

PENN MANOR SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2013

PENN MANOR SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2013

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Independent Auditors' Report

Board of School Directors
Penn Manor School District
Millersville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of Penn Manor School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 remaining fund information of Penn Manor School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the information about other postemployment benefits - schedule of funding progress and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Penn Manor School District's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2013 on our consideration of Penn Manor School District's internal control over financial reporting and on 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 in considering Penn Manor School District's internal control over financial reporting and compliance.

Brown Schultz Steidan & Fritz

Lancaster, Pennsylvania
October 31, 2013

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2013
(Unaudited)

The discussion and analysis of Penn Manor School District's financial performance provides an overall review of the School District's financial activities for the year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. It should be read in conjunction with the notes to the basic financial statements and the financial statements to enhance the understanding of the School District's financial performance.

Financial Highlights

The School District adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of this, prior year unamortized bond issue costs of \$194,707 were written off. Additionally, an adjustment of \$359,660 was made to agree the capital assets to supporting detail. Both of these items resulted in a decrease of net investment in capital assets. Amounts shown for 2012 in this MD&A have been adjusted for these changes.

Key financial highlights for 2013 are as follows:

- Capital assets, net of depreciation, declined slightly by \$1.5 million. The overall total of capital assets decreased during 2012-13 as annual depreciation expenses outpaced asset additions. Planned construction of a new elementary building, facilities upgrades and the anticipated sale of the current Hambright Elementary School will have an impact in future years.
- Revenues totaled \$70.0 million. General revenues accounted for \$57.0 million or 81.4% 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 \$13.0 million or 18.6% of total revenues, which is slightly lower than the prior year.
- The School District had \$60.7 million in expenses related to governmental activities; \$10.5 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$56.9 million were adequate to provide for these programs.
- Among major funds, the General Fund had \$65.9 million in revenues and \$64.5 million in expenditures and other financing uses. This resulted in the addition of about \$1.4 million to fund balance, bringing the General Fund's fund balance up to \$15.5 million from \$14.1 million. Approximately \$0.6 million of the General Fund's fund balance is budgeted to be utilized for the year ending June 30, 2014. The projected ending unassigned fund balance on June 30, 2014 of \$4.7 million represents 7.0% of the budgeted expenditures and other financing uses for the 2013-14 fiscal year.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2013
(Unaudited)

- Net position for Enterprise Funds increased from \$619,752 to \$809,459. This increase is attributed to a combination of increased operating revenues coupled with a decrease in associated operating expenses and an increase in state and federal subsidies received by the School District. 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.

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 position and statement of activities provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how the services were financed in the short term as well as what remains for future spending. The fund financial statements also present the School District's most significant funds – in the case of Penn Manor School District, the General Fund is the most significant fund.

Reporting on the School District as a Whole

The analysis for the School District as a whole begins on page 6. One of the most important questions asked about the School District's finances is, "Have our financial results this year improved or diminished our overall financial position?" The statement of net position and the statement of activities report information about the School District as a whole and about the activities in a way that helps answer this question. These statements include all assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

In the statement of net position and the statement of activities, the School District's financial information is divided into two distinct kinds of activities:

- *Governmental Activities* - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2013
(Unaudited)

- *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 School District's food services are reported as business activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

The School District as a Whole

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

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2013
(Unaudited)

Table 1 provides a summary of the School District's net position for 2013 compared to 2012.

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

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current assets	\$ 34.27	\$ 30.69	\$ 0.80	\$ 0.64	\$ 35.07	\$ 31.33
Capital and noncurrent assets	<u>97.36</u>	<u>90.20</u>	<u>0.11</u>	<u>0.09</u>	<u>97.47</u>	<u>90.29</u>
Total assets	<u>\$ 131.63</u>	<u>\$ 120.89</u>	<u>\$ 0.91</u>	<u>\$ 0.73</u>	<u>\$ 132.54</u>	<u>\$ 121.62</u>
Liabilities:						
Current liabilities	\$ 11.59	\$ 13.24	\$ 0.06	\$ 0.06	\$ 11.65	\$ 13.30
Noncurrent liabilities	<u>38.59</u>	<u>32.89</u>	<u>0.04</u>	<u>0.05</u>	<u>38.63</u>	<u>32.94</u>
Total liabilities	<u>50.18</u>	<u>46.13</u>	<u>0.10</u>	<u>0.11</u>	<u>50.28</u>	<u>46.24</u>
Net Position:						
Net investment in capital assets	57.16	53.60	0.11	0.09	57.27	53.69
Unrestricted	<u>24.29</u>	<u>21.16</u>	<u>0.70</u>	<u>0.53</u>	<u>24.99</u>	<u>21.69</u>
Total net position	<u>81.45</u>	<u>74.76</u>	<u>0.81</u>	<u>0.62</u>	<u>82.26</u>	<u>75.38</u>
Total liabilities and net position	<u>\$ 131.63</u>	<u>\$ 120.89</u>	<u>\$ 0.91</u>	<u>\$ 0.73</u>	<u>\$ 132.54</u>	<u>\$ 121.62</u>

In total, net position increased \$6.9 million from 2012. Net position of governmental activities increased by \$6.7 million while the net position of business-type activities increased by \$189,707. The food service operations operated with a profit in fiscal 2012-13 without a fund contribution from the General Fund. Looking ahead, continued School District General Fund support for the food service operation is expected to assist with equipment and technology purchases as well as fluctuating healthcare costs. Efforts will continue to make the food service operation entirely self-sufficient.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2013
(Unaudited)

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

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 0.5	\$ 0.5	\$ 1.3	\$ 1.4	\$ 1.8	\$ 1.9
Operating grants	10.0	9.9	1.2	1.1	11.2	11.0
General revenue:						
Property and other taxes	43.4	42.5	0.0	0.0	43.4	42.5
Grants and entitlements	11.8	11.8	0.0	0.0	11.8	11.8
Other	1.7	0.2	0.1	0.1	1.8	0.3
Total revenues	67.4	64.9	2.6	2.6	70.0	67.5
Expenses:						
Program expenses, instruction	40.6	38.9	0.0	0.0	40.6	38.9
Support services:						
Instructional student support	3.3	3.6	0.0	0.0	3.3	3.6
Administrative and financial support services	5.4	5.0	0.0	0.0	5.4	5.0
Operation and maintenance of plant services	5.1	4.8	0.0	0.0	5.1	4.8
Pupil transportation	2.9	2.8	0.0	0.0	2.9	2.8
Student activities	1.4	1.3	0.0	0.0	1.4	1.3
Capital outlay	0.4	0.7	0.0	0.0	0.4	0.7
Interest on long-term debt	1.6	1.7	0.0	0.0	1.6	1.7
Food service	0.0	0.0	2.4	2.3	2.4	2.3
Total expenses	60.7	58.8	2.4	2.3	63.1	61.1
Increase in net position	\$ 6.7	\$ 6.1	\$ 0.2	\$ 0.3	\$ 6.9	\$ 6.4

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2013
(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 2011-12 as compared to fiscal year 2012-13. It identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

The School District passed the budget for 2013-14 in June 2013 with a 1.65% property tax increase. Under Act 1, the state allowed the School District to increase up to the adjusted index of 2.1%. While preparing for the 2014-15 budget, the state has set the adjusted index at 2.6%. The adjusted index is below the ten-year average of 3.50% and when coupled with reduced state subsidized support presents significant financial challenges for the School District. Management will continue to carefully control expenses during the coming years to ensure 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, 2013
(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	
	2013	2012	2013	2012
Instruction	\$ 40.6	\$ 38.9	\$ 33.0	\$ 31.8
Support services:				
Instructional student support	3.3	3.6	3.0	3.3
Administrative and financial support services	5.4	5.0	5.1	4.8
Operation and maintenance of plant	5.1	4.8	4.9	4.6
Pupil transportation	2.9	2.8	1.6	1.2
Student activities	1.4	1.3	1.2	1.2
Capital outlay	0.4	0.7	0.4	0.7
Interest on long-term debt	1.6	1.7	1.0	0.8
Total expenses	<u>\$ 60.7</u>	<u>\$ 58.8</u>	<u>\$ 50.2</u>	<u>\$ 48.4</u>

The dependence upon tax revenues and grants and entitlements for governmental activities is apparent. 81.2% of instructional activities are supported through taxes and other general revenues as compared with 81.9% in the previous year. When looking at the total governmental activities, general revenue and tax support remains at a similar rate of 82.6%. The community, as a whole, is by far the primary financial support for Penn Manor School District.

Expenses for governmental activities increased by \$1,944,219, which is a 3.3% increase over the prior year. While salaries experienced a modest raise, benefit increases were driven largely by the increased PSERS employer contribution. Healthcare costs remained fairly level and can be attributed to plan design changes and continued wellness initiatives. The School District continued its efforts to reduce expenditures in operations, administration and debt service.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2013
(Unaudited)

Business-Type Activities

Business-type activities consist only of food service operations. This program had revenues, including state and federal support, of \$2.6 million and expenses of \$2.4 million for the fiscal year. A modest increase in meal prices for some tiers was instituted at the beginning of the 2012-13 school year. Net position is listed as \$809,459 as of June 30, 2013. The increase of net position 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 2012-13 fiscal year. The food service operation did not receive support from tax revenues in 2012-13. A \$100,000 transfer has been budgeted for the 2013-14 school year in an effort to continue assisting the food service operations build positive net position.

The School District's Funds

The School 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 \$77.5 million and expenditures of \$65.9 million. This resulted in the overall fund balance increasing by \$11,671,324.

- General Fund transfers to other funds included the normal operating transfers to the Debt Service Fund for bond principal and interest and \$500,000 to the Capital Reserve Fund which represented budgeted General Fund support for these areas. At year-end, it was decided to transfer approximately \$2.7 million from the General Fund to the Capital Reserve Fund, representing the difference between budgeted expenditures and actual expenditures.
- The General Fund fund balance increased by \$1,422,969. 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 2014-15 fiscal year to accommodate the current year estimates calculated each spring.
- The School District starts the next fiscal year with a total fund balance of 23.1% of budgeted expenditures and other financing uses. 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, debt service stabilization efforts associated with future Plancon renovation projects and a new elementary textbook series. Planned use of the fund balance during the 2013-14 fiscal year is budgeted to keep the School District below the 8% limit on June 30, 2014.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2013
(Unaudited)

- The planned, budgeted use of fund balance has allowed the School District to temper the impact of rising costs on the local tax levy. A tax increase was implemented for the 2013 tax levy in addition to planned use of fund balance to assist the School District in balancing the budget. While tough economic years are expected in the future, the Act 1 Index was increased slightly for the 2014-15 budget year. The adjusted index for Penn Manor School District has been set at 2.6% for the 2014-15 fiscal year, which is lower than the 10-year average of 3.50% or the 15-year average of 3.64%.

General Fund Budgeting Highlights

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

During the course of fiscal 2012-13, the School District administered expenditures based on its General Fund budget. The School 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 School 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 2012-13.

For the General Fund, actual revenues were \$67.5 million (including the special item); this was \$1,897,816 over the original budget estimates of \$65.7 million. While the difference between actual and budgeted revenue was nearly \$1.9 million, the figure includes over \$1.6 million collected from the sale of the real estate parcel commonly referred to as the commercial triangle located at an undeveloped corner of the School District's athletic field complex. In addition, there were fluctuations within several of the revenue accounts. Notably, the actual revenues generated by real estate 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, 2013
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year, the School District had \$86.6 million invested in land, buildings and equipment, with \$86.5 million in governmental activities. MDATable 4 shows the fiscal 2012 balance compared to 2013.

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

	Governmental activities		Business-type activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 6.8	\$ 6.8	\$ 0.0	\$ 0.0	\$ 6.8	\$ 6.8
Buildings and improvements	78.4	79.9	0.0	0.0	78.4	79.9
Furniture and equipment, vehicles	<u>1.3</u>	<u>1.3</u>	<u>0.1</u>	<u>0.1</u>	<u>1.4</u>	<u>1.4</u>
Totals	<u>\$ 86.5</u>	<u>\$ 88.0</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ 86.6</u>	<u>\$ 88.1</u>

The overall total of capital assets decreased during 2012-13 as annual depreciation expenses outpaced asset additions. A full appraisal was performed at the end of the 2006-07 fiscal year for insurance purposes and for fixed asset accounting. The fixed asset listing continues to be updated annually, while insurance appraisals are scheduled through the LLPSIP insurance pool consortium.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2013
(Unaudited)

Debt

At June 30, 2013, the School District had \$38.7 million in bonds outstanding as compared to \$35.7 million a year ago. Table 5 summarizes bonds outstanding.

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

	Governmental activities	
	<u>2013</u>	<u>2012</u>
General Obligation Bonds:		
Series of 2006 GOB		\$ 18.0
Series A of 2006 GOB	\$ 0.4	0.9
Series of 2009 GOB	4.8	6.2
Series A of 2010 GOB	10.6	10.6
Series of 2012 GOB	9.2	0.0
Series of 2013 GOB	<u>13.7</u>	<u>0.0</u>
Total	<u>\$ 38.7</u>	<u>\$ 35.7</u>

The School District increased its bonds and notes by \$3.0 million during 2013. A significant amount of principal was paid down according to the debt schedules as new debt was obtained to help fund the building of a new elementary school. Additional debt is expected within the 2013-14 school year to complete the elementary school construction and to fund a guaranteed energy savings facility upgrade at Manor Middle School. 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 School 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, 2013
(Unaudited)

For the Future

While Penn Manor School District continues to be strong financially, there are concerns regarding the economic and political outlook for the state and the local community. As the preceding information shows, the School District maintains a healthy investment in fixed assets to support and provide comprehensive educational services. The School 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 School 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 School District will face pressure to keep tax increases at or below the allowable increase for the foreseeable future. Limited tax relief arrived in the 2008-09 tax year as the Commonwealth was able to send school districts a portion of the gambling revenue to be used as an offset to real estate tax increases. In 2012-13, Penn Manor was fortunate to receive \$1,291,249 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 School 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 School 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 School 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 committed in the School 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 School District to prudently plan for any potential changes. The School 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, 2013
(Unaudited)

The costs of medical benefits will continue to have an effect on the School District budget as we continue to offer a competitive benefits package to employees through our self-insured plan. The School District continues to implement various wellness strategies to lower the pace of medical inflation. A Collective Bargaining Agreement is in effect through the 2013-14 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 School District's system of budgeting and internal controls is well regarded and consistently followed. Continued diligence in all financial matters will be a key component of continued financial performance well into the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School 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 POSITION - JUNE 30, 2013

ASSETS

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 10,998,658	\$ 39,700	\$ 11,038,358
Investments	20,203,232	672,998	20,876,230
Taxes receivable, net	1,504,068		1,504,068
Due from other governments	1,287,100	8,192	1,295,292
Other receivables	254,320	1,638	255,958
Internal balances	14,679	(14,679)	-
Inventories		87,482	87,482
Prepaid expenses	8,036		8,036
	<u>34,270,093</u>	<u>795,331</u>	<u>35,065,424</u>
Total current assets			
	<u>34,270,093</u>	<u>795,331</u>	<u>35,065,424</u>
Noncurrent assets:			
Cash and cash equivalents held for long-term purposes	10,650,000		10,650,000
Investments held for long-term purposes	218,327		218,327
Construction in progress	2,237,005		2,237,005
Land	6,794,658		6,794,658
Site improvements, net of accumulated depreciation	3,354,304		3,354,304
Buildings and building improvements, net of accumulated depreciation	72,727,827		72,727,827
Furniture, equipment and educational media, net of accumulated depreciation	1,120,682	112,978	1,233,660
Vehicles, net of accumulated depreciation	238,624		238,624
Long-term debt insurance costs, net of accumulated amortization	13,937		13,937
	<u>97,355,364</u>	<u>112,978</u>	<u>97,468,342</u>
Total noncurrent assets			
	<u>97,355,364</u>	<u>112,978</u>	<u>97,468,342</u>
Total assets	<u>\$ 131,625,457</u>	<u>\$ 908,309</u>	<u>\$ 132,533,766</u>

See notes to financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	Governmental activities	Business-type activities	Total
Current liabilities:			
Accounts payable	\$ 1,583,615	\$ 9,884	\$ 1,593,499
Accrued salaries and benefits	5,089,882		5,089,882
Current portion of:			
Bonds payable	4,190,000		4,190,000
Compensated absences	300,877	4,849	305,726
Payroll deductions and withholdings	289,143		289,143
Unearned revenue	8,011	40,476	48,487
Other current liabilities	128,768		128,768
Total current liabilities	11,590,296	55,209	11,645,505
Noncurrent liabilities:			
Bonds payable	35,287,098		35,287,098
Accrued retirement costs	793,142		793,142
Other postemployment benefits	602,158		602,158
Long-term portion of compensated absences	1,786,575	43,641	1,830,216
Total noncurrent liabilities	38,468,973	43,641	38,512,614
Total liabilities	50,059,269	98,850	50,158,119
Deferred inflows of resources, deferred gain on refunding			
	117,036		117,036
Net position:			
Net investment in capital assets	57,163,033	112,978	57,276,011
Unrestricted	24,286,119	696,481	24,982,600
Total net position	81,449,152	809,459	82,258,611
Total liabilities, deferred inflows of resources and net position	\$ 131,625,457	\$ 908,309	\$ 132,533,766

PENN MANOR SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

	Expenses	Program revenues		Net revenue (expense) and changes in net position		
		Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:						
Instruction	\$ 40,621,238	\$ 343,739	\$ 7,307,489	\$ (32,970,010)		\$ (32,970,010)
Instructional student support	3,347,479		330,991	(3,016,488)		(3,016,488)
Administrative and financial support services	5,421,626		316,639	(5,104,987)		(5,104,987)
Operation and maintenance of plant services	5,116,616	68,293	161,224	(4,887,099)		(4,887,099)
Pupil transportation	2,884,713		1,301,648	(1,583,065)		(1,583,065)
Student activities	1,347,185	94,064	65,576	(1,187,545)		(1,187,545)
Community services	3,542		3,542	-		-
Scholarships and awards	2,789			(2,789)		(2,789)
Capital outlay	408,608			(408,608)		(408,608)
Long-term debt interest	1,584,535		573,226	(1,011,309)		(1,011,309)
Miscellaneous	1,211			(1,211)		(1,211)
Total governmental activities	60,739,542	506,096	10,060,335	(50,173,111)		(50,173,111)
Business-type activities, food services	2,356,926	1,339,694	1,206,415		\$ 189,183	189,183
Total primary government	\$ 63,096,468	\$ 1,845,790	\$ 11,266,750	(50,173,111)	189,183	(49,983,928)

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2013

	Program revenues		Net revenue (expense) and changes in net position		
	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
General revenues:					
Taxes:					
Property taxes, etc.			\$ 37,335,198		\$ 37,335,198
Other			6,081,783		6,081,783
Grants, subsidies and other nonrestricted			11,795,038		11,795,038
Interest			78,628	\$ 524	79,152
Miscellaneous			142,398		142,398
Loss on disposal of assets			(166,952)		(166,952)
Special item, gain on sale of land			1,597,714		1,597,714
Total general revenues and special item			56,863,807	524	56,864,331
Change in net position			6,690,696	189,707	6,880,403
Net position:					
Beginning, restated			74,758,456	619,752	75,378,208
Ending			\$ 81,449,152	\$ 809,459	\$ 82,258,611

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS – JUNE 30, 2013

ASSETS

	Major funds			
	General fund	Capital reserve	Capital projects	Total governmental funds
Assets:				
Cash and cash equivalents	\$ 10,998,658		\$ 10,650,000	\$ 21,648,658
Investments	10,875,182	\$ 9,328,050	218,327	20,421,559
Taxes receivable, net	1,504,068			1,504,068
Due from:				
Other funds	23,423	2,652,725		2,676,148
Other governments	1,287,100			1,287,100
Other receivables, net	254,320			254,320
Prepaid expenses	8,036			8,036
Total assets	\$ 24,950,787	\$ 11,980,775	\$ 10,868,327	\$ 47,799,889

(continued)

PENN MANOR SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED) – JUNE 30, 2013

LIABILITIES, DEFFERED INFLOWS OF RESOURCES AND FUND BALANCES

	Major funds			Total governmental funds
	General fund	Capital reserve	Capital projects	
Liabilities:				
Due to other funds	\$ 2,652,725	\$ 8,744		\$ 2,661,469
Accounts payable	871,864	127,491	\$ 584,260	1,583,615
Accrued salaries and benefits	5,089,882			5,089,882
Payroll deductions and withholdings	289,143			289,143
Unearned revenue	8,011			8,011
Total liabilities	8,911,625	136,235	584,260	9,632,120
Deferred inflows of resources, unavailable revenue	485,623			485,623
Fund balances:				
Restricted		11,844,540		11,844,540
Committed	10,839,150			10,839,150
Assigned			10,284,067	10,284,067
Unassigned	4,714,389			4,714,389
Total fund balances	15,553,539	11,844,540	10,284,067	37,682,146
Total liabilities, deferred inflows of resources and fund balances	\$ 24,950,787	\$ 11,980,775	\$ 10,868,327	\$ 47,799,889

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2013

Total fund balances, governmental funds		\$ 37,682,146
Amounts reported for governmental activities in the statement of net position 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 \$133,406,847, and the accumulated depreciation is \$46,933,747.		86,473,100
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 unavailable in the funds.		485,623
Deferred gain on refunding is not reported as a deferred inflow of resources in the funds.		(117,036)
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	\$ (38,680,000)	
Accrued interest on the bonds	(128,768)	
Unamortized:		
Long-term debt insurance costs	13,937	
Bond premium, net of discount	(797,098)	
Accrued retirement costs	(793,142)	
Other postemployment benefits	(602,158)	
Compensated absences	(2,087,452)	(43,074,681)
Total net position, governmental activities		<u>\$ 81,449,152</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, 2013

	Major funds				Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service	
Revenues:					
Local sources:					
Real estate taxes	\$ 37,282,519				\$ 37,282,519
Other taxes	6,081,783				6,081,783
Investment income	66,212	\$ 2,816	\$ 9,289	\$ 311	78,628
Other revenue	1,839,925				1,839,925
Total local sources	45,270,439	2,816	9,289	311	45,282,855
State sources	19,592,075				19,592,075
Federal sources	1,071,866				1,071,866
Total revenues	65,934,380	2,816	9,289	311	65,946,796

(continued)

PENN MANOR SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2013

	Major funds				Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service	
Expenditures:					
Instructional services	\$ 37,866,365				\$ 37,866,365
Support services	16,358,278		\$ 48,457	\$ 44,466	16,451,201
Noninstructional services	1,087,879				1,087,879
Capital outlay		\$ 933,189	1,431,286		2,364,475
Debt service:					
Principal				6,375,000	6,375,000
Interest			3,287	1,730,826	1,734,113
Refunds of prior years' receipts	1,211				1,211
Total expenditures	55,313,733	933,189	1,483,030	8,150,292	65,880,244

(continued)

PENN MANOR SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2013

	Major funds				Total governmental funds
	General fund	Capital reserve	Capital projects	Debt service	
Excess (deficiency) of revenues over expenditures	<u>\$ 10,620,647</u>	<u>\$ (930,373)</u>	<u>\$ (1,473,741)</u>	<u>\$ (8,149,981)</u>	<u>\$ 66,552</u>
Other financing sources (uses):					
Bond proceeds			9,200,000	18,200,000	27,400,000
Bond discount/premium, net			299,744	316,295	616,039
Debt service, payment to refunded bond escrow agent				(18,030,000)	(18,030,000)
Interfund transfers	(10,816,411)	3,152,725		7,663,686	-
Special item, proceeds from sale of land, net of selling expenses	<u>1,618,733</u>				<u>1,618,733</u>
Total other financing sources (uses)	<u>(9,197,678)</u>	<u>3,152,725</u>	<u>9,499,744</u>	<u>8,149,981</u>	<u>11,604,772</u>
Net changes in fund balances	1,422,969	2,222,352	8,026,003	-	11,671,324
Fund balances:					
July 1, 2012	<u>14,130,570</u>	<u>9,622,188</u>	<u>2,258,064</u>		<u>26,010,822</u>
June 30, 2013	<u>\$ 15,553,539</u>	<u>\$ 11,844,540</u>	<u>\$ 10,284,067</u>	<u>\$ -</u>	<u>\$ 37,682,146</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, 2013

Total net change in fund balances, governmental funds	\$ 11,671,324
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay for the period.	
Depreciation expense \$(3,181,981)	
Capital outlay \$2,171,513	
Special item, sale of land \$(21,019)	(1,031,487)
Loss on disposal of assets is not recorded in the governmental funds	(166,952)
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.	
Unavailable tax revenue decreased by this amount this year.	52,681

(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, 2013

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 position. Also, governmental funds report the effect of insurance 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:

Bond proceeds	\$ (27,400,000)	
Bond premium, net of discount	(616,039)	
Debt service, payment to refunded bond escrow agent	18,030,000	
Repayment of bond principal	6,375,000	
Amortization of:		
Long-term debt insurance costs	(7,040)	
Bond premium, net of discount	205,290	
Deferred gain on refunding	(49,836)	
	(49,836)	\$ (3,462,625)

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental fund, an interest expenditure is reported when due. 1,164

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 funds, 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. (373,409)

Change in net position of governmental activities \$ 6,690,696

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUND

JUNE 30, 2013

ASSETS

	<u>Food service</u>
Current assets:	
Cash and cash equivalents	\$ 39,700
Investments	672,998
Due from other governments	8,192
Other receivables	1,638
Inventories	<u>87,482</u>
Total current assets	810,010
Noncurrent assets, machinery and equipment, net of accumulated depreciation	<u>112,978</u>
Total assets	<u><u>\$ 922,988</u></u>

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	\$ 9,884
Current portion of compensated absences	4,849
Unearned revenue	40,476
Due to other funds	<u>14,679</u>
Total current liabilities	69,888
Noncurrent liabilities, noncurrent portion of compensated absences	<u>43,641</u>
Total liabilities	<u>113,529</u>
Net position:	
Net investment in capital assets	112,978
Unrestricted	<u>696,481</u>
Total net position	<u>809,459</u>
Total liabilities and net position	<u><u>\$ 922,988</u></u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUND

YEAR ENDED JUNE 30, 2013

	<u>Food service</u>
Operating revenues:	
Food service revenue	\$ 1,280,138
Other operating revenue	<u>59,556</u>
Total operating revenues	<u>1,339,694</u>
Operating expenses:	
Salaries	650,847
Employee benefits	221,368
Supplies	1,398,817
Depreciation	13,984
Other operating expenses	<u>71,910</u>
Total operating expenses	<u>2,356,926</u>
Operating loss	<u>(1,017,232)</u>
Nonoperating revenues:	
Earnings on investments	524
Sources:	
State	152,242
Federal	<u>1,054,173</u>
Total nonoperating revenues	<u>1,206,939</u>
Change in net position	189,707
Total net position:	
July 1, 2012	<u>619,752</u>
June 30, 2013	<u><u>\$ 809,459</u></u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

YEAR ENDED JUNE 30, 2013

	<u>Food service</u>
Cash flows from operating activities:	
Cash received from users	\$ 1,373,441
Cash payments to:	
Suppliers for goods and services	(1,334,443)
Employees for services	<u>(960,702)</u>
Net cash used in operating activities	<u>(921,704)</u>
Cash flows from noncapital financing activities:	
Sources:	
State	154,134
Federal	<u>914,771</u>
Net cash provided by noncapital financing activities	<u>1,068,905</u>
Cash flows used in capital and related financing activities, purchase of machinery and equipment	<u>(40,448)</u>
Cash flows from investing activities:	
Earnings on investments	524
Withdrawals or redemptions from investment securities	2,251,736
Purchase of investment securities	<u>(2,375,175)</u>
Net cash used in investing activities	<u>(122,915)</u>
Net decrease in cash	(16,162)
Cash:	
Beginning of year	<u>55,862</u>
End of year	<u><u>\$ 39,700</u></u>

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND (CONTINUED)

YEAR ENDED JUNE 30, 2013

	<u>Food service</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$ (1,017,232)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	13,984
Donated commodities	149,577
(Increase) decrease in:	
Accounts receivable	33,747
Inventories	(6,460)
Decrease in:	
Accounts payable and other liabilities	(91,309)
Unearned revenue	<u>(4,011)</u>
Total adjustments	<u>95,528</u>
Net cash used in operating activities	<u>\$ (921,704)</u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUNDS

JUNE 30, 2013

	<u>Private purpose trust</u>	<u>Agency</u>
Assets:		
Cash and cash equivalents		\$ 45,744
Investments	\$ 65,564	75,995
Accounts receivable	<u>2,000</u>	
Total assets	<u>\$ 67,564</u>	<u>\$ 121,739</u>
Liabilities:		
Accounts payable	\$ 1,150	\$ 7,164
Other current liabilities		<u>114,575</u>
Total liabilities	<u>1,150</u>	<u>121,739</u>
Net position, reserved for:		
Scholarships	31,991	
Endowments	<u>34,423</u>	
Total net position	<u>66,414</u>	
Total liabilities and net position	<u>\$ 67,564</u>	<u>\$ 121,739</u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2013

	<u>Private purpose trust</u>
Additions:	
Gifts and contributions	\$ 3,200
Earnings and investments	<u>19</u>
	3,219
Deduction, scholarships awarded	<u>(3,805)</u>
Change in net position	(586)
Net position:	
July 1, 2012	<u>67,000</u>
June 30, 2013	<u><u>\$ 66,414</u></u>

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

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 5,200 students.

The financial statements of the Penn Manor School District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the School District's significant accounting policies.

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, 2013

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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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 position 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.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Basis of presentation, financial statements (continued):

Government-wide financial statements (continued)

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

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

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Basis of presentation, financial statements (continued):

Fund financial statements (continued)

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 position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. 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.

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.

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.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Basis of presentation, financial statements (continued):

Fund financial statements (continued)

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.

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Basis of accounting (continued):

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, 2013, and which are not intended to finance 2012-2013 school year operations, have been recorded as unearned revenue. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year-end.

Revenues, exchange and nonexchange transactions

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

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

Eligibility requirements include timing requirements, which specify the year 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.

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.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Investments:

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

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, 2013, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as unearned 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 its 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.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Capital assets and depreciation (continued):

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

Deferred outflows/inflows of resources:

The statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future periods and thus will not be recognized as an outflow of resources (expense/expenditure) until then. The School District does not have any deferred outflows of resources.

The statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The School District has two items that qualify for reporting in this category. The deferred gain on refunding is reported in the government-wide statement of net position. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In the fund financial statements, governmental fund types recognize deferred gain on refunding as revenue during the current period. The School District has a second type of item, which arises only under modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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 position. Bond premiums and discounts, as well as insurance costs, 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, 2013

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, 2013, 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, 2013 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.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferrals and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Fund equity:

The School District follows 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.

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.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Use of fund balance (continued):

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.

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, 2013.

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. Refer to Note 18 for the year ended June 30, 2013.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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, 2013, \$21,779,646 of the School District's bank balance of \$22,157,076 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:

Governmental activities:	
Cash and cash equivalents:	
Current	\$ 10,998,658
Held for long-term purposes	10,650,000
Business-type activities	39,700
Fiduciary funds, agency	<u>45,744</u>
Total	<u><u>\$ 21,734,102</u></u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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 could occur in the near term and that such changes could materially affect account balances and the amounts reported in the statement of net position. As of June 30, 2013, the School District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair value</u>
PA School District Liquid Asset Fund, certificates of deposit (unrated/backed by AAAM rated collateral)	1 to 24 months	\$ 29,083,616
PA Local Government Investment Trust (rated AAAM)	None	10,170,134
PA School District MAX (rated AAAM)	None	<u>2,632,366</u>
		41,886,116
Cash equivalents included above		<u>(20,650,000)</u>
Total		<u><u>\$ 21,236,116</u></u>

Financial statement amounts for investments:

Governmental activities:	
Investments	\$ 20,203,232
Held for long-term purposes	218,327
Business-type activities	672,998
Fiduciary funds:	
Private purpose trust	65,564
Agency	<u>75,995</u>
Total	<u><u>\$ 21,236,116</u></u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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, 2013 was 16.97 mills (\$16.97 per \$1,000 of assessed valuation) as levied by the Board of School Directors. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 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, 2013

4. Taxes receivable and related accounts – general fund:

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 reported as unavailable in the fund financial statements. The balances at June 30, 2013 are as follows:

	Gross taxes receivable	Allowance for uncollectible taxes	Net estimated to be collectible	Tax revenue recognized	Unearned revenue	Unavailable revenue
Real estate	\$ 654,970	\$ 35,955	\$ 619,015	\$ 133,392		\$ 485,623
Earned income taxes	822,797		822,797	822,797		
Per capita and occupation	285,312	282,458	2,854		\$ 2,854	
Transfer tax	59,402		59,402	59,402		
	<u>\$ 1,822,481</u>	<u>\$ 318,413</u>	<u>\$ 1,504,068</u>	<u>\$ 1,015,591</u>	<u>\$ 2,854</u>	<u>\$ 485,623</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

5. Interfund accounts:

Individual fund receivable and payable balances at June 30, 2013 were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 23,423	\$ 2,652,725
Capital reserve fund	2,652,725	8,744
Enterprise fund, food service		14,679
	<u>\$ 2,676,148</u>	<u>\$ 2,676,148</u>
	<u>Transfers to other funds</u>	<u>Transfers from other funds</u>
Major funds:		
General fund	\$ 10,816,411	
Debt service fund		\$ 7,663,686
Capital reserve fund		3,152,725
	<u>\$ 10,816,411</u>	<u>\$ 10,816,411</u>

The general fund due to other funds pertains to future capital projects of \$2,652,725 to be paid by the capital reserve fund. The capital reserve fund due to other funds pertains to computer equipment of \$8,744 paid by the general fund. The food service fund due to other funds pertains to employee benefits of \$14,679 paid by the general fund. The general fund transferred \$7,663,686 to the debt service fund for principal and interest payments due on debt. The general fund transferred \$3,152,725 to the capital reserve fund for future capital projects.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

6. Due from other governments:

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2013, the following amounts are due from other governmental units:

	<u>General fund</u>	<u>Food service fund</u>
Federal funding, medical access and grants	\$ 117,591	
State subsidy:		
Rental	349,501	
Retirement	674,650	
Social Security	122,937	
Migrant Education	40	
Grants and programs:		
Federal		\$ 8,192
Local	22,381	
	<u>\$ 1,287,100</u>	<u>\$ 8,192</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

7. Changes in capital assets:

Capital asset activity for governmental activities for the year ended June 30, 2013 is as follows:

	Beginning balance restated	Increases	Decreases	Transfers	Ending balance
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 6,815,677		\$ 21,019		\$ 6,794,658
Construction in progress	4,500,329	\$ 1,624,183		\$ (3,887,507)	2,237,005
Total assets not being depreciated	<u>11,316,006</u>	<u>1,624,183</u>	<u>21,019</u>	<u>(3,887,507)</u>	<u>9,031,663</u>
Capital assets being depreciated:					
Site improvements	5,838,419	78,246			5,916,665
Buildings and building improvements	111,600,027	169,147	203,600	3,887,507	115,453,081
Furniture, equipment and educational media	2,211,462	245,217			2,456,679
Vehicles	494,039	54,720			548,759
Total assets being depreciated	<u>120,143,947</u>	<u>547,330</u>	<u>203,600</u>	<u>3,887,507</u>	<u>124,375,184</u>
Accumulated depreciation:					
Site improvements	2,322,051	240,310			2,562,361
Buildings and building improvements	40,061,214	2,700,688	36,648		42,725,254
Furniture and equipment	1,130,328	205,669			1,335,997
Vehicles	274,821	35,314			310,135
Total accumulated depreciation	<u>43,788,414</u>	<u>3,181,981</u>	<u>36,648</u>		<u>46,933,747</u>
Total capital assets being depreciated, net	<u>76,355,533</u>	<u>(2,634,651)</u>	<u>166,952</u>	<u>3,887,507</u>	<u>77,441,437</u>
Governmental activities, capital assets, net	<u>\$ 87,671,539</u>	<u>\$ (1,010,468)</u>	<u>\$ 187,971</u>	<u>\$ -</u>	<u>\$ 86,473,100</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

7. Changes in capital assets (continued):

Capital asset activity for business-type activities for the year ended June 30, 2013 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Ending balance</u>
Business-type activities:			
Capital assets being depreciated, equipment	\$ 649,908	\$ 40,448	\$ 690,356
Less accumulated depreciation for equipment	<u>563,394</u>	<u>13,984</u>	<u>577,378</u>
Business-type activities, capital assets, net	<u>\$ 86,514</u>	<u>\$ 26,464</u>	<u>\$ 112,978</u>

Depreciation expenses were charged to governmental functions as follows:

Instruction	\$ 2,481,518
Instructional student support	4,651
Administration and financial services	11,622
Operation and maintenance of plant	195,957
Pupil transportation	15,867
Student activities	263,336
Capital outlay	<u>209,030</u>
	<u>\$ 3,181,981</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

8. Fund balances:

As of June 30, 2013, fund balances are composed of the following:

	<u>General fund</u>	<u>Capital reserve</u>	<u>Capital projects</u>	<u>Total governmental funds</u>
Restricted		\$ 11,844,540		\$ 11,844,540
Committed:				
Future pension obligations	\$ 6,620,589			6,620,589
Textbook series replacement	400,000			400,000
Future capital projects	1,618,561			1,618,561
Future debt service payments	2,200,000			2,200,000
Assigned			\$ 10,284,067	10,284,067
Unassigned	<u>4,714,389</u>			<u>4,714,389</u>
Total fund balances	<u><u>\$ 15,553,539</u></u>	<u><u>\$ 11,844,540</u></u>	<u><u>\$ 10,284,067</u></u>	<u><u>\$ 37,682,146</u></u>

9. Unearned revenue:

Unearned revenue at June 30, 2013 consists of the following:

	<u>General fund</u>	<u>Proprietary fund</u>	<u>Total</u>
Per capita and occupation taxes	\$ 2,854		\$ 2,854
Grant and other	5,157		5,157
Prepaid ticket sales		\$ 31,586	31,586
Unused donated commodities		<u>8,890</u>	<u>8,890</u>
	<u><u>\$ 8,011</u></u>	<u><u>\$ 40,476</u></u>	<u><u>\$ 48,487</u></u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

10. General long-term debt:

General obligation bonds:

The School District issues general obligation bonds (GOB) 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, 2013 as follows:

<u>Issue</u>	<u>Final maturity date</u>	<u>Interest rate or yield</u>	<u>Amount</u>
Series A of 2006 GOB	June 1, 2014	3.70%	\$ 440,000
Series of 2009 GOB	June 1, 2016	3.00% - 5.00%	4,745,000
Series A of 2010 GOB	June 1, 2018	3.61% - 4.21%	10,570,000
Series of 2012 GOB	April 1, 2022	0.50% - 3.00%	9,200,000
Series of 2013 GOB	June 1, 2019	1.00% - 3.00%	<u>13,725,000</u>
			38,680,000
Bond premium, net of discount			<u>797,098</u>
Total long-term debt			39,477,098
Less current portion			<u>4,190,000</u>
			<u>\$ 35,287,098</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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	\$ 35,685,000	\$ 27,400,000	\$ 24,405,000	\$ 38,680,000
Accrued retirement cost	700,543	92,599		793,142
Estimated liability for compensated absences	<u>1,809,926</u>	<u>277,526</u>		<u>2,087,452</u>
	<u>\$ 38,195,469</u>	<u>\$ 27,770,125</u>	<u>\$ 24,405,000</u>	<u>\$ 41,560,594</u>

General obligation bond, series of 2012:

On November 14, 2012, the School District issued General Obligation Bonds, Series of 2012 in the amount of \$9,200,000. The bonds are to be used to fund various capital improvement projects of the School District including the construction of the new Hambright Elementary School; and pay the cost of issuing the bonds. The bonds are payable over 10 years with interest ranging from 0.500% to 3.000%. Final payment is due April 1, 2022.

Advance refunding:

On January 28, 2013, the School District issued General Obligation Bonds, Series of 2013 for \$18,200,000. The proceeds of the bonds were used to advance refund the General Obligation Bonds, Series of 2006 and to pay the cost of issuing the bonds. The new issue will reduce debt service payments by approximately \$795,700. Interest on the General Obligation Bonds, Series of 2013 ranging from 0.21% to 3.00% is paid semi-annually on June 1 and December 1 of each year until June 1, 2019, the scheduled date of final redemption.

Letters of credit:

At June 30, 2013, the School District has letters of credit with a local bank for \$529,454, \$275,817 and \$855,783 which pertains to the turf field project and road improvements. All letters of credit are secured by property of the School District.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

10. General long-term debt (continued):

Debt service requirements:

The annual requirements of the School District's debt service listed below include the Series 2013A issued October 24, 2013. Further details are found in Note 19. The amounts shown exclude the interest subsidy for the Series A of 2010 "Build America Bonds."

Year ending June 30,	Principal	Series of 2013A Principal	Interest	Series of 2013A Interest	Total
2014	\$ 4,190,000		\$ 1,142,362	\$ 54,579	\$ 5,386,941
2015	4,280,000	\$ 5,000	1,035,907	154,712	5,475,619
2016	4,470,000	5,000	903,274	154,546	5,532,820
2017	6,845,000	5,000	745,698	154,380	7,750,078
2018	4,995,000	5,000	485,390	154,214	5,639,604
2019-2023	13,900,000	25,000	655,700	768,580	15,349,280
2024-2025		4,615,000		168,656	4,783,656
	<u>\$ 38,680,000</u>	<u>\$ 4,660,000</u>	<u>\$ 4,968,331</u>	<u>\$ 1,609,667</u>	<u>\$ 49,917,998</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, 2013

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 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, 2013, 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, 2013, the School District was limited in liability for claims to \$150,000 per individual and \$8,012,596 in total for the Point of Service Plan. A liability for claims incurred prior to June 30, 2013 and paid subsequently is recorded in the amount of \$300,566 in accounts payable in the general fund.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

12. Risk management (continued):

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, 2013 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.

Workers' compensation:

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for 17 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, 2013, 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. As of June 30, 2013, the School District is not aware of any unemployment compensation claims.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

12. Risk management (continued):

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, 2013 and the two previous fiscal years, no settlements exceeded insurance coverage.

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 Beth Girman, Office of Financial Management, PSERS, 5 North 5th Street, Harrisburg, PA 17101-1905. This publication is also available on the PSERS website which may be found at www.psers.state.pa.us/publications/cafr/index.htm.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

13. Defined benefit pension plan (continued):

Funding policy:

The contribution policy is set by the Code and requires contributions by active employees and by participating employers. Active members who joined the PSERS prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the PSERS after June 30, 2001 until July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership in this time period, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rates of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a 'shared risk' provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%. The contributions required of participating employers are based on an actuarial valuation.

For the fiscal year ended June 30, 2013, the rate of employer contribution was 12.36% of covered payroll. The 12.36% rate is composed of 11.50% for pension benefits and .86% 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, 2013, 2012 and 2011 were \$3,897,992, \$2,702,817 and \$1,762,923, 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, 2013

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. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates based upon the percentage of enrollment of each member school district. The amount paid for these services in the year ended June 30, 2013 was approximately \$1,209,067 which has been reported in the general fund. 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.

The District entered into a lease agreement with the Lancaster County Career and Technology Center Authority (Authority) along with 15 other school districts. The Lancaster County Career and Technology Center Authority is an authority created under the Pennsylvania Municipality Authorities Act and is empowered to acquire, hold, construct, improve, maintain, operate and lease public school buildings and other school projects for public school purposes. By resolution, the member districts have requested the Authority to proceed with improvement of the school facilities of the Lancaster County Career Technical Center (LCCTC) to be funded by lease revenue bonds not to exceed the maximum aggregate principal amount of \$43,000,000. The bonds will be designated Lancaster County Career and Technology Center Authority Guaranteed Lease Revenue Bonds. The bonds are intended to be issued in one or more series over a three-year period. Each district will pay its proportionate share of the lease rentals in order to fund the debt.

On June 29, 2012, a new lease was signed and the Authority issued Guaranteed Lease Revenue Bonds Series of 2012 in the amount of \$9,995,000. Payments are required over the period February 2013 until February 2037 with interest payable semi-annually. The average bond yield is 3.50%. The balance of the School District's share of this obligation at June 30, 2013 was \$1,018,736. The previous agreement of lease dated October 7, 1998 was terminated.

On September 20, 2013, the Authority completed issuance of Guaranteed Lease Revenue Bonds, Series of 2013, in the amount of \$9,995,000. Payments are required over the period February 2014 until February 2037 with interest payable semi-annually. The average bond yield is 4.55%. The School District's share of this obligation is \$1,223,700. It is anticipated that additional lease rental bonds will be issued in 2014 in order to complete the project.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

14. Joint ventures (continued):

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

Minimum future rental payments under the operating leases for the School District are as follows:

Fiscal year ending June 30,	Guaranteed Lease Revenue Bonds		Total
	Series of 2012	Series of 2013	
2014	\$ 42,464	\$ 59,167	\$ 101,631
2015	42,268	41,621	83,889
2016	42,427	41,511	83,938
2017	42,563	42,111	84,674
2018	42,287	52,168	94,455
2019-2023	212,159	259,945	472,104
2024-2028	212,466	259,681	472,147
2029-2033	211,999	259,632	471,631
2034-2037	170,103	207,934	378,037
Total minimum future rental payments	<u>\$ 1,018,736</u>	<u>\$ 1,223,770</u>	<u>\$ 2,242,506</u>

Lancaster-Lebanon Joint Authority:

The School District is a member in the Lancaster-Lebanon Joint Authority (Joint Authority). The Lancaster Lebanon 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.

The School District did not have any financial transactions with the Joint Authority during the year ended June 30, 2013. Complete financial statements for the Joint Authority can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

14. Joint ventures (continued):

Lancaster-Lebanon Intermediate Unit (LLIU):

The Lancaster-Lebanon Intermediate Unit (LLIU) Board of Directors consists of 20 members from the LLIU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' Boards of Directors. Penn Manor School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Penn Manor School District contracts with the LLIU for special education services for School District students. The amount paid for these services and various other support services during the year ended June 30, 2013 was approximately \$2,006,568. 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 11 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, 2013 was \$32,000. 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 and local service tax (LST). 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, 2013 was \$89,526. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

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.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

15. Postemployment healthcare benefits:

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, 2013, there were 50 participants receiving benefits.

Funding policy:

The School 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, 2013

15. Postemployment healthcare benefits (continued):

Annual OPEB cost and net OPEB obligation:

The School 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, 2012	\$ 61,380
Interest on net OPEB obligation	26,949
Adjustment to ARC	<u>(65,676)</u>
Total normal cost	22,653
30-year amortization of unfunded actuarial accrued liability	<u>165,267</u>
Annual required contribution	<u>\$ 187,920</u>
Annual OPEB cost	\$ 187,920
Contributions made (estimated)	<u>(184,636)</u>
Increase in net OPEB obligation	3,284
Net OPEB obligation:	
Beginning of year	<u>598,874</u>
End of year	<u>\$ 602,158</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

15. Postemployment healthcare benefits (continued):

Trend information:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Employer contributions</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
6/30/2012	\$ 187,920	\$ 152,784	81.30%	\$ 602,158
6/30/2010	416,042	207,025	49.76%	278,853

Funding status and funding progress:

The funded status of the plan was as follows:

<u>Actuarial valuation date</u>	<u>7/1/2012</u>	<u>7/1/2010</u>	<u>7/1/2008</u>
Unfunded actuarial accrued liability	<u>\$ 1,507,001</u>	<u>\$ 3,034,874</u>	<u>\$ 3,497,574</u>
Funded ratio	0.00%	0.00%	0.00%
Covered payroll	\$ 27,187,958	\$ 28,241,347	\$ 26,172,349
Unfunded actuarial accrued liability as a percentage of covered payroll	5.54%	10.75%	13.36%

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.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

15. Postemployment healthcare benefits (continued):

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, 2012 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.

Beginning July 1, 2012, claims costs for medical and prescription drugs are based on the maximum portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Prior to July 1, 2012, actuarial evaluations were based on claim costs on the expected portion of overall costs. 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 7.0% in 2013, decreasing 0.5% per year to an ultimate rate of 5.5% in 2016.

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 \$135 per year for each year of employment and \$70 per day for each unused sick and/or personal day with the School District, and the total incentive is limited to a maximum of \$30,000. Payments are paid as employer non-elective contributions to employee 403(b) accounts at the time of retirement.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

16. Termination benefits (continued):

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 and \$70 per day for each unused sick and/or personal day. At no time can the monetary compensation to a retiring administrator exceed \$36,000.

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 the statement of net position and totaled \$793,142 as of June 30, 2013.

17. Commitments:

As of June 30, 2013, the School District was committed under various construction contracts totaling \$145,201 for the Central Manor Elementary School, \$15,166,416 for the Hambright Elementary School, \$88,000 for the Manor Middle School and \$44,884 for Comet field. Of these amounts, a total of \$426,819 was recorded in accounts payable at year end.

18. Special item:

Sale of School District owned property:

The sale of School District owned property, known as the commercial triangle located at the intersection of Route 741 and Barbara Street, in Millersville Borough, was completed in May 2013. The sale price of the property was \$1,758,505. Selling expenses totaled \$139,772. The net proceeds amount of \$1,618,733 has been reported as a special item in the fund financial statements. The government wide presentation of this special item includes consideration of the original cost of the land. The government wide statement shows a gain on sale of land of \$1,597,714.

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

19. Subsequent events:

On October 24, 2013, the School District issued Bank Note Series of 2013A in the amount of \$4,660,000. The note is to be used to fund various capital improvement projects and the cost of issuing the note. The note is payable over 12 years with a fixed interest rate of 3.3%. Principal payments range from \$5,000 to \$4,150,000. Final payment is due June 1, 2025.

The School District has evaluated subsequent events through October 31, 2013, which is the date the financial statements were available to be issued.

20. Change in accounting principle and prior period adjustment:

During the year, it was determined the certain prior year retainage amounts were incorrectly capitalized as capital assets. To correct this error, the beginning balance of capital asset category buildings and building improvements of \$111,949,687, as originally reported, has been decreased to \$111,600,027. In addition, net position for governmental activities has also been decreased as noted in the summary below.

Effective July 1, 2012, the School District adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, to be in accordance with generally accepted accounting principles. The statements implemented Concepts Statement 4 defining the five elements of the statement of financial position as: assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The statements also reclassified certain existing assets and liabilities to the new categories including reclassifications to outflows of resources resulting in a restatement of the School District's beginning net position for the governmental activities of \$194,707. This amount represents bond issue costs, net of amortization as of June 30, 2012 that no longer meets the definition of an asset.

Net position, as originally stated, June 30, 2012	\$ 75,302,823
Less adjustment of capital assets	349,660
Less unamortized bond issue costs	<u>194,707</u>
Net position, as restated, June 30, 2012	<u>\$ 74,758,456</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

21. New pension accounting pronouncement:

GASB Statements No. 68, *Accounting and Financial Reporting for Pension Plans*, revises and establishes new financial reporting requirements for the School District concerning pension benefits provided for employees. The standard will improve the way the School District reports its pension liabilities and expenses. This statement will be effective for years beginning after June 15, 2014. The School District is still evaluating the potential effects of this pronouncement on its financial statements. For employers participating in PSERS, there is a significant liability that is expected to be recorded to the government-wide financial statements under this pronouncement that will be allocated to the participating employers of the governmental cost-sharing multiple-employer defined benefit pension plan.

PENN MANOR SCHOOL DISTRICT

OTHER POSTEMPLOYMENT BENEFITS
(Required supplementary information)
(unaudited)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2013

<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>
7/1/2012	<u>\$ -</u>	<u>\$ 1,507,001</u>	<u>\$ 1,507,001</u>	<u>0.00%</u>	<u>\$ 27,187,958</u>	5.54%
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
(Required supplementary information)
(unaudited)

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

YEAR ENDED JUNE 30, 2013

	Budget amounts		Actual budgetary basis	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Local sources:				
Real estate taxes	\$ 37,526,414	\$ 37,526,414	\$ 37,282,519	\$ (243,895)
Other taxes	5,035,000	5,035,000	6,081,783	1,046,783
Investment income	75,050	75,050	66,212	(8,838)
Other revenue	1,535,476	1,535,476	1,839,925	304,449
Total local sources	44,171,940	44,171,940	45,270,439	1,098,499
State sources	20,529,756	20,529,756	19,592,075	(937,681)
Federal sources	953,601	953,601	1,071,866	118,265
Total revenues	65,655,297	65,655,297	65,934,380	279,083
Expenditures:				
Instructional services:				
Regular programs	29,820,689	28,319,679	28,319,679	-
Special programs	7,347,142	7,705,335	7,705,335	-
Vocational programs	1,774,433	1,673,458	1,673,458	-
Other instructional programs	177,478	167,893	167,893	-
Support services:				
Pupil personnel	1,977,970	2,156,885	2,156,885	-
Instructional staff	811,847	620,418	620,418	-
Administrative	3,999,167	3,635,505	3,635,505	-
Pupil health	610,620	549,904	549,904	-
Business	902,111	629,589	629,589	-
Operation and maintenance of plant	5,402,076	4,922,670	4,922,670	-
Student transportation	2,951,662	2,870,347	2,870,347	-
Central and other support	831,872	835,132	835,132	-
Other support services	88,437	137,828	137,828	-

(continued)

PENN MANOR SCHOOL DISTRICT
(Required supplementary information)
(unaudited)

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

YEAR ENDED JUNE 30, 2013

	Budget amounts		Actual budgetary basis	Variance with final budget positive (negative)
	Original	Final		
Expenditures (continued):				
Operation of noninstructional services:				
Student activities	\$ 1,034,416	\$ 1,081,548	\$ 1,081,548	\$ -
Community services		3,542	3,542	-
Scholarships and awards	3,000	2,789	2,789	-
Debt service (principal and interest)	<u>7,647,229</u>	<u>7,663,686</u>	<u>7,663,686</u>	<u>-</u>
Total expenditures	<u>65,380,149</u>	<u>62,976,208</u>	<u>62,976,208</u>	<u>-</u>
Excess of revenues over expenditures	<u>275,148</u>	<u>2,679,089</u>	<u>2,958,172</u>	<u>279,083</u>
Other financing sources (uses):				
Refund of prior year receipts		(1,211)	(1,211)	-
Interfund transfers	(600,000)	(3,152,725)	(3,152,725)	-
Budgetary reserve	(150,000)			-
Special item, proceeds from sale of land, net of selling expenses			<u>1,618,733</u>	<u>1,618,733</u>
Total other financing sources (uses)	<u>(750,000)</u>	<u>(3,153,936)</u>	<u>(1,535,203)</u>	<u>1,618,733</u>
Net changes in fund balances	(474,852)	(474,847)	1,422,969	1,897,816
Fund balances:				
July 1, 2012	<u>13,239,139</u>	<u>13,239,139</u>	<u>14,130,570</u>	<u>891,431</u>
June 30, 2013	<u>\$ 12,764,287</u>	<u>\$ 12,764,292</u>	<u>\$ 15,553,539</u>	<u>\$ 2,789,247</u>

PENN MANOR SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2013

Budgetary data:

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

- 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.
- 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, 2013.
- 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.

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

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 (unearned) revenue at July 1, 2012	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2013
<u>U.S. Department of Agriculture:</u>										
Passed through the Pennsylvania Department of Education:										
Child Nutrition Cluster:										
School Breakfast Program	I/F	10.553	N/A	7/01/12 - 6/30/13	N/A	\$ 177,596	\$ 3,838	\$ 173,758	\$ 173,758	\$ -
National School Lunch Program	I/F	10.555	N/A	7/01/12 - 6/30/13	N/A	<u>737,175</u>	<u>14,528</u>	<u>730,839</u>	<u>730,839</u>	<u>8,192</u>
Total passed through the Pennsylvania Department of Education						914,771	18,366	904,597	904,597	8,192
Passed through the Pennsylvania Department of Agriculture,										
National School Lunch Program value of U.S. donated commodities	I/F	10.555	N/A	7/01/12 - 6/30/13	N/A	<u>142,883</u> (b)	<u>(15,584)</u> (a)	<u>149,577</u> (c)	<u>149,577</u>	<u>(8,890)</u> (d)
Total U.S. Department of Agriculture						<u>1,057,654</u>	<u>2,782</u>	<u>1,054,174</u>	<u>1,054,174</u>	<u>(698)</u>

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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, 2012	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2013	
<u>U.S. Department of Education:</u>											
Passed through the Pennsylvania Department of Education:											
Title I Cluster:											
Title I Grants to Local Educational Agencies:	**	I/F	84.010	013-120324	7/01/11 - 9/30/12	\$ 536,899	\$ 75,796	\$ 60,152	\$ 15,644	\$ 15,644	\$ -
Title I Grants	**	I/F	84.010	013-130324	7/01/12 - 9/30/13	608,075	505,721	595,475	595,475	89,754	
Title II Improving Teacher Quality State Grants	**	I/F	84.367	020-120324	7/01/11 - 6/30/12	105,804	20,640	20,640			
Title II Improving Teacher Quality State Grants	**	I/F	84.367	020-110324	7/01/12 - 9/30/13	106,314	85,439	106,314	106,314	20,875	
ARRA Education Jobs Grant		I/F	84.410	S410A10039	7/01/11 - 6/30/12	11,467	12,033	11,467	566	566	-
Total passed through the Pennsylvania Department of Education						<u>699,629</u>	<u>92,259</u>	<u>717,999</u>	<u>717,999</u>	<u>110,629</u>	
Passed through the Lancaster-Lebanon Intermediate Unit #13:											
Special Education Cluster:											
IDEA Part B		I/F	84.027	062-12-0013	7/1/11 - 9/30/12	812,864	9,929	9,929			-
ARRA IDEA		I/F	84.391	062-13-0013	7/1/12 - 9/30/13	1,054,616	1,054,616	1,054,616	1,054,616		-
Early Intervention IDEA		I/F	84.173	131-11-0-013	7/1/11 - 6/30/12	3,778	3,778	3,778			-
Early Intervention IDEA		I/F	84.173	131-12-0-013	7/1/12 - 6/30/13	1,707		1,707	1,707	1,707	
Total passed through Intermediate Unit #13						<u>1,068,323</u>	<u>13,707</u>	<u>1,056,323</u>	<u>1,056,323</u>	<u>1,707</u>	
Total U.S. Department of Education						<u>1,767,952</u>	<u>105,966</u>	<u>1,774,322</u>	<u>1,774,322</u>	<u>112,336</u>	

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2013

<u>Federal grantor/ pass-through grantor/program title</u>	<u>Source code</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Grant period beginning/ ending date</u>	<u>Program or award amount</u>	<u>Total received for the year</u>	<u>Accrued (deferred) revenue at July 1, 2012</u>	<u>Revenue recognized</u>	<u>Expenditures</u>	<u>Accrued (deferred) revenue at June 30, 2013</u>
<u>U.S. Department of Health and Human Services</u>										
Passed through the Pennsylvania Department of Public Welfare, Access	IF	93.778	N/A	7/11/12 - 6/30/13	\$ 11,209	\$ 5,954		\$ 11,209	\$ 11,209	\$ 5,255
Total U.S. Department of Health and Human Services						<u>5,954</u>		<u>11,209</u>	<u>11,209</u>	<u>5,255</u>
Total expenditures of federal awards						<u>\$ 2,831,560</u>	<u>\$ 108,748</u>	<u>\$ 2,839,705</u>	<u>\$ 2,839,705</u>	<u>\$ 116,893</u>

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2013

Source codes:

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

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

Total expenditures per above

\$ 2,839,705

84.010 Title I \$ 611,119

84.367 Title II 106,314

\$ 717,433

\$ 717,433

\$ 2,839,705 = 25.26% 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



Independent Auditors' 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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of Penn Manor School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Penn Manor School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Penn Manor School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Penn Manor School District's internal control.

A deficiency in internal control 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, misstatements on a timely basis. A material weakness is a deficiency, or a 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. A significant deficiency, is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Penn Manor School District's financial statements are free from 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown Schultz Steidman & Fritz

Lancaster, Pennsylvania
October 31, 2013



Independent Auditors' Report on Compliance for Each
Major Federal Program and Report on Internal Control
Over Compliance Required by OMB Circular A-133

Board of School Directors
Penn Manor School District
Millersville, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Penn Manor School District's compliance 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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Penn Manor School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Penn Manor School District's compliance with those requirements and performing such other procedures as we considered necessary in circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Penn Manor School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Penn Manor School District complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

The School District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the auditing procedures applied in our audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Penn Manor School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Penn Manor School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of its major federal programs 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 effectiveness of 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 over compliance 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2013-001 that we consider a significant deficiency.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Brown Schultz Steidman & Fritz

Lancaster, Pennsylvania
October 31, 2013

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

I. SUMMARY OF AUDITORS' RESULTS:

Financial statements

Type of auditors' report issued:

Unmodified

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)?

X yes _____ none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

X yes _____ no

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

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 Educational Agencies
84.367	Title II Improving Teacher Quality State Grants

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:

FINDING 2013-001

Department of Education
Title I – Grants to Local Educational Agencies
CFDA No. 84.010
Award Nos. – 013-0120324
 013-0130324
Year ended June 30, 2013

Internal control significant deficiency

Condition and criteria:

In May 2013, the Pennsylvania Department of Education conducted monitoring of the School District's Title I, Title II part A and Title III programs and identified areas where the School District was deficient in its internal controls over monitoring teacher schedules on a monthly basis. As part of our audit of the Title I program we encountered the same lack of monitoring.

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED):

FINDING 2013-001 (CONTINUED)

Effect:

The School District did not maintain time documentation logs/schedules for prorated staffing including the amount of time spent on each funding source activity with the logs signed by a supervisor and reconciled to payroll documentation on a monthly basis

Cause:

A new federal program director was appointed after the long time former federal program director resigned in June 2012. The federal program director was new to the position and was not aware of the requirement to have schedules signed by a supervisor on a monthly basis

Auditors' recommendation:

In response to this finding, the School District developed a corrective action plan to the Department of Education which addresses this issue for the 2013-14 school year. We recommend the School District implement the corrective action plan which requires principals to monitor Title I activities including schedules and time logs on a monthly basis.

View of responsible officials:

The School District agrees with the finding and has prepared a corrective action plan to implement the auditors' recommendations.

PENN MANOR SCHOOL DISTRICT

SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

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