

**NORTHERN YORK COUNTY
SCHOOL DISTRICT**

ANNUAL
FINANCIAL
REPORT

JUNE 30, 2011

C O N T E N T S

	Page
List of report distribution	1
INDEPENDENT AUDITOR'S REPORT	2 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (required supplementary information) - unaudited	4 – 11
FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of net assets	12
Statement of activities	13
FUND FINANCIAL STATEMENTS	
Balance sheet - governmental funds	14
Reconciliation of the governmental funds balance sheet to statement of net assets	15
Statement of revenues, expenditures, and changes in fund balances - governmental fund	16
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balance to the statement of activities	17
Statement of net assets - proprietary fund	18
Statement of revenues, expenses, and changes in fund net assets - proprietary fund	19
Statement of cash flows - proprietary fund	20 - 21
Statement of fiduciary net assets	22
Statement of changes in fiduciary net assets	23
NOTES TO FINANCIAL STATEMENTS	24 - 44
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
OPEB required schedule of funding progress	46
Budgetary comparison schedule – general fund	47
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	48
Notes to schedule of expenditures of federal awards	49
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	50 - 51
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	52 - 53
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	54
REPORT ON STATUS OF PRIOR YEAR COMPLIANCE FINDINGS AND INTERNAL CONTROL WEAKNESSES	55

NORTHERN YORK COUNTY SCHOOL DISTRICT

LIST OF REPORT DISTRIBUTION

June 30, 2011

1 Report - Federal Audit Clearing House
Bureau of Census
1201 East 10th Street
Jeffersonville, IN 47132
(submitted electronically)

1 Report - Bureau of Audits
Special Audit Services Division
Forum Place – 8th Floor
555 Walnut Street
Harrisburg, PA 17101
(submitted electronically)



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northern York County School District
Dillsburg, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northern York County School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Northern York County School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School District's June 30, 2010 financial statements. These statements were audited by another auditor and in their report dated December 20, 2010, they expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major unit and the aggregate remaining fund information.

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

The financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that includes the financial data for its component unit. The District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets would have increased by \$ 202,897, net assets would have increased by \$ 202,897, revenues would have increased by \$ 69,132, and expenses would have increased by \$ 53,107 for the aggregate remaining fund information based on the June 30, 2010 compiled financial statements, which are the most recent available.

In our opinion, except for the effects of omitting component units as discussed above, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the Northern York County School District as of June 30, 2011 and the changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Further, 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, and each major fund of the Northern York County School District as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Board of Directors
Northern York County School District

As described in Note 1, the District has implemented the new fund balance reporting model as required by the provisions of the Governmental Accounting Standards Board (“GASB”) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011 on our consideration of Northern York County 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 on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 11, the OPEB required schedule of funding progress on page 46, and the budgetary comparison schedule on page 47 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 the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northern York County School District’s financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and NonProfit Organizations*, and is not a required part of the 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.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
December 16, 2011

Northern York County School District Management's Discussion and Analysis the Fiscal Year Ended June 30, 2011 Unaudited

The management of the Northern York County School District is pleased to present the following discussion and analysis of the District's financial activities for the fiscal year ending June 30, 2011. Comparative financial information between fiscal years ending June 30, 2010 and June 30, 2011 is also presented in this report to show changes in the financial position of the District from prior to current year.

The intent of this discussion and analysis is to provide a narrative summary of the financial position and activities of the District in order to enhance the reader's understanding of the District's basic financial statements. The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

FINANCIAL HIGHLIGHTS

- For the year 2010-2011, the School Board adopted a balanced General Fund Budget. In order to balance the budget, a real estate tax rate of 14.3693 mills was required, along with the anticipated use of \$2,205,424 from the fund balance. Included in the budget was a \$15,000 transfer into the Food Service Fund to pay for new and replacement equipment. General Fund actual revenues exceeded actual expenditures by \$284,996 rather than the expenditures exceeding revenues by \$2,205,424 as expected. Actual revenues and other financing sources exceeded budgeted revenues by \$10,120,240 primarily in the areas of real estate taxes and proceeds from the new note. General Fund actual expenditures and other financing uses exceeded budgeted expenditures by \$7,629,820. This difference is attributed to the payments to refund bonds and offset by savings in health care and retirement benefit expenditures.
- The District received \$726,577 from the State to fund property tax reductions. Property owners in the District who filed and received approval for a homestead/farmstead exclusion saw their net tax due decrease by this amount.
- The District received \$1,201,104 of Federal grant dollars as part of the American Recovery and Reinvestment Act of 2009 (the Recovery Act). These funds were additional revenue from grants the District was already receiving such as Title I and IDEA Part B. These funds also made up the State Stabilization money that was used for instruction salaries, benefits and supplies.
- The District received \$502,327 of Federal grant dollars passed through the State of Pennsylvania as part of the Education Jobs money. These funds were used for instruction salaries.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of three sections – Management's Discussion and Analysis (this section), the basic financial statements, and other required supplementary information. The basic financial statements include two kinds of statements, which present different views of the District.

The first two statements of the basic financial statements are government-wide financial statements. These statements on pages 12 and 13 consist of the Statement of Net Assets and the Statement of Activities. The government-wide financial statements provide both short-term and long-term information about the District's overall financial status.

The remaining basic financial statements consist of fund financial statements. These statements focus on individual funds of the District and provide a more detailed presentation of the District's operations. The governmental funds statements on pages 14 and 16 present how general District services, such as regular and special education, are financed in the short-term as well as what remains for future spending. The statement of revenues, expenditures and changes in fund balance – budget and actual for the general fund is shown on page 47 and provides the budgetary comparisons to the actual revenues, expenditures and other financing sources (uses). The proprietary fund statements on pages 18 through 21 present both short-term and long-term information about the activities that the District operates similar to a business, such as food service. Following the proprietary fund statements, the fiduciary fund statements on pages 22 and 23 present information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, such as student activity and trust funds.

Notes to the basic financial statements are included on pages 24 through 44. These notes provide a more detailed explanation of the District's financial statements. Following the notes to the basic financial statements is supplementary information on pages 46 through 47 that details the District's overall financial status, including 10 year comparison data.

Government-Wide Statements

The government-wide statements report financial information about the District as a whole using accounting methods similar to the accounting used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities utilizing the full accrual basis of accounting. The Statement of Activities accounts for all of the District's revenues and expenses, regardless of when cash is received or paid.

These two government-wide statements report the District's net assets and changes in them. The District's net assets represent the difference between the District's assets and liabilities. The District's net assets are one way to measure the District's financial position, or financial health, over time. Increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the District, non-financial factors must also be considered, such as changes in the District's property tax base and the performance of the students.

The government-wide financial statements of the District are divided into two categories:

- Governmental activities – All of the District's basic services are included here, such as instruction and administration. Real estate and earned income taxes, and state and federal subsidies and grants finance most of these activities.
- Business-type activities – The District operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, or major funds – not the District as a whole. Funds are accounting components that the School District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be reported as major funds.

- Governmental funds – Most of the District's activities are reported in governmental funds, and focus on financial position and changes in financial position, rather than upon net income determination. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to

finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statements of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements on pages 15 and 17.

- Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private sector. When the District charges customers for services it provides, these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities reported in the government-wide statements, but provides more detail and additional information, such as cash flows.
- Fiduciary funds – The District is the trustee or agent for individuals, private organizations and/or governmental units, such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong; the District cannot use these assets to finance its operations. The financial statements for the fiduciary funds are shown on pages 22 and 23.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's total net assets were \$13,137,741 at June 30, 2011 which includes \$12,885,002 in Governmental Activities and \$252,739 in Business-type Activities. This shows an increase of \$1,031,140 over total net assets of \$12,106,601 at June 30, 2010 as restated.

Statement of Net Assets

	2011			2010 (as restated)		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 10,937,219	\$ 161,159	\$ 10,955,189	* \$ 11,189,766	\$ 174,862	\$ 11,364,628
Capital assets	43,044,108	287,554	43,331,662	44,350,462	331,582	44,682,044
Total Assets	\$ 53,981,327	\$ 448,713	\$ 54,286,851	\$ 55,540,228	\$ 506,444	\$ 56,046,672
Current and other liabilities	\$ 5,590,526	\$ 175,447	\$ 5,622,784	* \$ 5,558,007	\$ 231,844	\$ 5,789,851
Long-term liabilities	35,505,799	20,527	35,526,326	38,141,156	9,064	38,150,220
Total Liabilities	41,096,325	195,974	41,149,110	43,699,163	240,908	43,940,071
Capital assets (net of related debt)	6,271,161	287,554	6,558,715	3,930,268	331,582	4,261,850
Restricted	1,978	0	1,978	197,469	0	197,469
Unrestricted	6,611,863	(34,815)	6,577,048	7,713,328	(66,046)	7,647,282
Total Net Assets	12,885,002	252,739	13,137,741	11,841,065	265,536	12,106,601
Total Net Assets and Liabilities	\$ 53,981,327	\$ 448,713	\$ 54,286,851	\$ 55,540,228	\$ 506,444	\$ 56,046,672

* - Net of eliminations

Statement of Activities

The results of this year's operations as a whole are reported in the Statement of Activities. Direct expenses are listed by programs, and then offset by program revenues to determine net (expense) revenue and changes in net assets. General revenues, such as taxes, state subsidies, and investment earnings are then applied prior to transfers, and special items, to determine the change in net assets. For the 2010-2011 fiscal year, the change in net assets for governmental activities reflects an increase of \$1,043,937 and a decrease of \$12,797 for business-type activities, or a total net increase of \$1,031,140 as reflected in the chart below.

Statement of Activities

	2011			2010 (as restated)		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Program Revenues						
Charges for Services	\$ 252,155	\$ 822,818	\$ 1,074,973	\$ 245,453	\$ 815,661	\$ 1,061,114
Operating grants and contributions	6,212,463	328,625	6,541,088	5,078,381	309,453	5,387,834
Capital grants and contributions	499,272	0	499,272	520,081	0	520,081
General Revenues						
Taxes	22,520,813	0	22,520,813	22,350,488	0	22,350,488
State Grants and subsidies	7,753,967	0	7,753,967	7,956,920	0	7,956,920
Other local revenue	25,574	0	25,574	777,003	0	777,003
Investment earnings	47,756	224	47,980	86,645	242	86,887
Total revenues	37,312,000	1,151,667	38,463,667	37,014,971	1,125,356	38,140,327
Direct expenses	36,263,877	1,168,650	37,432,527	35,608,549	1,187,006	36,795,555
Excess (deficiency) before transfers	1,048,123	(16,983)	1,031,140	1,406,422	(61,650)	1,344,772
Transfers between activities	(4,186)	4,186	0	(15,000)	15,000	0
Change in net assets	\$ 1,043,937	\$ (12,797)	\$ 1,031,140	\$ 1,391,422	\$ (46,650)	\$ 1,344,772

Governmental Activities

Direct expenses represent the actual cost of providing the services while the net cost represents the amount of cost that is not recovered through program revenues, meaning user charges, subsidies, grants, and contributions. The largest source of grants and contributions are state and federal sources, which provided \$14,465,702 for governmental activities. The net cost of services must be recovered through general revenue, primarily taxes. Amounts not recovered will reduce funds available for future years. Direct expenses increased \$655,328 or 1.84% over the prior year for governmental activities. This increase was primarily due to salary and benefit costs increasing for instruction. Governmental activities program revenues increased \$1,119,975 or 19.16% over the prior year. The primary reason was due to Education Jobs grant awards. Business-type activities posted an operating net loss of \$17,207 which is \$44,685 less than the prior year.

Governmental Activities	2011			2010 (as restated)		
	Direct Expenses	Program Revenues	Net Cost	Direct Expenses	Program Revenues	Net Cost
Instruction	\$ 22,615,902	\$ 4,687,446	\$ 17,928,456	\$ 22,009,990	\$ 3,793,926	\$ 18,216,064
Instructional student support	2,210,846	197,221	2,013,625	2,409,323	183,272	2,226,051
Administrative and financial support	3,156,900	148,039	3,008,861	3,105,389	70,841	3,034,548
Operation and maintenance of plant	3,741,407	69,050	3,672,357	3,574,327	92,622	3,481,705
Pupil transportation	2,023,704	1,172,113	851,591	1,908,416	1,061,897	846,519
Student activities	1,109,312	190,749	918,563	1,063,786	173,196	890,590
Community services	0	0	0	5,306	0	5,306
Depreciation - unallocated	0	0	0	6,250	0	6,250
Interest on long-term debt	1,405,806	499,272	906,534	1,525,762	468,161	1,057,601
Total Governmental Activities	\$ 36,263,877	\$ 6,963,890	\$ 29,299,987	\$ 35,608,549	\$ 5,843,915	\$ 29,764,634
Unrestricted grants and subsidies			(7,753,967)			(7,956,920)
Transfers			4,186			15,000
Investment earnings			(47,756)			(86,645)
Total needs from taxes and other local sources			\$ 21,502,450			\$ 21,736,069
Business-type Activities						
Food services	\$ 1,168,650	\$ 1,151,443	\$ 17,207	\$ 1,187,006	\$ 1,125,114	\$ 61,892
Transfers			(4,186)			(15,000)
Investment earnings			(224)			(242)
Total business-type activities			\$ 12,797			\$ 46,650

Governmental Fund Balance

At June 30, 2011, the District governmental funds reported a combined fund balance of \$7,171,209, which is a decrease of \$20,565 from the restated June 30, 2010 combined fund balance.

<u>Governmental Fund Balance</u>				
	2011	2010 (as restated)	\$ Change	% Change
General Fund - Nonspendable	\$ 285,107	\$ 188,099	\$ 97,008	51.57%
General Fund - Committed	1,073,528	0	1,073,528	0.00%
General Fund - Assigned	1,958,461	0	1,958,461	0.00%
General Fund - Unassigned	3,852,135	6,692,138	(2,840,003)	-42.44%
Capital Reserve Fund - Restricted	1,978	307,539	(305,561)	-99.36%
Debt Service Fund - Restricted	0	3,998	(3,998)	-100.00%
	<u>\$ 7,171,209</u>	<u>\$ 7,191,774</u>	<u>(\$ 20,565)</u>	<u>-0.29%</u>
Total spendable	\$ 6,884,124	\$ 6,692,138	\$ 191,986	2.87%
Total restricted	1,978	311,537	(309,559)	-99.37%
Total nonspendable	285,107	188,099	97,008	51.57%
	<u>\$ 7,171,209</u>	<u>\$ 7,191,774</u>	<u>(\$ 20,565)</u>	<u>-0.29%</u>

Governmental Funds – Reconciliation

The increase in the General Fund unreserved fund balance was not anticipated. The District did increase the real estate tax rate and had planned on using fund balance to balance the budget. Due to the significant downturn in the economy over the past several years and also the eventual significant increase in the PSERS rates, the District watched expenditures closely and purchased only supplies and other items as needed.

The decrease in the Capital Reserve Fund reserved fund balance was anticipated and is a result of the District not transferring money to this fund during 2010-2011. A transfer is budgeted for 2011-2012 and this fund will continue to be used for significant, planned capital projects.

General Fund Budget

A General Fund budget is adopted each year in accordance with the Pennsylvania School Code. The revised budget reflects budget transfers as approved by the Board. Contracted educational services, increased maintenance and utility costs, and unforeseen expenditures regularly require annual budget adjustments.

The District applies for State and Federal grants each year. Certain grants may not be anticipated during the budgeting process and must be added to the budget during the fiscal year. In addition, the grants that are anticipated during the budgeting process are based on estimates. The budget must then be modified based on the actual grant award.

General Fund Budget

	2011			2010 (as restated)		
	Budget	Actual	Variance	Budget	Actual	Variance
Total revenues	\$ 36,867,197	\$ 37,555,565	\$ 688,368	\$ 36,743,607	\$ 36,904,355	\$ 160,748
Total expenditures	38,887,264	37,444,255	(1,443,009)	34,174,537	33,375,114	(799,423)
Revenues over (under) expenditures	(2,020,067)	111,310	2,131,377	2,569,070	3,529,241	960,171
Other financing sources (uses)	(185,357)	173,686	359,043	(3,600,558)	(2,326,091)	1,274,467
Net change in fund balance	\$ (2,205,424)	\$ 284,996	\$ 2,490,420	\$ (1,031,488)	\$ 1,203,150	\$ 2,234,638

CAPITAL ASSETS

At June 30, 2011, the District recorded \$42,586,726 in Governmental activities capital assets, which represents a decrease of \$766,576 from the previous fiscal year. This net decrease is a result of the addition and replacement of equipment in within the District, netted against the depreciation of current capital assets.

Capital Assets (net of depreciation)

	2011		2010		Change	
			(as restated)			
Governmental activities						
Land	\$	326,188	\$	326,188	\$	0
Site improvements		468,085		401,601		66,484
Buildings and improvements		40,057,870		40,972,907		(915,037)
Furniture and equipment		1,558,961		1,652,606		(93,645)
Construction in progress		175,622		0		175,622
Total governmental capital assets	\$	42,586,726	\$	43,353,302	\$	(766,576)
Business-type activities						
Food service equipment	\$	287,554	\$	331,582	\$	(44,028)

LONG-TERM LIABILITIES

Bonds and notes payable at June 30, 2010 were \$38,335,790 and \$36,315,565 at June 30, 2011. Scheduled principal payments totaling \$2,130,000 were made to bondholders during 2010-11. In March 2011 the District took advantage of an opportunity to advance refund the Series of 2004A and Series 2006 General Obligation Bonds in which a savings between \$279,898 and \$440,903 will be realized. Series of 2011 General Obligation Note was issued for \$9,430,000.

Lease-purchase obligations at June 30, 2010 were \$734,562 and \$461,129 at June 30, 2011. Three leases were entered into during 2009-2010. Two leases were for computers with a cost of \$260,000 and \$305,907. The third lease was for telephone equipment with a cost of \$397,603. Subsequent to year end, the District entered into a fourth capital lease for computer and server equipment with a cost of \$243,000.

Liability for Compensated Absences is reported under long-term liabilities. Under the terms of the School District's employment policies, employees are reimbursed for accrued vacation and personal leave upon retirement or other termination of employment. The reimbursement rate is established by the employment contract and varies by employee classification. In addition, under the Pennsylvania School Code, employees are granted sick days annually, with all unused sick days accumulating in subsequent years. Upon retirement

from the School District, employees are reimbursed based on their accumulated sick days, or a portion thereof, multiplied by an amount pre-established per the employment contract. The total liability for accrued vacation, personal and sick leave has been reflected in the Statement of Net Assets and totals \$896,811 for the Governmental Activities and \$20,155 for the Business-type Activities for year ended June 30, 2011. Employees who retire with 15 years of service are eligible to remain on the Districts health care plan until age 65. The liability for these post employment benefits has been reflected in the Statement of Net Assets and totals \$261,917 for the Government Activities and \$2,940 for the Business-type Activities for year ended June 30, 2011. The combined change in these liabilities represents an increase from 2009-10 of \$180,453 in the Governmental Activities and \$14,031 in the Business-type Activities.

2011-2012 BUDGET AND ECONOMIC FACTORS

	Budget 2011-2012	Budget 2010-2011	Change
Total revenues	\$ 36,307,521	\$ 36,867,197	\$ (559,676)
Total expenditures	34,721,511	35,252,531	(531,020)
Revenues over (under) expenditures	1,586,010	1,614,666	(28,656)
Other financing sources (uses)	(3,484,387)	(3,820,090)	335,703
Net change in fund balance	\$ (1,898,377)	\$ (2,205,424)	\$ 307,047

The new budget for 2011-2012 represents an decrease in total expenditures of 1.51%. This decrease is due to many factors such as: attritional loss of 13 professional staff and not budgeting for possibilities but for actual known factors. These savings were offset by increases in salaries due to contracts and agreements, increase in medical insurance costs, and increase in retirement contributions. The 2011-2012 budgeted revenues reflect a millage increase of .2442 mills. The 2011-12 real estate tax assessment is 14.6135 mills and is calculated on each property's assessed value in each of the seven municipalities located within the Northern York County School District. The Board of School Directors approved a "balanced" budget for the 2011-2012 fiscal year.

Budgeted employee health care premiums increased 3% for 2011-2012. Health care premiums are anticipated to increase an additional three percent for 2012-2013, the District has adjusted its health insurance package and has implemented premium sharing with all personnel in an effort to reduce annual premium increases.

The 2010-2011 general fund spendable fund balance of \$6,884,124 represents 17.90% of budgeted expenditures and other financing sources and uses. The fund balance is held to offset unforeseen expenditures and to fund future district expenditures.

During 2006, the Pennsylvania State Legislators passed Act 1 which is also called the Homeowner Property Tax Relief Act. The passage of this Act coincided with the enactment of Act 72 which is commonly referred to as the "Slots Bill". With the passage of these two pieces of legislation, the State intended to tax newly created gaming proceeds and use a portion of those funds to give a property tax credit to certain groups of residents. The State was able to allocate funds to the District from gaming proceeds for the 2008-2009 budget. The 2011-2012 budget reflects the estimated receipt of \$723,906 from the state to be used to reduce property taxes. Northern York County's index for 2011-2012 was set at 1.7%. The index limits the rate of increase on tax mills. The 2010-2011 budget reflects a 3.6% increase in the property tax rate, which equals the index provided to the District by the State.

The 2010-2011 fiscal year is the first year of a four year contract with the Northern York Education Association.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

The District's financial report is intended to provide the readers with a general overview of the District's finances and to show the Board's accountability for the funds it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office of the Northern York County School District, 149 S. Baltimore Street, Dillsburg, PA 17019, and (717) 432-8691, ext. 1108.

NORTHERN YORK COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2011

ASSETS	GOVERNMENTAL	BUSINESS-TYPE	TOTALS	
	ACTIVITIES	ACTIVITIES	2011	2010 Summarized (restated)
Current Assets				
Cash and cash equivalents	\$ 1,351,708	\$ 41,431	\$ 1,393,139	\$ 8,391,379
Investments	6,800,491	0	6,800,491	0
Receivables:				0
Taxes, net	1,576,529	0	1,576,529	694,110
Intergovernmental	601,998	65,370	667,368	1,919,079
Other	178,197	40,241	218,438	146,107
Internal balances	143,189	0	0 *	0
Prepaid items	70,280	0	70,280	14,426
Inventories	214,827	14,117	228,944	199,527
Total current assets	<u>10,937,219</u>	<u>161,159</u>	<u>10,955,189</u>	<u>11,364,628</u>
Noncurrent Assets				
Bond issue costs, net	457,382	0	457,382	997,160
Land	326,188	0	326,188	326,188
Site improvements, net	468,085	0	468,085	376,601
Buildings, net	40,057,870	0	40,057,870	40,972,907
Equipment, furniture and fixtures, net	1,558,961	287,554	1,846,515	2,009,188
Construction in progress	175,622	0	175,622	0
Total noncurrent assets	<u>43,044,108</u>	<u>287,554</u>	<u>43,331,662</u>	<u>44,682,044</u>
TOTAL ASSETS	<u>\$ 53,981,327</u>	<u>\$ 448,713</u>	<u>\$ 54,286,851</u>	<u>\$ 56,046,672</u>
LIABILITIES				
Current liabilities				
Internal balances	\$ 0	\$ 143,189	\$ 0 *	\$ 0
Accounts payable	344,835	6,449	351,284	401,419
Accrued salaries and benefits/withholdings	2,618,435	23,241	2,641,676	2,710,425
Accrued interest	197,633	0	197,633	206,328
Deferred revenues	0	0	0	53,488
Portion due or payable within one year:				
General obligation bonds and notes payable	2,021,006	0	2,021,006	2,003,938
Capital leases	275,425	0	275,425	273,433
Compensated absences	133,192	2,568	135,760	140,820
Total current liabilities	<u>5,590,526</u>	<u>175,447</u>	<u>5,622,784</u>	<u>5,789,851</u>
Noncurrent liabilities				
Portion due or payable after one year:				
General obligation bonds and notes payable	34,294,559	0	34,294,559	36,629,515
Capital leases	185,704	0	185,704	467,072
OPEB Liability	261,917	2,940	264,857	162,050
Compensated absences	763,619	17,587	781,206	891,583
Total noncurrent liabilities	<u>35,505,799</u>	<u>20,527</u>	<u>35,526,326</u>	<u>38,150,220</u>
TOTAL LIABILITIES	<u>41,096,325</u>	<u>195,974</u>	<u>41,149,110</u>	<u>43,940,071</u>
NET ASSETS				
Invested in capital assets, net of related debt	6,271,161	287,554	6,558,715	4,261,850
Restricted	1,978	0	1,978	197,469
Unrestricted	6,611,863	(34,815)	6,577,048	7,647,282
TOTAL NET ASSETS	<u>12,885,002</u>	<u>252,739</u>	<u>13,137,741</u>	<u>12,106,601</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 53,981,327</u>	<u>\$ 448,713</u>	<u>\$ 54,286,851</u>	<u>\$ 56,046,672</u>

* - Net of eliminations

The Notes to Financial Statements are an integral part of this statement.

NORTHERN YORK COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
							2011	2010 Summarized (as restated)
Governmental activities:								
Instruction	\$ 22,615,902	\$ 62,604	\$ 4,624,842	\$ 0	(\$ 17,928,456)	\$ 0	(\$ 17,928,456)	(\$ 10,232,826)
Instructional student support	2,210,846	0	197,221	0	(2,013,625)	0	(2,013,625)	(2,226,051)
Administrative and financial support services	3,156,900	35,554	112,485	0	(3,008,861)	0	(3,008,861)	(3,034,548)
Operation and maintenance of plant services	3,741,407	0	69,050	0	(3,672,357)	0	(3,672,357)	(3,514,273)
Pupil transportation	2,023,704	0	1,172,113	0	(851,591)	0	(851,591)	(846,519)
Student activities	1,109,312	153,997	36,752	0	(918,563)	0	(918,563)	(890,590)
Community services	0	0	0	0	0	0	0	(5,306)
Interest on long-term debt	1,405,806	0	0	499,272	(906,534)	0	(906,534)	(1,057,601)
Total governmental activities	<u>36,263,877</u>	<u>252,155</u>	<u>6,212,463</u>	<u>499,272</u>	<u>(29,299,987)</u>	<u>0</u>	<u>(29,299,987)</u>	<u>(21,807,714)</u>
Business-type activities								
Food services	1,168,650	822,818	328,625	0	0	(17,207)	(17,207)	(61,892)
Total primary government	<u>\$ 37,432,527</u>	<u>\$ 1,074,973</u>	<u>\$ 6,541,088</u>	<u>\$ 499,272</u>	<u>(\$ 29,299,987)</u>	<u>(\$ 17,207)</u>	<u>(\$ 29,317,194)</u>	<u>(\$ 21,869,606)</u>
General revenues and transfers:								
Property taxes levied for general purposes, public utility realty tax, earned income tax					\$ 22,520,813	\$ 0	\$ 22,520,813	\$ 22,350,488
Grants, subsidies and contributions not restricted					7,753,967	0	7,753,967	726,524
Investment earnings					47,756	224	47,980	86,887
Gain on sale of fixed assets					996	0	996	0
Miscellaneous income					24,578	0	24,578	50,479
Transfers					(4,186)	4,186	0	0
Total general revenues and transfers					<u>30,343,924</u>	<u>4,410</u>	<u>30,348,334</u>	<u>23,214,378</u>
Change in net assets					1,043,937	(12,797)	1,031,140	1,344,772
Net assets - beginning - as restated					<u>11,841,065</u>	<u>265,536</u>	<u>12,106,601</u>	<u>10,761,829</u>
Net assets - ending					<u>\$ 12,885,002</u>	<u>\$ 252,739</u>	<u>\$ 13,137,741</u>	<u>\$ 12,106,601</u>

The Notes to Financial Statements are an integral part of this statement.

**NORTHERN YORK COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	General Fund	Capital Reserve Fund	Totals	
			2011	2010 Summarized (restated)
ASSETS				
Cash and cash equivalents	\$ 1,349,730	\$ 1,978	\$ 1,351,708	\$ 8,290,411
Investments	6,800,491	0	6,800,491	0
Taxes receivable, net	1,301,181	0	1,301,181	694,110
Due from other funds	143,189	0	143,189	222,821
Receivable from other governments	601,998	0	601,998	1,546,472
Other receivables	178,197	0	178,197	111,827
Inventories	214,827	0	214,827	188,099
Prepaid expenses	70,280	0	70,280	14,426
Total assets	<u>\$ 10,659,893</u>	<u>\$ 1,978</u>	<u>\$ 10,661,871</u>	<u>\$ 11,068,166</u>
LIABILITIES				
Accounts payable	\$ 344,835	\$ 0	\$ 344,835	\$ 398,337
Due to other funds	0	0	0	30,030
Deferred revenue	527,392	0	527,392	745,415
Accrued salaries and benefits/withholdings	2,618,435	0	2,618,435	2,702,610
Total liabilities	<u>3,490,662</u>	<u>0</u>	<u>3,490,662</u>	<u>3,876,392</u>
FUND BALANCES				
Nonspendable fund balance				
Inventories	214,827	0	214,827	188,099
Prepaid expenses	70,280	0	70,280	0
Spendable fund balance				
Restricted fund balance				
Future capital improvements	0	1,978	1,978	307,539
Future Debt service	0	0	0	3,998
Committed fund balance				
Retirement	470,000	0	470,000	0
Special needs	210,000	0	210,000	0
Transportation	100,000	0	100,000	0
Debt service	268,528	0	268,528	0
Capital projects and repairs	25,000	0	25,000	0
Assigned fund balance				
Future student activities	60,084	0	60,084	0
2011 - 2012 budget deficit	1,898,377	0	1,898,377	0
Unassigned fund balance	3,852,135	0	3,852,135	6,692,138
Total fund balances	<u>7,169,231</u>	<u>1,978</u>	<u>7,171,209</u>	<u>7,191,774</u>
Total liabilities and fund balances	<u>\$ 10,659,893</u>	<u>\$ 1,978</u>	<u>\$ 10,661,871</u>	<u>\$ 11,068,166</u>

The Notes to Financial Statements are an integral part of this statement.

NORTHERN YORK COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
June 30, 2011

Total fund balances - governmental funds \$ 7,171,209

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.

Cost of assets	65,877,385	
Accumulated depreciation	(23,290,659)	
		42,586,726

Property taxes receivable and earned income taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 802,740

Bond issue costs are reported in governmental funds when the debt is first issued. The Statement of Net Assets reports issue costs as an asset. 457,382

Long-term liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. Long-term liabilities consist of:

Bonds and notes payable, net of discount and premium	(36,315,565)	
Accrued interest on bonds	(197,633)	
Compensated absences	(896,811)	
Capital leases	(461,129)	
OPEB liability	(261,917)	
		(38,133,055)

Net assets of governmental activities in the Statement of Net Assets **\$ 12,885,002**

The Notes to Financial Statements are an integral part of this statement.

NORTHERN YORK COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

			Totals	
	General Fund	Capital Reserve Fund	2011	2010 Summarized (as restated)
REVENUES				
Local revenues				
Taxes	\$ 22,772,333	\$ 0	\$ 22,772,333	\$ 22,272,131
Investment earnings	47,673	83	47,756	86,283
Federal revenue from intermediate sources	733,923	0	733,923	871,994
Other	308,034	5,000	313,034	316,310
State sources	11,840,000	0	11,840,000	11,965,602
Federal sources	1,853,602	0	1,853,602	1,392,397
Total revenues	37,555,565	5,083	37,560,648	36,904,717
EXPENDITURES				
Instruction	21,336,099	0	21,336,099	21,579,582
Support services	10,973,126	0	10,973,126	10,442,324
Operation of noninstructional services	1,090,122	0	1,090,122	1,066,196
Facilities acquisition, construction and improvements	262,104	310,644	572,748	234,127
Debt service:				
Principal	2,403,435	0	2,403,435	2,142,961
Interest	1,316,304	0	1,316,304	1,162,151
Note issue costs	47,369	0	47,369	0
Refund of prior year receipts	15,696	0	15,696	8
Total expenditures	37,444,255	310,644	37,754,899	36,627,349
Excess (deficiency) of revenues over expenditures	111,310	(305,561)	(194,251)	277,368
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term financing	9,430,000	0	9,430,000	10,155,066
Proceeds from capital leases	0	0	0	932,089
Insurance recoveries	1,876	0	1,876	31,368
Proceeds from sale of fixed assets	996	0	996	536
Refunding of G.O. Bonds	(9,255,000)	0	(9,255,000)	(10,083,623)
Interfund transfers	(4,186)	0	(4,186)	(15,000)
Total other financing sources and uses	173,686	0	173,686	1,020,436
Net change in fund balances	284,996	(305,561)	(20,565)	1,297,804
Fund balances - beginning - as restated	6,884,235	307,539	7,191,774	5,889,972
Fund balances - ending	\$ 7,169,231	\$ 1,978	\$ 7,171,209	\$ 7,191,774

The Notes to Financial Statements are an integral part of this statement.

**NORTHERN YORK COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES
Year Ended June 30, 2011**

Net change in fund balances - total governmental funds (\$ 20,565)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays (\$ 1,028,951) exceeded depreciation expense (\$ 1,795,527) in the current period. (766,576)

Because some earned income taxes will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the governmental funds. This is the change in the receivable balance for the government-wide statements. (251,520)

The issuance of long term obligations (bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of principal of long term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. Repayment of bond principal is an expenditure and other financing use in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Repayment of general obligation bonds/notes	11,385,000
Issuance of general obligation bonds/notes	(9,430,000)
Bond issuance costs	47,369
Amortization of bond issuance costs	(87,740)
Repayment of capital leases principal	273,433

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. This is the difference between the amount incurred and the amount paid of:

Accrued interest	8,695
OPEB liability	(101,646)
Compensated absences	(12,513)

Change in net assets of governmental activities \$ 1,043,937

The Notes to Financial Statements are an integral part of this statement.

NORTHERN YORK COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2011

	Food Service	2010 Summarized (restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 41,431	\$ 96,970
Intergovernmental receivables	65,370	32,184
Due from other funds	0	7,812
Other receivables	11,362	4,742
Receivable from students	28,879	29,538
Inventory	<u>14,117</u>	<u>11,428</u>
Total current assets	<u>161,159</u>	<u>182,674</u>
Noncurrent Assets		
Furniture and equipment	1,002,733	998,547
Accumulated depreciation	<u>(715,179)</u>	<u>(666,965)</u>
Total noncurrent assets	<u>287,554</u>	<u>331,582</u>
Total assets	<u>\$ 448,713</u>	<u>\$ 514,256</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 6,449	\$ 3,082
Accrued wages payable	89	7,815
Due to other funds	143,189	200,603
Other payables	23,152	21,910
Compensated absences	<u>2,568</u>	<u>0</u>
Total current liabilities	<u>175,447</u>	<u>233,410</u>
Noncurrent Liabilities		
OPEB liability	2,940	1,779
Compensated absences	<u>17,587</u>	<u>13,531</u>
Total noncurrent liabilities	<u>20,527</u>	<u>15,310</u>
Total liabilities	<u>195,974</u>	<u>248,720</u>
NET ASSETS		
Invested in capital assets	287,554	331,582
Unrestricted	<u>(34,815)</u>	<u>(66,046)</u>
Total net assets	<u>252,739</u>	<u>265,536</u>
Total liabilities and net assets	<u>\$ 448,713</u>	<u>\$ 514,256</u>

The Notes to Financial Statements are an integral part of this statement.

NORTHERN YORK COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2011

	Food Service	2010 Summarized (as restated)
OPERATING REVENUE		
Charges for services	\$ 822,818	\$ 815,661
Total operating revenues	<u>822,818</u>	<u>815,661</u>
OPERATING EXPENSES		
Food and milk purchases	462,157	442,622
Salaries	361,470	439,486
Employee benefits	188,685	157,476
Supplies	3,937	0
Depreciation	48,214	55,753
Repairs and maintenance	4,017	0
Purchased services	52,872	57,650
Administrative fees and overhead costs	47,298	34,019
Total operating expenses	<u>1,168,650</u>	<u>1,187,006</u>
Operating income (loss)	<u>(345,832)</u>	<u>(371,345)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal subsidies	273,373	254,746
State subsidies	55,252	54,707
Interest income	224	242
Total nonoperating revenue (expenses)	<u>328,849</u>	<u>309,695</u>
Income (loss) before transfers	<u>(16,983)</u>	<u>(61,650)</u>
TRANSFERS		
Interfund transfers	<u>4,186</u>	<u>15,000</u>
Change in net assets	<u>(12,797)</u>	<u>(46,650)</u>
Total net assets - beginning - as restated	<u>265,536</u>	<u>312,186</u>
Total net assets - ending	<u>\$ 252,739</u>	<u>\$ 265,536</u>

The Notes to Financial Statements are an integral part of this statement.

NORTHERN YORK COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended June 30, 2011

	Food Service	2010 Summarized
Cash flows from operating activities:		
Cash received from food sales	\$ 816,857	\$ 821,480
Cash payments to suppliers for goods	(417,167)	(444,560)
Cash payments to and on behalf of employees	(599,698)	(564,768)
Cash payments for services	(100,170)	(34,019)
Net cash provided (used) by operating activities	<u>(300,178)</u>	<u>(221,867)</u>
Cash flows from capital and related financing activities:		
Purchase of equipment	<u>0</u>	<u>(6,137)</u>
Cash flows from noncapital financing activities:		
Transfers (to)/from other funds	0	7,188
Federal subsidies	192,673	200,440
State subsidies	<u>51,742</u>	<u>55,421</u>
Net cash provided by noncapital financing activities	<u>244,415</u>	<u>263,049</u>
Cash flows from investing activities:		
Earnings on investments	<u>224</u>	<u>242</u>
Net (decrease) in cash and cash equivalents	(55,539)	35,287
Cash and cash equivalents - beginning	<u>96,970</u>	<u>61,683</u>
Cash and cash equivalents - ending	<u>\$ 41,431</u>	<u>\$ 96,970</u>

The Notes to Financial Statements are an integral part of this statement.

NORTHERN YORK COUNTY SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND (Continued)
 Year Ended June 30, 2011**

	Food Service	2010 Summarized
Reconciliation of income (loss) from operations to net cash provided by operating activities		
Cash flows from operating activities:		
Operating income (loss)	(\$ 345,832)	(\$ 371,345)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Donated food used	51,023	55,154
Depreciation	48,214	55,753
(Increase) decrease in:		
Inventory	(2,688)	2,621
Accounts receivable	(5,961)	2,690
Interfund receivable	7,812	0
Increase (decrease) in:		
Compensated absences	6,624	13,531
OPEB liability	1,161	1,779
Due to other funds	(57,414)	9,158
Accrued wages payable	(7,726)	7,726
Accounts payable	<u>4,609</u>	<u>1,066</u>
Total adjustments	<u>45,654</u>	<u>149,478</u>
Net cash provided (used) by operating activities	<u><u>(\$ 300,178)</u></u>	<u><u>(\$ 221,867)</u></u>

The Notes to Financial Statements are an integral part of this statement.

NORTHERN YORK COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2011

			<u>Totals</u>	
	Student Activities	Private Purpose Trusts	2011	2010 Summarized
ASSETS				
Cash and cash equivalents	\$ 90,198	\$ 294,440	\$ 384,638	\$ 383,894
Total assets	<u>\$ 90,198</u>	<u>\$ 294,440</u>	<u>\$ 384,638</u>	<u>\$ 383,894</u>
LIABILITIES				
Due to student groups	<u>90,198</u>	<u>0</u>	<u>90,198</u>	<u>82,979</u>
Total liabilities	<u>90,198</u>	<u>0</u>	<u>90,198</u>	<u>82,979</u>
NET ASSETS				
Held in trust for scholarships	<u>0</u>	<u>294,440</u>	<u>294,440</u>	<u>300,915</u>
Total net assets	<u>0</u>	<u>294,440</u>	<u>294,440</u>	<u>300,915</u>
Total liabilities and net assets	<u>\$ 90,198</u>	<u>\$ 294,440</u>	<u>\$ 384,638</u>	<u>\$ 383,894</u>

The Notes to Financial Statements are an integral part of this statement.

NORTHERN YORK COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
June 30, 2011

	Private Purpose Trust Fund	2010 Summarized
ADDITIONS		
Donations	\$ 23,583	\$ 4,432
Interest income	489	1,320
Total additions	<u>24,072</u>	<u>5,752</u>
DEDUCTIONS		
Scholarships and awards/grants	<u>30,547</u>	<u>17,212</u>
Total deductions	<u>30,547</u>	<u>17,212</u>
Change in net assets	(6,475)	(11,460)
Net assets - beginning	<u>300,915</u>	<u>312,375</u>
Net assets - ending	<u>\$ 294,440</u>	<u>\$ 300,915</u>

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Northern York County School District (School District) operates a public school system which is geographically comprised of the Boroughs of Dillsburg, Franklintown and Wellsville and Townships of Carroll, Franklin, Monaghan and Warrington in York County, Pennsylvania.

The School District consists of Northern High School, Northern Middle School; and the Dillsburg, Northern, South Mountain and Wellsville Elementary Schools; as well as the School District Administration Office.

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund 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 their business-type activities and enterprise funds, subject to this same limitation. The School District has elected not to follow subsequent private-sector guidance.

Reporting Entity

Governmental Accounting Standards Board (GASB) Statements define the criteria used to determine the composition of the reporting entity. These standards require that the reporting entity include (1) the primary government; (2) organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The School District is not a component unit of any other entities.

Certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government. A legally separate, tax-exempt organization should be reported as a component unit of the reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. In the case of the School District, this would include benefiting the students of the district.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. The ability of a primary government to otherwise access the resources of an organization does not necessarily imply control over the organization or its resources. This access can be demonstrated if historically the primary government has received, directly or indirectly, a majority of the economic resources provided by the organization, or the organization has previously honored requests to provide resources to the organization.
3. The economic resources received or held by the individual organization, that the primary government is entitled to, or has the ability to otherwise access, is significant to the primary government.

Note 1. Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

Based on the above criteria the Polar Bear Foundation is considered a component unit.

The Polar Bear Foundation is governed by a seven to fifteen member board, which includes the District Superintendent and the President of the Board of School Directors of the District. Separate financial statements of the Foundation may be reviewed by contacting the Foundation directly. However, audited statements of the Foundation are not available and thus, the Foundation is not included with the private purpose trust funds in the School District's fiduciary fund statements.

The following joint ventures are not component units of Northern York County School District and are not included in this report.

Cumberland-Perry Area Vocational Technical School - is a separate legal entity organized by thirteen local school districts. The School is operated, administered and managed by a joint operating committee consisting of board members from the thirteen member school districts. These members are elected from their individual school district board of directors. The District's share of annual operating costs of CPAVTS is reflected as intergovernmental expenditures of the General Fund.

Lincoln Benefit Trust – the School District is one of eighteen school districts, an intermediate unit and a vocational technical school participating in the operating of the Trust. The Trust is managed locally with the Board of Trustees consisting of administration, employee and board representatives from each of the twenty members. The Trustees for the Northern York County School District are the Business Manager, an appointed board member and a representative from the Northern York Education Association. The School District utilizes the Trust to provide health insurance benefits.

Capital Area Intermediate Unit – is a separate legal entity organized by constituent school districts in Cumberland, Dauphin, Perry, and York counties to provide services to the school districts. Each member school district appoints one member to serve on the Board of Directors of the Intermediate Unit. The School District contracts with the Intermediate Unit primarily for special education services and training.

Complete financial statements for each of the entities described above can be obtained from each respective administrative office. The School District has no equity interest in any of the above joint ventures.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories of governmental, proprietary, and fiduciary.

1. Governmental Funds

Governmental Funds are those through which most governmental functions of the School District are financed. The measurement focus is on the flow of expendable resources, rather than on net earnings determination.

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

The School District reports the following major governmental funds:

a. General Fund

The General Fund is used to account for all financial transactions not accounted for in another fund. Revenues are primarily derived from local property taxes and earned income taxes, and state and federal subsidies. Many of the more important activities of the School District, including instruction, administration of the School District, and certain noninstructional services are accounted for in this fund. This is a legally budgeted fund, and any unrestricted fund balances are considered as resources available for use.

b. Capital Reserve Fund

This fund is authorized under by Municipal Code P.L. 145, Act of April 30, 1943, accounts for (1) moneys transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, (2) surplus moneys in the General Fund of the treasury of the School District at the end of any fiscal year, and (3) interest earnings of the fund itself.

2. Proprietary Fund

Proprietary Funds are used to account for the School District's ongoing activities which are similar to those often found in the private sector. The focus of proprietary funds is on the determination of net earnings and capital maintenance. The following fund is utilized:

Food Service Fund – Enterprise Fund – Major Fund

This fund accounts for all revenues and expenses pertaining to cafeteria operations as authorized under Section 504 of the Public School Code of 1949. It is the intent of the governing body that the cost of providing food, goods or services to the students on a continuing basis be financed or recovered primarily through user charges or cost reimbursement plans.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a scholarship program for students. This is shown as a private purpose trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Student Activity Funds are classified as Agency Funds.

Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (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 a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and 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 business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds (if applicable) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

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

Fiduciary funds are reported using the economic resources measurement focus.

Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, including charges for meals, and the costs of food, salaries and benefits, depreciation, and other expenses. Federal and State subsidies are considered non-operating revenues as no exchange transaction occurs.

Budgets and Budgetary Accounting

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting.

1. The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:
2. The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.
3. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required.
4. Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board of Education, which authorize the School District to make expenditures. Appropriations lapse at the end of the fiscal period.
5. Included in the General Fund budget are program budgets as prescribed by the state and federal agencies funding the programs. These budgets are approved on a program-by-program basis by the state or federal funding agency. These programs frequently result in supplementary budget appropriations.

Capital budgets are not implemented for capital improvements in the Capital Reserve Fund. All transactions of the Capital Reserve Fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.

Cash, Cash Equivalents, and Investments

Cash includes all demand deposits, petty cash, savings, money market accounts, and certificates of deposit owned by the School District. Investments include repurchase agreements, investment trusts which mature at a future date, mutual funds of allowable, investments, and certain government obligations. Investments are stated at market value. Accrued interest is included with other receivables on the balance sheet.

Note 1. Summary of Significant Accounting Policies (Continued)

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventory

Inventory in the Food Service Fund consists of expendable supplies and food (valued at cost) held for consumption. The expendable supplies are recorded as an expenditure when used. The cost of governmental fund inventories are recorded as expenditures when purchased in the fund financial statements and the asset (valued at cost) at June 30 is offset by nonspendable fund balance. Governmental fund supplies inventories are capitalized at cost and expensed as used on the government-wide financial statements.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$ 1,500. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets is not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years	N/A
Equipment, Furniture and Fixtures	5 – 20 years	5 – 12 years

Interfund Activity/Internal Balances

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Advances between funds which are not expected to be repaid are accounted for as transfers. Interfund balances and transactions are eliminated in the government-wide financial statements.

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

Note 1. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activity columns in the statement of net assets. This same treatment also applies to proprietary fund financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 and original issue discounts or premiums are reported as other financing sources and uses. Issuance costs and underwriter's discount, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Retirement Plans

The School District contributes to the Public School Employees Retirement System (PSERS), a cost-sharing multiple-employer defined benefit pension plan. The School District accounts for the plan under the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. GASB Statement No. 27 establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures.

Compensated Absences

Liability for compensated absences is accounted for in accordance with the provisions of the GASB, which requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The estimate of the liability for the accumulated unpaid sick leave has been calculated using the vesting method. Under that method, the School District has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the School District, and estimated the probability of the payment of that benefit to employees upon retirement.

Liabilities for vested, unused vacation, sick pay, and personal leave are recorded in the proprietary funds and the government-wide financial statements, and are expensed as incurred.

Payments for vacation, sick pay, and personal leave are expensed as paid in the governmental fund financial statements.

Other Postemployment Benefits Other Than Pensions

The School District provides continuation of medical and dental benefits, including prescription drug coverage, to eligible retired employees and qualified spouses/beneficiaries until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment for 50% to 100% of the premium cost determined for the purpose of COBRA, depending on the employee group and length of service.

Note 1. Summary of Significant Accounting Policies (Continued)

Net Assets – Government-wide Financial Statements

In the government-wide financial statements, net assets are classified in the following category:

Invested in Capital Assets, Net of Related Debt: This component consists of capital assets, net of accumulated depreciation and reduced by any outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those capital assets.

Restricted Net Assets: This component consists of net assets with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Assets: This component consists of all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance – Governmental Fund Financial Statements

In July 2010, the GASB issued Statement No. 54, *Fund Balance and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The financial statements incorporate the changes required by Statement No. 54 as detailed below.

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and long term amount of loans and notes receivable. This also includes the corpus (or principal) of permanent funds.

Restricted: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or mandate payment and includes a legally enforceable requirement on the use of these funds.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District’s highest level of decision-making authority. This formal action is in the form of a resolution which is made by the School Board. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds *other than the General Fund*, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the School District’s Board, or a subordinate high-level

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balance – Governmental Fund Financial Statements (Continued)

body, such as the finance committee, superintendent, or business manager that is authorized to assign amounts to be used for specific purposes. As detailed in its Fund Balance Policy, the School Board or the Business Manager has the authority to make assignments of fund balance. The assignment of fund balance cannot result in a negative unassigned fund balance.

Unassigned: This classification represents the portion of spendable fund balance that has not been categorized as restricted, committed or assigned. The General Fund is the only fund which would include a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

Policy Regarding Order of Spending

When fund balance resources are available for a specific purpose in multiple classifications, the School District's policy is to use restricted resources first and then apply unrestricted resources in the following order: unassigned, assigned and committed. Assigned or committed resources would only be used upon specific authorization by the School Board, or the Business Manager in the case of assigned fund balance.

Minimum Fund Balance

The School District strives to maintain an unassigned general fund balance of not less than four percent (4%) and not more than eight percent (8%) of the budgeted expenditures for that fiscal year.

The total fund balance, consisting of portions including committed, assigned, and unassigned, should not exceed eight percent (8%).

If the unassigned portion of the fund balance falls below the threshold of four percent (4%) the Board will pursue variations of increasing revenues and decreasing expenditures or a combination of both until four percent (4%) is attained. If the assigned and unassigned portions of the fund balance exceeds eight percent (8%) of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for nonrecurring expenditures only.

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 and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School District's financial position and results of operations. This prior year summarized comparative information is not presented in the level of detail required for presentation in conformity with generally accepted accounting principles. Certain accounts in the prior year financial information may have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. Accordingly, such information should be read in conjunction with the School District's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Note 2. Cash and Investments

Section 440.1 of the Pennsylvania School Code defines allowable investments for school districts, which are summarized as follows:

- U.S. Treasury Bills
- Short term obligations of the U.S. Government or its agencies
- Deposits in savings accounts or certificates of deposit insured by the FDIC or NCUSIF 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 shall be pledged by the depository.
- Obligations of the U.S. Government, Commonwealth of Pennsylvania, or any agency, instrumentality, or political subdivision thereof, backed by the full faith and credit of the applicable government.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The School District does not have a policy for custodial credit risk. As of June 30, 2011, the School District has a bank balance of \$ 7,446,861 (including long-term certificates of deposit, which are classified as investments for the basic financial statements). Of this balance, \$ 993,506 is covered by FDIC insurance and the remaining balance of \$ 6,453,355 was exposed to custodial credit risk because the collateral securities held by the bank’s agents are not in the School District’s name.

Included in the totals above are cash deposits, in the form of certificates of deposit (CD's) in the amount of \$ 5,990,000 which are held with Pennsylvania School District Liquid Asset Fund (PSDLAF). Of the certificate of deposit balance, \$ 490,000 was insured by the FDIC, with the remaining amount being held in a collateralized certificate of deposit investment pool which is collateralized at 102%. Of the CD's, \$ 1,000,000 had an original maturity less than 90 days and is classified as cash. The rest are classified as investments.

Investments

As of June 30, 2011, the School District had the following investments:

Investment	Fair Value	Maturities
PA Local Government Investment Trust (PLGIT)	\$ 1,978	(A)
PA School District Liquid Asset Fund - PSDMAX	<u>1,757,265</u>	(A)
	<u>\$ 1,759,243</u>	

In addition to the amounts listed under custodial credit risk for deposits above, the School District invests in pooled investments with PSDLAF and Pennsylvania Local Government Investment Trust (PLGIT). These funds are accessible on a daily basis and are considered cash equivalents for reporting purposes. PLGIT deposits are invested by PLGIT directly in portfolios of securities which are held by a third party custodian. PSDLAF – PSDMAX deposits are invested by PSDLAF directly in portfolios of securities held by a third party custodian and are collateralized with securities held by the PSDLAF agent in a collateral pool. The School District is exposed to custodial credit risk because the collateral securities held by PSDLAF and PLGIT’s agents are not in the School District name.

Investments in PSDLAF and PLGIT are subject to income, market and credit risk related to the potential for decline in current income, the potential for a decline in market value and the potential that an issuer of securities held in the investment portfolios of the fund would fail to make timely payments of principal and interest payments, respectively.

Note 2. Cash and Investments (Continued)

Interest Rate Risk

The School District does not have a formal written investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

- (A) Investments in Pennsylvania School District Liquid Asset Fund (PSDLAF), excluding CD's held, and Pennsylvania Local Government Investment Trust (PLGIT) are not subject to interest rate risk as the funds are accessible on a daily basis and the interest rates change daily based on market conditions.

Credit Risk – Investments

PSDLAF and PLGIT are basically mutual funds that consist of short term money market instruments and seek to maintain a constant net asset value of \$ 1 per share. At June 30, 2011, the School District's investments in PSDLAF and PLGIT were both rated AAAM by Standards and Poor's Investor's Services.

Note 3. Taxes

Real estate taxes are considered fully collectible since liens can be filed on properties. The uncollectible portion of per capita taxes was estimated based on previous collection experience.

Property taxes are levied as of July 15 on assessed property values. The tax bills are mailed by the Tax Collectors on July 1 and are payable as follows:

Discount	July 15 – September 15
Face	September 16 – November 15
Penalty	November 16 - January 15

Taxpayers may also elect to pay the face amount in three equal installments due August 15, October 15 and December 15.

After January 15, the bills are considered delinquent and turned over to the County Tax Claim Bureau for collection.

Note 4. Taxes Receivable and Deferred Revenues

Taxes receivable and deferred revenues in the fund financial statements consist of the following as of June 30, 2011:

Real estate	\$	632,349
Earned income		922,913
Per capita		<u>28,512</u>
		1,583,774
Reserve for uncollectible accounts	(<u>7,245</u>)
Taxes receivable, net		1,576,529
Taxes collected within sixty days, recorded as revenues in governmental funds	(<u>1,049,137</u>)
Taxes estimated to be collected after sixty days, recorded as deferred revenue in governmental funds.	\$	<u><u>527,392</u></u>

Note 5. Interfund Receivable, Payables and Transfers

Interfund receivables/payables consist of the following for the year ended June 30, 2011:

Funds	Interfund Receivable	Interfund Payable
General	\$ 143,189	\$ 0
Food Service	<u>0</u>	<u>143,189</u>
	<u>\$ 143,189</u>	<u>\$ 143,189</u>

The Food Service Fund owes the General Fund for reimbursement of salaries and related benefits.

Interfund transfers consist of the following for the year ended June 30, 2011:

Funds	Transfers In	Transfer Out
General	\$ 0	\$ 4,186
Food Service	<u>4,186</u>	<u>0</u>
	<u>\$ 4,186</u>	<u>\$ 4,186</u>

During the current year, a transfer to the Food Service fund from the General Fund was made to be used for operating expenses.

Note 6. Intergovernmental Receivables

Intergovernmental receivables at June 30, 2011 consist of the following:

Local:	Amusement tax	\$ 1,925
	Deed transfer	20,670
State:	Social Security	74,575
	Retirement	174,172
	Dual Enrollment	3,494
	Rental subsidy	46,489
Federal:	Grants	<u>280,673</u>
	Total governmental funds	<u>\$ 601,998</u>

Note 7. Capital Assets

Capital asset activity for the School District consists of the following as of and for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Cost:				
Assets not being depreciated:				
Land	\$ 326,188	\$ 0	\$ 0	\$ 326,188
Construction in progress	0	175,622	0	175,622
Assets being depreciated:				
Site improvements	944,583	124,902	0	1,069,485
Buildings	58,196,890	341,033	0	58,537,923
Equipment, furniture, and fixtures	<u>6,543,620</u>	<u>387,394</u>	<u>(1,162,847)</u>	<u>5,768,167</u>
Total cost	<u>66,011,281</u>	<u>1,028,951</u>	<u>(1,162,847)</u>	<u>65,877,385</u>
Less accumulated depreciation:				
Site improvements	(567,982)	(33,418)	0	(601,400)
Buildings	(17,223,983)	(1,256,070)	0	(18,480,053)
Equipment, furniture, and fixtures	<u>(4,866,014)</u>	<u>(506,039)</u>	<u>1,162,847</u>	<u>(4,209,206)</u>
Total accumulated depreciation	<u>(22,657,979)</u>	<u>(1,795,527)</u>	<u>1,162,847</u>	<u>(23,290,659)</u>
Capital assets, net	<u>\$ 43,353,302</u>	<u>(\$ 766,576)</u>	<u>\$ 0</u>	<u>\$ 42,586,726</u>
Business-Type Activities:				
Cost:				
Other equipment, furniture and fixtures	\$ 998,547	\$ 4,186	\$ 0	\$ 1,002,733
Less accumulated depreciation:				
Furniture and equipment	<u>(666,965)</u>	<u>(48,214)</u>	<u>0</u>	<u>(715,179)</u>
Capital assets, net	<u>\$ 331,582</u>	<u>(\$ 44,028)</u>	<u>\$ 0</u>	<u>\$ 287,554</u>

Depreciation expense for the year ended June 30, 2011 was charged to governmental functions as follows:

Instruction	\$ 1,430,043
Instructional student support	62,830
Administrative and financial support services	53,815
Operation and maintenance of plant services	210,936
Pupil transportation	<u>37,903</u>
	<u>\$ 1,795,527</u>

The construction in progress consists of the electric and gas sub metering project in the amount of \$ 55,355 and the bridge project at the middle school in the amount of \$ 120,267.

See Note 14 for additional details.

Note 8. Accrued Salaries and Benefits/Withholdings

Accrued salaries and benefits/withholdings consist of the following as of June 30, 2011:

General Fund:	
Accrued salaries	\$ 1,755,728
Retirement	202,694
Social security	132,728
Health insurance	477,448
Other withholdings	49,837
	<u>\$ 2,618,435</u>

Note 9. Long-term Liabilities

The changes in long-term liabilities during the year ended June 30, 2011 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Governmental Activities:						
General obligation bonds and notes payable:						
(A) Series of 2004 A	\$ 4,210,000	\$ 0	(\$ 4,210,000)	\$ 0	\$ 0	\$ 0
(B) Series of 2006	5,265,000	0	(5,265,000)	0	0	0
(C) Series of 2008	9,870,000	0	(55,000)	9,815,000	635,000	9,180,000
(D) Series of 2009	9,170,000	0	(1,855,000)	7,315,000	1,345,000	5,970,000
(E) Series of 2010	10,330,000	0	0	10,330,000	5,000	10,325,000
(F) Series of 2011	0	9,430,000	0	9,430,000	87,000	9,343,000
Unamortized bond (discount), premium and (loss)	(509,210)	(285,108)	219,883	(574,435)	(50,994)	(523,441)
Subtotal - bonds	<u>38,335,790</u>	<u>9,144,892</u>	<u>(11,165,117)</u>	<u>36,315,565</u>	<u>2,021,006</u>	<u>34,294,559</u>
Compensated absences:						
Vacation leave	116,710	170,167	(143,492)	143,385	19,617	123,768
Personal leave	192,712	243,749	(250,692)	185,769	13,455	172,314
Sick leave	574,876	166,734	(173,953)	567,657	100,120	467,537
Subtotal - compensated absences	<u>884,298</u>	<u>580,650</u>	<u>(568,137)</u>	<u>896,811</u>	<u>133,192</u>	<u>763,619</u>
Capital lease payable	734,562	0	(273,433)	461,129	275,425	185,704
Total long-term liabilities	<u>\$ 39,954,650</u>	<u>\$ 9,725,542</u>	<u>(\$ 12,006,687)</u>	<u>\$ 37,673,505</u>	<u>\$ 2,429,623</u>	<u>\$ 35,243,882</u>
Business-Type Activities:						
Compensated absences:						
Vacation leave	\$ 6,000	\$ 4,153	(\$ 3,416)	\$ 6,737	\$ 0	\$ 6,737
Personal leave	3,865	2,157	(3,177)	2,845	2,031	814
Sick leave	3,665	7,461	(553)	10,573	537	10,036
Total long-term liabilities	<u>\$ 13,530</u>	<u>\$ 13,771</u>	<u>(\$ 7,146)</u>	<u>\$ 20,155</u>	<u>\$ 2,568</u>	<u>\$ 17,587</u>

(A) On September 15, 2008, the School District issued \$ 9,930,000 of general obligation bonds - Series 2008. The proceeds were used to currently refund a portion of the School District's Series of 2003 bonds, Series of 2003A bonds and pay all costs of issuing the bonds. The bonds are due in varying amounts on November 15 from 2010 to 2018. The bonds bear interest at rates ranging from 2.20% to 3.65%.

(B) On May 19, 2009, the School District issued \$ 10,800,000 of general obligation bonds Series 2009. The proceeds were used to currently refund the School District's Series of 2001 Bonds, Series of 2003 Bonds, Series of 2003A Bonds, Series of 2004 Bonds and pay all costs of issuing the bonds. The bonds are due in varying amounts on November 15, 2009 to 2019. The bonds bear interest at rates ranging from 2.00% to 3.50%.

Note 9. Long-term Liabilities (Continued)

(C) On March 3, 2010, the School District issued \$ 10,330,000 of general obligation bonds Series 2010. The proceeds were used to currently refund the School District's Series of 2005 Bonds and to pay the costs of issuing and insuring the bonds. The bonds are due in varying amounts on November 15, 2011 to 2022. The bonds bear interest at rates ranging from 1.00% to 3.50%.

(D) On March 22, 2011, the School District issued a general obligation note Series of 2011 in the amount of \$ 9,430,000 to provide funds to currently refund the School District's Series of 2004A Bonds, Series of 2006 Bonds and to pay the cost of issuing the note. Payment on the note is due in varying amounts on August 15, 2011 to 2024. The note bears interest at the rate of 3.58% for the first ten years followed by a variable not of 66% of USP (United States Prime) rate with a floor of 2.61% and a cap of 4.3% for the remaining three years.

As a result of the refunding, the School District will have the following benefits, which is a range due to the fact the interest rate is variable starting in 2021:

(1) Cash flow gain	\$ 279,898 - \$ 440,903
(2) Economic gain	\$ 271,237 - \$ 379,291

- (1) Represents the difference between the cash flows required to service the old debt and the new debt, less bond issue costs.
- (2) Represents the difference in present values of the old debt and new debt, less bond issue costs.

The annual debt requirements for future general obligation bonds and notes as of June 30, 2011 are as follows.

	Series of 2008		Series of 2009		Series of 2010	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 635,000	\$ 312,433	\$ 1,345,000	\$ 184,375	\$ 5,000	\$ 326,465
2013	1,290,000	283,558	770,000	163,225	115,000	325,290
2014	1,335,000	242,514	685,000	147,819	240,000	321,740
2015	1,375,000	199,508	695,000	131,425	245,000	316,890
2016	1,420,000	155,120	715,000	112,906	245,000	311,990
2017 - 2021	3,760,000	176,193	3,105,000	217,113	4,740,000	1,352,129
2022 - 2026	0	0	0	0	4,740,000	165,844
	<u>\$ 9,815,000</u>	<u>\$ 1,369,326</u>	<u>\$ 7,315,000</u>	<u>\$ 956,863</u>	<u>\$ 10,330,000</u>	<u>\$ 3,120,348</u>

	Series of 2011		Totals		Total
	Principal	Interest	Principal	Interest	
2012	\$ 87,000	\$ 301,339	\$ 2,072,000	\$ 1,124,612	\$ 3,196,612
2013	275,000	329,557	2,450,000	1,101,630	3,551,630
2014	286,000	319,515	2,546,000	1,031,588	3,577,588
2015	296,000	309,096	2,611,000	956,919	3,567,919
2016	312,000	298,214	2,692,000	878,230	3,570,230
2017 - 2021	2,930,000	1,248,921	14,535,000	2,994,356	17,529,356
2022 - 2026	5,244,000	476,181	9,984,000	642,025	10,626,025
	<u>\$ 9,430,000</u>	<u>\$ 3,282,823</u>	<u>\$ 36,890,000</u>	<u>\$ 8,729,360</u>	<u>\$ 45,619,360</u>

Note 9. Long-term Liabilities (Continued)

Capital Leases

The School District is financing the purchase of computers and a phone system through capital leases with vendors. At June 30, 2011, the leased assets have a gross capitalized value of \$ 963,510 and accumulated depreciation of \$ 339,230, leaving a net book value of \$ 624,280 that is included in capital assets. Amortization expense of \$ 245,111 is included in depreciation expense.

The aggregate amount of future payments required on capital leases at June 30, 2011 is as follows:

2012	\$	297,723
2013		99,401
2014		<u>99,401</u>
		496,525
Amount representing interest	(<u>35,396</u>)
	\$	<u><u>461,129</u></u>

Subsequent Event

On July 1, 2011, the School District entered a new capital lease for computers and IT infrastructure to be used beginning in 2011 – 2012. The total amount of the lease is \$ 243,000.

Note 10. Other Postemployment Benefits

Plan Description

The School District provides the continuation of medical, and dental benefits, including prescription drug coverage, to eligible retired employees and qualified spouses/beneficiaries until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment for 50% to 100% of the premium cost determined for the purpose of COBRA, depending on the employee group and length of service.

The School District pays 50% of the premiums for medical, dental, and prescription drug benefits for eligible retirees in the administrator's employee group. To be eligible for this group the retiree would have to be a retired administrator with 15 years of continuous services with the School District, 30 years of service with PSERS, and be eligible for retirement with PSERS. At the actuarial valuation as of January 1, 2010 there were 17 participants in this employee group, of which 14 were active and 3 were retired.

Retired employees in the teacher and support staff groups pay 100% of their premiums for medical, dental, and prescription drug benefits under the School District's postemployment benefit plan. All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement (age 60 with 30 years of service, age 62 with 1 year of service, or 35 years of service regardless of age). At the actuarial valuation as of January 1, 2010 there were 245 participants in the teacher employee group, 230 active participants and 15 retired participants, and there are currently 100 participants in the support staff employee group, 97 active participants and 3 retired participants.

The School District's postemployment benefits are administered by School District personnel. The Plan does not issue a separate stand-alone financial statement.

Note 10. Other Postemployment Benefits

Funding Policy

The contribution requirements of the plan member and the School District are established and may be amended by the School District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the School District. The School District funds OPEB on a pay-as-you-go basis. For the fiscal year 2010/2011, plan members receiving benefits also contributed \$ 291,862.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost (expense) 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 normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation to the plan:

	Governmental Activities	Food Service Fund/ Business Type Activities	Total
Annual required contribution (ARC)	\$ 199,130	\$ 2,215	\$ 201,345
Estimated interest on net OPEB obligation	7,133	79	7,212
Estimated adjustment to ARC	(9,731)	(108)	(9,839)
Annual OPEB cost	196,532	2,186	198,718
Estimated employer contributions made	(93,107)	(1,025)	(94,132)
Increase in net OPEB obligation	103,425	1,161	104,586
Net OPEB obligation - beginning of the year	<u>158,492</u>	<u>1,779</u>	<u>160,271</u>
Net OPEB obligation - end of the year	<u>\$ 261,917</u>	<u>\$ 2,940</u>	<u>\$ 264,857</u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 198,718	47.37%	\$ 264,857
2010	\$ 175,632	58.65%	\$ 160,271
2009	\$ 177,068	51.04%	\$ 87,647

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the plan had the following funded status and progress:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2010	\$ 0	\$ 1,683,929	\$ 1,683,929	0.00%	\$ 14,662,266	11.48%

Note 10. Other Postemployment Benefits (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the profitability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to the continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 4.50 percent investment rate of return (net of administrative expenses), annual salary increase of 4 percent, and for teachers and administrators a merit increase which varies by age between 3 percent to 0.25 percent, and an annual healthcare cost trend rate of 7.5 percent in 2010, decrease 0.5 percent to an ultimate rate of 5.5 percent in 2014 and gradually decreasing to 4.2 percent in 2099. The actuarial value of assets was based on the fair value of assets, of which there are none. The UAAL is being amortized based on a level dollar 30 year open period.

Note 11. Pension Plan

School districts in the Commonwealth participate in The Public School Employees' Retirement System (PSERS), a State-administered, governmental cost sharing multiple-employer defined benefit plan established under legislative authority. Established by the Authority of Public School Employees' Retirement Code (Act 96 of October 2, 1975, as amended) (24Pa. C.S. 8101-8535), contributions are made by each of three parties: the School District, the Commonwealth, and the employee. The plan provides retirement and disability benefits, legislative mandated ad hoc cost of living adjustments, and health care insurance premium assistance to qualifying annuitants. All of the School District's full-time employees, part-time employees salaried over eighty days, and hourly employees working more than 500 hours per year participate in the program. Currently, each party to the program contributes a fixed percentage of employees' gross earnings.

Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Contribution rates: Active members who joined the system prior to July 22, 1983 contribute at 5.25% (membership Class TC) or at 6.50% (membership Class TD) of the member's qualifying compensation. Members joining the system on or after July 22, 1983 and were active or inactive as of July 1, 2001 contribute at 6.25% (membership Class TC) or at 7.50% (membership Class TD) of the member's qualifying compensation. Members who joined the system after June 30, 2001 contribute at 7.50% (automatic membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Note 11. Pension Plan (Continued)

Funding Policy (Continued)

Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2011, the rate of employer contribution was 5.64% of covered payroll. The 5.64% rate is composed of a pension contribution rate of 5.00% for pension benefits and .64% for healthcare insurance premium assistance.

The PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. The report is also available at www.psers.state.pa.us.

Various ten-year historical trend information may be found in PSERS' *Comprehensive Annual Financial Report*, for information on progress made in accumulating sufficient assets to pay benefits when due.

Information regarding employer contributions consists of the following for the three years ended June 30:

	Contribution Required	Actual Contribution As a Percentage
2011	\$ 1,166,311	100%
2010	823,446	100%
2009	793,049	100%

For the year ended June 30, 2011, the Commonwealth of Pennsylvania reimbursed the School District approximately one-half of its retirement expense.

Note 12. Operating Leases

The School District has entered into noncancelable operating leases or service agreements for the use of copiers, postage machines, bus radio tower, software and other products with the following future minimum payments:

	Copiers	Postage Machines	Bus Radio Tower	Software	Various Products	Total
2012	\$ 101,544	\$ 5,976	\$ 5,600	\$ 36,269	\$ 7,476	\$ 156,865
2013	101,877	1,392	4,800	0	0	108,069
2014	16,980	1,392	4,800	0	0	23,172
2015	<u>0</u>	<u>1,160</u>	<u>4,800</u>	<u>0</u>	<u>0</u>	<u>5,960</u>
	<u>\$ 220,401</u>	<u>\$ 9,920</u>	<u>\$ 20,000</u>	<u>\$ 36,269</u>	<u>\$ 7,476</u>	<u>\$ 294,066</u>

Note 13. Affiliates

Payments to fund operations of affiliated entities for the year ended 2010/2011 were as follows:

	Operations
Cumberland Area Vocational Technical School	\$ 364,838

Note 14. Commitments and Contingencies

Construction Projects

The following are details of construction projects that are in progress at June 30, 2011.

- Replacement of the pedestrian bridge at the Middle School – The School District has a signed contract to replace the pedestrian bridge at the Middle School in the amount of \$ 157,193. As of June 30, 2011, \$ 120,267 has been expended.
- Electric and gas sub metering project - The School District began an electric and gas sub metering project with a total cost of \$ 92,259. As of June 30, 2011, \$ 55,355 has been expended.

The School District is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the School District. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the School District.

The School District is involved with various lawsuits in the normal course of operations. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result have been made in the financial statements. Management believes that losses resulting from these matters, if any, would be substantially covered under the School District's professional liability insurance policy and would not have a material effect on the financial position of the School District.

The School District participates in numerous state and federal programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2011 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Note 15. Risk Management

The School District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School District has purchased commercial insurance to cover general liability, directors' and officers' liability, unemployment compensation and employees' health coverage. For these insured programs there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

All expenditures for the School District's risk management are recorded in the general fund or cafeteria fund.

Lincoln Benefit Trust

The School District is a member of the Lincoln Benefit Trust. The Trust is a claims servicing pool which pays claims for hospital benefits, medical coverage for physicians' services, certain dental coverage, major medical coverage, and certain other benefits submitted by employees of the participating School Districts. Each participating employer contributes to the trust amounts determined by actuarial principles which will be adequate to cover annual claim costs, operating costs, and reserves sufficient to provide stated benefits. Since each district is responsible for its own risk, additional assessments would be charged to make up any deficiency; thus this functions like a retrospectively rated program.

Note 15. Risk Management (Continued)

Lincoln Benefit Trust (Continued)

Because Lincoln Benefit Trust acts as a claim-servicing pool, the School District remains responsible for the economic risk of providing stated benefits to employees. However, claims incurred between \$125,000 and \$300,000 are paid from the Trust mini-pool. Claims incurred over \$300,000 are paid from a stop loss insurance policy purchased by the Trust.

Changes in net assets for the School District's account at Lincoln Benefit Trust (based on audited financial statements of Lincoln Benefit Trust) were as follows for the year ended June 30, 2011:

Net assets - July 1, 2010	\$ 4,372,838
Contributions and interest income	4,907,962
Claims paid	(3,841,152)
Stop-loss insurance	(62,351)
Minipool premium	(107,991)
Administrative fees	(174,835)
Other	(7,075)
Net assets - June 30, 2011	<u>\$ 5,087,396</u>

Overall, the Lincoln Benefit Trust has net assets of \$ 55,121,054 as of June 30, 2011 and showed an increase in net assets of \$ 6,761,325 for the year ended. Financial statements of the Trust are available at the School District.

Note 16. Restatement

There were restatements necessary in the governmental activities at June 30, 2010 due to corrections of fixed assets, accounts payable, and compensated absences, as well as inclusion of the debt service fund. A restatement was necessary in the general fund to properly state the accounts receivable as of June 30, 2010. A restatement was necessary in the capital reserve fund to properly state accounts payable. A restatement was necessary in the food service fund to correct compensated absences and to include the OPEB liability as of June 30, 2010. The restatements are summarized as follows:

	Governmental Activities	General Fund	Capital Reserve Fund	Business Type Activities/ Proprietary Fund
Fund Balance/Net assets,				
as originally stated - June 30, 2010	\$ 11,878,789	\$ 7,224,658	\$ 193,471	\$ 271,782
Restatement for accounts receivable	0	(340,423)	0	0
Restatement for fixed assets	(81,500)	0	0	0
Restatement for OPEB liability	0	0	0	(1,779)
Restatement for compensated absences	(66,294)	0	0	(4,467)
Restatement for debt service fund	(3,998)	0	0	0
Restatement for accounts payable	<u>114,068</u>	<u>0</u>	<u>114,068</u>	<u>0</u>
Fund Balance/Net assets, as restated - June 30, 2010	<u>\$ 11,841,065</u>	<u>\$ 6,884,235</u>	<u>\$ 307,539</u>	<u>\$ 265,536</u>
2009/2010 Change in fund balance/net assets, as originally stated	\$ 1,429,146	\$ 1,543,573	\$ (13,607)	\$ (40,404)
Restatement for accounts receivable	0	(340,423)	0	0
Restatement for fixed assets	(81,500)	0	0	0
Restatement for OPEB liability	0	0	0	(1,779)
Restatement for compensated absences	(66,294)	0	0	(4,467)
Restatement for debt service fund	(3,998)	0	0	0
Restatement for accounts payable	<u>114,068</u>	<u>0</u>	<u>114,068</u>	<u>0</u>
2009/2010 Change in fund balance/net assets, as restated	<u>\$ 1,391,422</u>	<u>\$ 1,203,150</u>	<u>\$ 100,461</u>	<u>(\$ 46,650)</u>

REQUIRED SUPPLEMENTARY INFORMATION

**NORTHERN YORK COUNTY SCHOOL DISTRICT
OPEB (Other Postemployment Benefit Plan)**

UNAUDITED REQUIRED SCHEDULE OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2010	\$ 0	\$ 1,683,929	\$ 1,683,929	0.00%	\$ 14,662,266	11.48%
1/1/2008	\$ 0	\$ 1,447,190	\$ 1,447,190	0.00%	\$ 14,800,648	9.78%

NORTHERN YORK COUNTY SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2011

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY/ GAAP BASIS)	WITH FINAL BUDGET (NEGATIVE)
REVENUES				
Local Sources				
Taxes	\$ 22,048,845	\$ 22,048,845	\$ 22,772,333	\$ 723,488
Investment earnings	75,000	75,000	47,673	(27,327)
Federal revenue from intermediate sources	741,935	741,935	733,923	(8,012)
Other	323,659	323,659	308,034	(15,625)
State sources	12,404,386	12,404,386	11,840,000	(564,386)
Federal sources	<u>1,273,372</u>	<u>1,273,372</u>	<u>1,853,602</u>	<u>580,230</u>
Total revenues	<u>36,867,197</u>	<u>36,867,197</u>	<u>37,555,565</u>	<u>688,368</u>
EXPENDITURES				
Instruction	22,674,910	22,674,910	21,336,099	1,338,811
Support services	11,520,366	11,514,611	10,973,126	541,485
Operation of noninstructional services	1,057,255	1,063,010	1,090,122	(27,112)
Facilities acquisition, construction and improvements	0	0	262,104	(262,104)
Debt service:				
Principal	2,403,435	2,403,435	2,403,435	0
Interest	1,231,298	1,231,298	1,316,304	(85,006)
Note issue costs	0	0	47,369	(47,369)
Refund of prior year receipts	<u>0</u>	<u>0</u>	<u>15,696</u>	<u>(15,696)</u>
Total expenditures	<u>38,887,264</u>	<u>38,887,264</u>	<u>37,444,255</u>	<u>1,443,009</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term financing	0	0	9,430,000	9,430,000
Insurance recoveries	0	0	1,876	1,876
Proceeds from sale of fixed assets	1,000	1,000	996	(4)
Refunding G.O. Bonds	0	0	(9,255,000)	(9,255,000)
Interfund transfers	(15,000)	(15,000)	(4,186)	10,814
Budgetary reserve	<u>(171,357)</u>	<u>(171,357)</u>	<u>0</u>	<u>171,357</u>
Total other financing sources and (uses)	<u>(185,357)</u>	<u>(185,357)</u>	<u>173,686</u>	<u>359,043</u>
Net change in fund balances	(2,205,424)	(2,205,424)	284,996	2,490,420
Fund balance - beginning - as restated	<u>5,222,661</u>	<u>5,222,661</u>	<u>6,884,235</u>	<u>1,661,574</u>
Fund balance - ending	<u>\$ 3,017,237</u>	<u>\$ 3,017,237</u>	<u>\$ 7,169,231</u>	<u>\$ 4,151,994</u>

NORTHERN YORK COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2010	Revenue Recognized	Expenditures Recognized	Accrued or (Deferred) Revenue at June 30, 2011
U.S. Department of Education									
<u>Passed through the Pennsylvania Department of Education</u>									
ESEA Title I	84.010	013-11-0302	July 1, 2010 - June 30, 2011	301,532	\$ 279,994	\$ 0	\$ 301,532	\$ 301,532	\$ 21,538
ESEA Title I	84.010	077-10-0302	July 1, 2009 - June 30, 2010	10,400	9,013	9,013	0	0	0
ESEA Title I	84.010	077-10-0302	July 1, 2010 - June 30, 2011	5,000	0	0	0	0	0
ESEA Title I - ARRA	84.389	127-10-0302	July 1, 2009 - June 30, 2011	185,797	76,280	(31,578)	107,858	107,858	0
ESEA Title II Part A	84.367	020-09-0076	July 1, 2009 - June 30, 2011	77,696	77,696	0	77,696	77,696	0
State Fiscal Stabilization Fund - ARRA	84.394	126-10-0302	July 1, 2009 - June 30, 2010	856,678	71,389	71,389	0	0	0
State Fiscal Stabilization Fund - ARRA	84.394	126-11-0302	July 1, 2010 - June 30, 2011	851,993	851,993	0	851,993	851,993	0
Education Jobs Fund - ARRA	84.410	115-67-4603	August 10, 2010 - March 30, 2011	502,327	502,327	0	502,327	502,327	0
<u>Passed through Capital Area Intermediate Unit</u>									
I.D.E.A.	84.027	N/A	July 1, 2009 - June 30, 2010	489,537	176,789	176,789	0	0	0
I.D.E.A.	84.027	N/A	July 1, 2010 - June 30, 2011	490,170	290,514	0	490,170	490,170	199,656
I.D.E.A. - ARRA	84.391	N/A	July 1, 2009 - June 30, 2010	549,448	305,487	119,814	241,253	241,253	55,580
Drug Free Schools	84.186	N/A	July 1, 2009 - June 30, 2010	5,027	5,027	0	5,027	5,027	0
<u>Passed through Midwestern Intermediate Unit IV</u>									
Title I Mini Grant	84.010	N/A	July 1, 2009 - June 30, 2010	2,000	600	2,000	0	0	1,400
Total U.S. Department of Education					<u>2,647,109</u>	<u>347,427</u>	<u>2,577,856</u>	<u>2,577,856</u>	<u>278,174</u>
U.S. Department of Agriculture									
<u>Passed through the Pennsylvania Department of Education</u>									
National School Lunch Program	10.555	N/A	July 1, 2010 - June 30, 2011	N/A	167,100	24,051	191,553	191,553	48,504
Breakfast	10.553	N/A	July 1, 2010 - June 30, 2011	N/A	19,621	3,365	22,858	22,858	6,602
Special Milk	10.556	N/A	July 1, 2010 - June 30, 2011	N/A	4,872	561	5,706	5,706	1,395
<u>Passed through the Pennsylvania Department of Agriculture</u>									
Value of USDA Commodities	10.555 (B)	N/A	July 1, 2010 - June 30, 2011	N/A	51,837	(1,679)	51,053	51,053	(2,463)
Total U.S. Department of Agriculture					<u>243,430</u>	<u>26,298</u>	<u>271,170</u>	<u>271,170</u>	<u>54,038</u>
U.S. Department of Public Welfare									
<u>Passed through the Pennsylvania Department of Public Welfare</u>									
Medical Assistance	93.778	N/A	July 1, 2010 - June 30, 2011	N/A	514	512	2,502	2,502	2,500
Total U.S. Department of Public Welfare					<u>514</u>	<u>512</u>	<u>2,502</u>	<u>2,502</u>	<u>2,500</u>
U.S. Department of Homeland Security									
<u>Passed through the Pennsylvania Emergency Mangement Agency</u>									
Public Assistance Program	97.036	N/A	January 1, 2010-March 30, 2010	N/A	11,681	11,681	0	0	0
Total U.S. Department of Homeland Security					<u>11,681</u>	<u>11,681</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditure of Federal Awards					<u>\$ 2,902,734</u>	<u>\$ 385,918</u>	<u>\$ 2,851,528</u>	<u>\$ 2,851,528</u>	<u>\$ 334,712</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. References to Schedule of Expenditures of Federal Awards

(B) Based on USDA valuation

Note 2. Federal Awards by CFDA Number/Cluster

Project Title	CFDA No.	Expenditures	Percent
State Fiscal Stabilization Fund - ARRA	84.394	\$ 851,993	29.9%
Special Education Cluster:			
I.D.E.A.	84.027	490,170 (A)	
I.D.E.A. - ARRA	84.391	<u>241,253 (A)</u>	
		<u>731,423</u>	25.7%
Education Jobs Fund - ARRA	84.410	502,327	17.6%
Title I Part A Cluster:			
ESEA Title I	84.010	301,532	
ESEA Title I - ARRA	84.389	<u>107,858</u>	
		<u>409,390</u>	14.4%
Child Nutrition Cluster:			
National School Lunch Program	10.555	191,553	
Donated Commodities	10.555	51,053	
Breakfast	10.553	22,858	
Special Milk	10.556	<u>5,706</u>	
		271,170	9.5%
ESEA Title II, Part A	84.367	77,696	2.7%
Drug Free Schools	84.186	5,027	0.2%
Medical Assistance	93.778	<u>2,502 (A)</u>	0.1%
Total federal awards		<u>\$ 2,851,528</u>	<u>100.0%</u>

(A) Included as "revenue from intermediate sources" under local revenues

Note 3. Significant Accounting Policies

Basis of Accounting

The schedule of expenditures of federal awards is presented using the modified accrual basis in accordance with accounting principles prescribed by the Pennsylvania Department of Education, which conform to generally accepted governmental accounting principles. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable. Revenues designated for payment of specific School District expenditures are recognized when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year end is recorded as deferred revenue or a receivable, respectively.



***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 Directors
Northern York County School District
Dillsburg, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northern York County School District as of and for the year ended June 30, 2011, which collectively comprise the Northern York County School District's basic financial statements, and have issued our report thereon dated December 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Board of Directors
Northern York County School District

We noted certain matters that we reported to management of the School District in a separate letter dated December 16, 2011.

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
December 16, 2011



***INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133***

Board of Directors
Northern York County School District
Dillsburg, Pennsylvania

Compliance

We have audited the compliance of Northern York County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, Northern York County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Board of Directors
Northern York County School District

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
December 16, 2011

NORTHERN YORK COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

A. Summary of Auditor's Results

- A. The auditor's report expresses an unqualified opinion on the financial statements of Northern York County School District.
- B. No findings relating to the audit of the financial statements in the "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".
- C. No instances of noncompliance material to the financial statements of Northern York County School District were disclosed during the audit.
- D. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133".
- E. The auditor's report on compliance for the major federal award programs for Northern York County School District expresses an unqualified opinion.
- F. Audit findings relative to the major federal award programs for Northern York County School District are reported in Part C of this Schedule.
- G. The programs tested as major programs include:

State Fiscal Stabilization Fund - ARRA	84.394
I.D.E.A. and I.D.E.A. - ARRA	84.027 and 84.391
ESEA Title I and Title I - ARRA	84.010 and 84.389
Education Jobs Fund - ARRA	84.410
- H. The threshold for distinguishing Types A and B programs was \$ 300,000.
- I. Northern York County School District did not qualify as a low-risk auditee.

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None

***NORTHERN YORK COUNTY SCHOOL DISTRICT
REPORT ON STATUS OF PRIOR YEAR'S COMPLIANCE
FINDINGS AND INTERNAL CONTROL WEAKNESSES
YEARENDED JUNE 30, 2011***

Finding 2010-1: There were numerous audit adjustments that were required to be posted to the School District's general ledger to properly reflect its financial position and financial activity.

Status: There were no significant audit adjustments detected as part of the audit in the current year.

Finding 2010-2: The School District is required to allocate Part A Title I funds to each participating school in rank order on the basis of the total number of children from low-income families residing in the area or attending the school. They are also required to serve those eligible schools in the same rank order.

Status: There was a process established to track the funds allocated to each school in the current year.