,480,328
PA Local Government Investment Trust (rated AAAM)	None	7,289,373
PA School District MAX (rated AAAM)	None	<u>5,249,668</u>
		28,019,369
Cash equivalents included above		<u>(9,000,328)</u>
Total		<u>\$ 19,019,041</u>

Financial statement amounts for investments:

Governmental activities:	
Investments	\$ 18,314,060
Held for long-term purposes	230,422
Business-type activities	310,239
Fiduciary funds:	
Private purpose trust	68,344
Agency	<u>95,976</u>
Total	<u>\$ 19,019,041</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Interest rate risk:

The School 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 School 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 School 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, 2011 was 16.46 mills (\$16.46 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, 2011

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, 2011 are as follows:

	<u>Gross taxes receivable</u>	<u>Allowance for uncollectible taxes</u>	<u>Net estimated to be collectible</u>	<u>Tax revenue recognized</u>	<u>Deferred tax revenue</u>
Real estate	\$ 683,845	\$ 46,405	\$ 637,440	\$ 134,800	\$ 502,640
Earned income taxes	817,589		817,589	817,589	
Per capita and occupation	285,921	283,062	2,859		2,859
Transfer tax	46,754		46,754	46,754	
	<u>\$ 1,834,109</u>	<u>\$ 329,467</u>	<u>\$ 1,504,642</u>	<u>\$ 999,143</u>	<u>\$ 505,499</u>

5. Interfund accounts:

Individual fund receivable and payable balances at June 30, 2011 were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 104,848	\$ 550,000
Capital reserve fund	500,000	
Enterprise fund, food service	50,000	104,848
	<u>\$ 654,848</u>	<u>\$ 654,848</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

5. Interfund accounts (continued):

	<u>Transfers to other funds</u>	<u>Transfers from other funds</u>
Major funds:		
General fund	\$ 8,249,338	
Debt service fund		\$ 7,599,338
Capital reserve fund		500,000
Enterprise food service		150,000
	<u>\$ 8,249,338</u>	<u>\$ 8,249,338</u>

6. Due from other governments:

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2011, the following amounts are due from other governmental units:

	<u>General fund</u>
Federal funding:	
Medical Access and grants	\$ 740,616
State subsidy:	
Rental	848,887
Retirement	314,266
Social Security	129,791
Grants and programs:	
State	17,411
Local	22,681
	<u>\$ 2,073,652</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

7. Changes in capital assets:

Capital asset activity for governmental activities for the year ended June 30, 2011 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	\$ 3,886,371		\$ 6,815,677
Construction in progress	<u>2,955,016</u>	<u>8,757,501</u>		<u>11,712,517</u>
Total assets not being depreciated	<u>5,884,322</u>	<u>12,643,872</u>		<u>18,528,194</u>
Capital assets being depreciated:				
Site improvements	3,872,468			3,872,468
Buildings and building improvements	104,523,069			104,523,069
Furniture, equipment and educational media	2,012,228	48,349		2,060,577
Vehicles	<u>524,659</u>	<u>105,274</u>	\$ 89,844	<u>540,089</u>
Total assets being depreciated	<u>110,932,424</u>	<u>153,623</u>	<u>89,844</u>	<u>110,996,203</u>
Accumulated depreciation:				
Site improvements	1,833,886	246,599		2,080,485
Buildings and building improvements	35,012,461	2,479,934		37,492,395
Furniture and equipment	814,832	150,876		965,708
Vehicles	<u>338,926</u>	<u>35,759</u>	<u>87,830</u>	<u>286,855</u>
Total accumulated depreciation	<u>38,000,105</u>	<u>2,913,168</u>	<u>87,830</u>	<u>40,825,443</u>
Total capital assets being depreciated, net	<u>72,932,319</u>	<u>(2,759,545)</u>	<u>2,014</u>	<u>70,170,760</u>
Governmental activities, capital assets, net	<u>\$ 78,816,641</u>	<u>\$ 9,884,327</u>	<u>\$ 2,014</u>	<u>\$ 88,698,954</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

7. Changes in capital assets (continued):

Capital asset activity for business-type activities for the year ended June 30, 2011 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	\$ 649,908			\$ 649,908
Less accumulated depreciation for equipment	<u>538,201</u>	<u>\$ 12,677</u>		<u>550,878</u>
Business-type activities, capital assets, net	<u>\$ 111,707</u>	<u>\$ (12,677)</u>		<u>\$ 99,030</u>

Depreciation expenses were charged to governmental functions as follows:

Instruction	\$ 2,439,380
Instructional student support	4,651
Administration and financial services	10,206
Operation and maintenance of plant	172,923
Pupil transportation	22,672
Student activities	<u>263,336</u>
	<u>\$ 2,913,168</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. Fund balances:

As of June 30, 2011, fund balances are composed of the following:

	<u>General fund</u>	<u>Capital reserve</u>	<u>Capital projects</u>	<u>Debt service</u>	<u>Total governmental funds</u>
Committed:					
Future pension obligations	\$ 6,957,671				\$ 6,957,671
Textbook series replacement	200,000				200,000
Future capital projects	2,094,963				2,094,963
Assigned, capital projects		\$ 7,200,176	\$ 4,258,711		11,458,887
Unassigned	<u>4,530,063</u>			\$ (9)	<u>4,530,054</u>
Total fund balances	<u>\$ 13,782,697</u>	<u>\$ 7,200,176</u>	<u>\$ 4,258,711</u>	<u>\$ (9)</u>	<u>\$ 25,241,575</u>

9. Deferred revenues:

Deferred revenues at June 30, 2011 consist of the following:

	<u>General fund</u>	<u>Proprietary fund</u>	<u>Total</u>
Deferred taxes	\$ 505,499		\$ 505,499
Deferred revenue, grant and other	10,615		10,615
Prepaid ticket sales		\$ 26,990	26,990
Unused donated commodities		<u>15,087</u>	<u>15,087</u>
	<u>\$ 516,114</u>	<u>\$ 42,077</u>	<u>\$ 558,191</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. 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 five general obligation bond series with interest rates and outstanding principal amounts at June 30, 2011 as follows:

<u>Issue</u>	<u>Final maturity date</u>	<u>Interest rate or yield</u>	<u>Amount</u>
Series of 2006 GOB	June 1, 2016	3.85% - 5.00%	\$ 19,410,000
Series A of 2006 GOB	June 1, 2014	3.60% - 5.00%	1,260,000
Series of 2009 GOB	June 1, 2016	2.50% - 5.00%	7,680,000
Series A of 2010 GOB	June 1, 2018	3.61% - 4.21%	10,570,000
Series B of 2010 GOB	June 1, 2012	2.00%	<u>2,675,000</u>
			41,595,000
Deferred loss			(215,542)
Bond premium, net of discount			<u>820,165</u>
			42,199,623
Total long-term debt			42,199,623
Less current portion			<u>5,910,000</u>
			<u><u>\$ 36,289,623</u></u>

Current debt issue:

On July 8, 2010, the School District issued General Obligation Bonds, Series B of 2010 for \$4,590,000. The proceeds of the bond were used to currently refund the outstanding General Obligation Bonds, series of 2005 and to pay the costs of issuing the bonds. Interest of 2.00% is paid semiannually on June 1 and December 1 of each year until June 2012 the scheduled date of final redemption.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. 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	\$ 47,300,000	\$ 4,590,000	\$ 10,295,000	\$ 41,595,000
Accrued retirement cost	697,258	39,883		737,141
Estimated liability for compensated absences	<u>1,934,714</u>	<u>65,350</u>	<u></u>	<u>2,000,064</u>
	<u>\$ 49,931,972</u>	<u>\$ 4,695,233</u>	<u>\$ 10,295,000</u>	<u>\$ 44,332,205</u>

Letter of credit:

At June 30, 2011, the School District has letters of credit with a local bank for \$529,454 and \$275,817 which related to the turf field project and road improvements. Both letters of credit are secured by property of the School District.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. General long-term debt (continued):

Debt service requirements:

The annual requirements of the School District's debt service are listed below. The amounts shown exclude the interest subsidy for the Series A of 2010 "Build America Bonds."

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 5,910,000	\$ 1,734,814	\$ 7,644,814
2013	6,080,000	1,567,229	7,647,229
2014	6,310,000	1,329,729	7,639,729
2015	6,495,000	1,050,449	7,545,449
2016	6,780,000	725,699	7,505,699
2017-2018	<u>10,020,000</u>	<u>528,513</u>	<u>10,548,513</u>
	<u>\$ 41,595,000</u>	<u>\$ 6,936,433</u>	<u>\$ 48,531,433</u>

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."

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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 13-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 \$100,000 per occurrence.

As of June 30, 2011, 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, 2011, the School District was limited in liability for claims to \$125,000 per individual and \$7,386,600 in total for the Point of Service Plan. A liability for claims incurred prior to June 30, 2011 and paid subsequently is recorded in the amount of \$521,233 in accounts payable in the general fund.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

12. Risk management (continued):

Hospitalization (continued):

Changes in the School District's claims liability amount in fiscal years 2010 and 2011 were:

	<u>Beginning of fiscal year liability</u>	<u>Current year claims and changes in estimates</u>	<u>Claims payment</u>	<u>Balance at fiscal year-end</u>
2009-2010	\$ 490,613	\$ 4,793,972	\$ 4,807,531	\$ 477,054
2010-2011	477,054	5,655,012	5,603,881	528,185

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, 2011 is limited to \$200 per eligible employee. An eligible employee may carry over any unused amount in his/her account to the following year to a maximum usage of \$400. For the fiscal year beginning July 1, 2011, payment is limited to \$200 per year and the carryover is limited to a maximum of \$400.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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 Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2011, 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, 2011 and the two previous fiscal years, no settlements exceeded insurance coverage.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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 which may be found at www.psers.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, 2011, the rate of employer contribution was 5.64% of covered payroll. The 5.64% rate is composed of 5.00% for pension benefits and .64% 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, 2011, 2010 and 2009 were \$1,762,923, \$1,475,889, and \$1,662,893, 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, 2011

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, 2011 was approximately \$1,315,000. 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 School District's lease payment to the Authority for the year ended June 30, 2011 was \$106,111 which has been reported in the School District's general fund. The operating lease with the Authority expired as of June 30, 2010. 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, 2011

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, 2011. 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 unit's constituent school districts. The LLIU Board members are school district board members, who are elected by the public and are appointed to the LLIU Board by the member school districts' Board of Directors. Penn Manor School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Penn Manor School District contracts with the LLIU for special education services for School District students. The amount paid for these services and various other support services during the year ended June 30, 2011 was approximately \$1,592,095. 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, 2011 was \$29,995. 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 all Lancaster County school districts and associated municipalities as prescribed by Act 32 for the collection of earned income taxes. The joint operating committee is comprised of representatives from the 17-member school districts and 16 municipal representatives. 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, 2011 was \$129,489. 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, 2011

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:

On July 1, 2008, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of expenditures for postemployment benefits (OPEB) other than pensions and the related liabilities (assets) in the financial reports of state and local governmental employers. As a result of the implementation of the standard, OPEB costs are recognized in the government-wide statements and in the proprietary funds when the employee-related services are received by the employer rather than when the benefits are paid. The additional required financial note disclosures detailed below include information about actuarial accrued liabilities for these promised benefits associated with past employee services, and whether and to what extent those benefits have been funded.

Plan description:

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.

The plan does not issue a publicly available financial report. As of June 30, 2011, there were 53 participants receiving benefits.

Funding policy:

The District currently follows a pay-as-you-go funding approach, paying an amount each year equal to the benefits claimed in that year.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

15. Postemployment healthcare benefits (continued):

Annual OPEB cost and net OPEB obligation:

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the School District's OPEB cost for the year, the amount contributed to the plan and changes in the School District's OPEB obligation to the plan.

Normal cost as of July 1, 2010	\$ 203,150
Interest on net OPEB obligation	12,548
Adjustment to ARC	<u>(17,119)</u>
Total normal cost	198,579
30-year amortization of unfunded actuarial accrued liability	<u>186,315</u>
Annual required contribution	<u>\$ 384,894</u>
Annual OPEB cost	\$ 384,894
Contributions made (estimated)	<u>(206,748)</u>
Increase in net OPEB obligation	178,146
Net OPEB obligation:	
Beginning of year	<u>278,853</u>
End of year	<u>\$ 456,999</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

15. Postemployment healthcare benefits (continued):

Funding status and funding progress:

The funded status of the plan as of June 30, 2011 was as follows:

Unfunded actuarial accrued liability	<u>\$ 3,034,874</u>
Funded ratio	0.00%
Covered payroll	\$ 28,241,347
Unfunded actuarial accrued liability as a percentage of covered payroll	10.75%

Funding status and funding progress:

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial methods and assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of the valuation.

In the July 1, 2010 actuarial valuation, the entry age normal cost method was used. An assumption for salary increases was used only for spreading contributions over future pay under this cost method. For this purpose, salary increases were composed of a 3% cost-of-living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varied by age from 3% to .25%. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

15. Postemployment healthcare benefits (continued):

Actuarial methods and assumptions (continued):

Claims costs for medical and prescription drugs are based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental and vision costs are assumed not to vary with age or gender. Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate which was 7.5% in 2010, decreasing .5% per year to an ultimate rate of 5.5% in 2014.

Other actuarial assumptions include the following: a 4.5% interest rate, retirement rates based on PSERS plan experience and mortality rates as assumed in the PSERS defined benefit pension plan actuarial valuation.

16. Termination benefits:

According to the School District's negotiated agreement with the Penn Manor Education Association, teachers are eligible for an early retirement incentive if the date of retirement is at the conclusion of the school year, written notice of retirement is provided before April 1 preceding the date of retirement, the employee accepts benefits under the Pennsylvania Employee's Retirement System and the employee has at least 15 consecutive years of service at the School District. The retirement incentive is calculated by multiplying \$125 per year for each year of employment with the School District and the total incentive is limited to a maximum of \$20,000. Payments are paid as employer non-elective contributions to employee 403(b) accounts at the time of retirement.

Retiring administrators with at least ten years of service may either elect to receive \$250 for each full year of service to the School District, or \$500 for each full year of administrative service to the School District. These amounts are in addition to any accrued sick leave otherwise payable upon retirement. At no time can the monetary compensation to a retiring administrator exceed \$31,000.

The School District records retirement incentive expenses and liabilities at the government-wide level and in the proprietary funds. A prorata formula based on years of service is used to calculate the liabilities for employees who have less than the required minimum years of service. The retirement incentive liability was included in compensated absences in the statement of net assets and totaled approximately \$684,800 as of June 30, 2011.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

17. Commitments:

As of June 30, 2011, the School District was committed under various construction contracts totaling \$1,867,373 for the Central Manor Elementary School and the high school. Of that total, \$525,866 was recorded in accounts payable at year end.

18. Pending sale of District owned property:

The District has entered into an agreement for the sale of a portion of Comet Field referred to as the commercial triangle and is currently within the prescribed due diligence period pending final resolution.

19. Subsequent events:

The School District has evaluated subsequent events through October 31, 2011, which is the date the financial statements were available to be issued.

PENN MANOR SCHOOL DISTRICT

OTHER POSTEMPLOYMENT BENEFITS
(Required supplementary information)
(unaudited)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2011

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) - entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/ c)</u>
7/1/2010	<u>\$ -</u>	<u>\$ 3,034,874</u>	<u>\$ 3,034,874</u>	<u>0.00%</u>	<u>\$ 28,241,347</u>	10.75%
7/1/2008	<u>\$ -</u>	<u>\$ 3,497,574</u>	<u>\$ 3,497,574</u>	<u>0.00%</u>	<u>\$ 26,172,349</u>	13.36%

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

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, 2010	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2011
<u>U.S. Department of Agriculture:</u>										
Passed through the Pennsylvania Department of Education:										
School Breakfast Program:	I/F	10.553	N/A	7/1/10-6/30/11	N/A	\$ 140,623		\$ 140,623	\$ 140,623	\$ -
	S	N/A	N/A	7/1/10-6/30/11	N/A	13,475		13,475	13,475	-
National School Lunch Program:	I/F	10.555	N/A	7/1/10-6/30/11	N/A	642,264		642,264	642,264	-
	S	N/A	N/A	7/1/10-6/30/11	N/A	<u>69,794</u>		<u>69,794</u>	<u>69,794</u>	-
Total passed through the Pennsylvania Department of Education						866,156		866,156	866,156	-
Passed through the Pennsylvania Department of Agriculture,										
value of U.S. donated commodities	I/F	10.555	N/A	7/1/10-6/30/11	N/A	<u>143,460</u> (b)	\$ (14,417) (a)	<u>142,790</u> (c)	<u>142,790</u>	<u>(15,087)</u> (d)
Total U.S. Department of Agriculture						<u>1,009,616</u>	<u>(14,417)</u>	<u>1,008,946</u>	<u>1,008,946</u>	<u>(15,087)</u>

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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, 2010	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2011
<u>U.S. Department of Education:</u>										
Passed through the Pennsylvania Department of Education:										
Academic Achievement	** I/F	84.010	077-100324	7/01/09 - 6/30/10	\$ 10,800	\$ 8,640	\$ 8,640			
Title I Grants to Local Educational Agencies:	** I/F	84.010	013-090324	7/01/08 - 9/30/09	501,610		(969)	\$ 969	\$ 969	\$ -
	** I/F	84.010	013-100324	7/01/09 - 6/30/10	514,088	67,676	43,586	24,090	24,090	-
	** I/F	84.010	013-110324	7/01/10 - 9/30/11	556,878	447,918		529,957	529,957	82,039
Safe and Drug-free Schools and Communities State Grants	I/F	84.186	100-100324	7/01/09 - 9/30/10	43,991	37,462	7,462	30,000	30,000	-
Improving Teacher Quality State Grants:	I/F	84.367	020-090324	7/01/08 - 9/30/09	132,613		(2,157)	2,157	2,157	-
	I/F	84.367	010-100324	7/01/09 - 6/30/10	131,938	17,592	15,110	2,482	2,482	-
	I/F	84.367	010-110324	7/01/10 - 6/30/11	136,972	109,838		136,972	136,972	27,134
ARRA TITLE I	** I/F	84.389	127-100324	7/01/09 - 6/30/11	289,243	152,849	(4,678)	149,111	149,111	(8,416)
ARRA BASIC ED SFSP	** I/F	84.394	126-100324	7/01/09 - 6/30/11	1,290,254	215,042	215,042			
ARRA BASIC ED SFSP	** I/F	84.394	126-110324	7/01/10 - 6/30/11	1,310,601	1,092,167		1,310,601	1,310,601	218,434
ARRA Education Jobs Grant	** I/F	84.410	140-119434	8/10/10 - 6/30/11	776,045	<u>776,045</u>		<u>776,045</u>	<u>776,045</u>	-
Total passed through the Pennsylvania Department of Education						<u>2,925,229</u>	<u>282,036</u>	<u>2,962,384</u>	<u>2,962,384</u>	<u>319,191</u>
Passed through the Lancaster-Lebanon Intermediate Unit #13, IDEIA Part B										
ARRA IDEIA	** I/F	84.027	062-11-0013	7/1/10 - 6/30/11	1,037,698	1,037,698		1,037,698	1,037,698	-
	** I/F	84.391	128-100013	7/01/09 - 6/30/11	1,200,233	<u>425,647</u>	<u>36,661</u>	<u>615,685</u>	<u>615,685</u>	<u>226,699</u>
Total passed through Intermediate Unit #13						<u>1,463,345</u>	<u>36,661</u>	<u>1,653,383</u>	<u>1,653,383</u>	<u>226,699</u>
Total U.S. Department of Education						<u>4,388,574</u>	<u>318,697</u>	<u>4,615,767</u>	<u>4,615,767</u>	<u>545,890</u>

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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, 2010	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2011
<u>U.S. Department of Health and Human Services</u>										
Passed through the Pennsylvania Department of Public Welfare, Access	I/F	93.778	N/A	7/01/10 - 6/30/11	\$ 1,872	\$ 1,872		\$ 1,872	\$ 1,872	\$ -
Total U.S. Department of Health and Human Services						1,872		1,872	1,872	-
Total expenditures of federal awards						\$ 5,400,062	\$ 304,280	\$ 5,626,585	\$ 5,626,585	\$ 530,803

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2011

Source codes:

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

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

Total expenditures per above	\$ 5,626,585
Less state share of National School Lunch and School Breakfast Program expenditures	<u>83,269</u>
	<u>\$ 5,543,316</u>

84.010	Title I Grants	\$ 555,016
84.389	ARRA Title I	149,111
84.027	IDEIA	1,037,698
84.391	ARRA IDEIA	615,685
84.394	ARRA Basic Education Subsidy	1,310,601
84.410	ARRA Education Jobs Grant	<u>776,045</u>

\$ 4,444,156

\$ 4,444,156

5,543,316 = 80.17% Programs meet the 25% requirement

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, 2011, which collectively comprise Penn Manor School District's basic financial statements, and have issued our report thereon dated October 31, 2011. 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 opinions 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 School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented or detected and corrected, on a timely basis.

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 deficiencies, 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.

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, 2011

Report on Compliance with Requirements
that Could Have a Direct and Material Effect
on Each Major Program 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 could have a direct and material effect on each of Penn Manor School District's major federal programs for the year ended June 30, 2011. 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 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 Nonprofit 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph described in this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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 Schultzy Sheridan & Fritz

Lancaster, Pennsylvania
October 31, 2011

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2011

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

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED):

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
84.389	Title I, Grants to Local Education Agencies, Recovery Act
84.027	Special Education – IDEIA Part B
84.391	Special Education – IDEIA Part B, Recovery Act
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants Recovery Act
84.410	Education Jobs Grant – Recovery Act

Dollar threshold used to distinguish between type A
and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X yes no

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, 2011

There were no prior year OMB Circular A-133 audit findings.