

PALMYRA AREA SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2009

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Palmyra Area School District
Palmyra, 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 Palmyra Area School District, as of and for the year ended June 30, 2009, which collectively comprise the Palmyra Area School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Palmyra Area School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Palmyra Area School District, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2009, on our consideration of Palmyra Area School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 16 and the required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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Camp Hill, Pennsylvania
October 26, 2009

**PALMYRA AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2009**

This discussion and analysis of Palmyra Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the basic financial statements and the notes to the financial statements.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Government Accounting Standards Board (GASB) in its Statement No. 34 issued in June 1999.

Financial Highlights

- The assets of Palmyra Area School District exceeded its liabilities at the close of the most recent fiscal year by \$18.2 million (*net assets*). The government's total net assets increased by \$1,822,952.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$1,924,309 or 5.7 % percent of the total general fund expenditures including transfers out for debt service. The philosophy of the Board of Directors and management has been to maintain an unreserved fund balance of 5-8% of budgeted general fund expenditures. Act 48 of 2003, effective for the 2005-06 school year, placed new limits on unreserved fund balance. A school district may not approve an increase in real property taxes unless it has adopted a budget that includes an estimated ending unreserved undesignated fund balance of less than or equal to 8% of its total budgeted expenditures (for total budgets of \$19 million or more).
- Total revenues for the School District's General Fund exceeded expenditures by \$242,317. The 2008-09 budget reflected expenditures in excess of revenues in the amount of \$200,000, indicating a planned reduction in unreserved fund balance to balance the budget.
- The actual revenues were approximately \$600,000 lower than the original budget due to the impact of the recession on local revenue line items sensitive to the economy such as interim real estate taxes and real estate transfer taxes in the amount of \$420,000.
- The actual expenditures were approximately \$1,027,000 lower than budgeted. At the recommendation of the Pennsylvania Department of Education, the School District budgeted for retirement contributions at 7% of budgeted salaries. This was in anticipation of state legislators setting a mandatory minimum retirement contribution rate for school districts to offset future rate spikes. This anticipated legislative action did not materialize and the School District's actual retirement expense was determined using the certified annual employer contribution rate of 4.76% set by the Board of Trustees of the Pennsylvania School Employees Retirement System. This resulted in retirement expenses under budget in the amount of \$376,000, offset by lower retirement subsidy revenues of \$194,000.
- The expenditures were lower than budgeted for debt service payments in the amount of \$616,000 due to savings from refinancing bond issues in the amount of \$247,000 and lower payments in the amount of \$369,000 due to a one-year delay in the start of the new elementary school construction project and the related borrowing. This savings was offset by a lower rental reimbursement subsidy in the amount of \$131,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Palmyra Area School District. The School District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the School District's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the School District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Palmyra Area School District is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused retirement incentives).

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Palmyra Area School District include most of the School District's basic services, such as regular and special education, administration, and transportation. Property taxes and formula-based state aid finance most of these activities. The Food Services Fund is the sole business-type activity for Palmyra Area School District.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Palmyra Area School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. Palmyra Area School District maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Palmyra Area School District uses an enterprise fund to account for its Food Service Fund. *Internal Service funds* (the other type of proprietary fund) are used to report activities that provide supplies and services for the government's other programs and activities. The School District currently does not have any internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Food Service Fund, which is considered to be a major fund of the School District.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the operations of Palmyra Area School District. The accounting used for fiduciary funds is much like that used for proprietary funds.

Palmyra Area School District maintains two fiduciary funds, a Consolidated Scholarship Trust Fund and a Student Activities Fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The supplementary information contains combining statements to present two non-major governmental funds, the Athletic Fund and the Capital Reserve Fund.

Government-wide Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Palmyra Area School District, assets exceeded liabilities by \$18,213,026, at the close of the most recent fiscal year.

By far the largest portion of the School District's assets reflects its investment in capital assets (e.g. land, buildings, furniture and equipment, construction-in-progress). Palmyra Area School District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. The largest portion of the School District's liabilities is its long-term debt for general obligation bonds used to finance building improvements and other capital projects. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Another item of note on the government-wide financial statements is that the total of Cash and Investments includes \$1.6 million of the remaining balance from bond proceeds for the Palmyra High School renovations project which was completed in October of 2007. The Capital Projects Fund Balance is restricted to pay for capital improvements. These funds and the balance in the Capital Reserve Fund of \$1.3 million (funded by the general fund transfer from the release of real estate taxes held in escrow for the Lebanon Valley Brethren Home tax appeal in 2007-08) will be used for an elementary school construction project that is going out to bid in October of 2009.

An additional portion of the School District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* may be used to meet the government's ongoing obligations.

The Net Assets as of June 30, 2008 and June 30, 2009, for Palmyra Area School District are summarized below in Table 1. At the end of the current fiscal year, the School District is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. Current assets decreased due to payments for architect and engineering fees for the construction of a fourth elementary school and other capital improvements. Long-term debt outstanding decreased due to principal payments.

Table 1
Palmyra Area School District
Net Assets
(in thousands of dollars)
June 30, 2008 and 2009

	Governmental Activities		Business-Type Activities		Total School District		Percentage Change 2008-09
	2008	2009	2008	2009	2008	2009	
Current and other assets	\$ 9,719	\$ 8,738	\$ 134	\$ 146	\$ 9,853	\$ 8,884	-9.8%
Capital assets	68,036	68,533	34	21	68,070	68,554	0.7%
Total assets	\$ 77,755	\$ 77,271	\$ 168	\$ 167	\$ 77,923	\$ 77,438	-0.6%
Long-term debt outstanding	\$ 55,124	\$ 52,776	\$ -	\$ -	\$ 55,124	\$ 52,776	-4.3%
Other liabilities	6,353	6,399	57	50	6,410	6,449	0.6%
Total liabilities	\$ 61,477	\$ 59,175	\$ 57	\$ 50	\$ 61,534	\$ 59,225	-3.8%
Net Assets							
Invested in capital assets, net of related debt	\$ 13,180	\$ 15,163	\$ 34	\$ 22	\$ 13,214	\$ 15,185	14.9%
Unrestricted	3,098	2,933	77	95	3,175	3,028	-4.6%
Total net assets	\$ 16,278	\$ 18,096	\$ 111	\$ 117	\$ 16,389	\$ 18,213	11.1%

Change in Net Assets. Comparative results of two years' operations as a whole are reported in the Statement of Activities in the basic financial statements. Table 2 takes the information from that Statement and rearranges it slightly so that you can see total revenues for the year. The two largest general revenues are the formula-based state aid received from the Commonwealth of Pennsylvania and the local taxes assessed to property owners. Total revenues decreased by 1.7% from 2007-08 due to the real estate taxes held in escrow for the Lebanon Valley Brethren Home recognized as one-time revenue in 2007-08 of \$1.5 million. 2008-09 revenues increased due to a real estate tax increase of 5.1% and increases in state and federal grants. Total expenditures increased by 6.9% from 2007-08 due to customary salary increases, additional teaching positions to address enrollment growth, healthcare premium increases, cyber charter school and alternative education tuition, debt service for elementary school construction, and rising energy costs impacting utilities and transportation expenditures. A prior period adjustment is reflected on the Statement of Activities in the basic financial statements. It restates Net Assets as of July 1, 2008 by an additional \$2.3 million due to a third party valuation of fixed assets and depreciation.

Table 2
Palmyra Area School District
Changes in Net Assets
(in thousands of dollars)
For the years ended June 30, 2008 and 2009

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total School District</u>		<u>Percentage Change 2008-2009</u>
	2008	2009	2008	2009	2008	2009	
Revenues							
Program revenues							
Charges for services	\$ 217	\$ 175	\$ 877	\$ 890	\$ 1,094	\$ 1,065	-2.7%
Operating grants and contributions	5,230	4,978	270	280	5,500	5,258	-4.4%
Capital grants and contributions	25	27	-	-	25	27	8.0%
General revenue							
Property taxes	20,205	20,026	-	-	20,205	20,026	-0.9%
Formula-based state aid	5,396	5,976	-	-	5,396	5,976	10.7%
Other	3,574	2,838	4	2	3,578	2,840	-20.6%
Total revenues	34,647	34,020	1,151	1,172	35,798	35,192	-1.7%
Expenses							
Instruction	20,207	21,749	-	-	20,207	21,749	7.6%
Instructional student support	2,218	2,358	1,205	1,167	3,423	3,525	3.0%
Admin. and financial support	2,872	3,137	-	-	2,872	3,137	9.2%
Operations and maint. of plant svcs.	2,613	2,819	-	-	2,613	2,819	7.9%
Pupil transportation	1,096	1,194	-	-	1,096	1,194	8.9%
Interest on long-term debt	2,378	2,440	-	-	2,378	2,440	2.6%
Other	774	812	-	-	774	812	4.9%
Total expenses	32,158	34,509	1,205	1,167	33,363	35,676	6.9%
Change in net assets	\$ 2,489	\$ (489)	\$ (54)	\$ 5	\$ 2,435	\$ (484)	-119.9%

Financial Analysis of the Government's Funds

As noted earlier, Palmyra Area School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Government funds. The focus of the School District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$4,978,092, a decrease of \$777,951 in comparison with the prior year. Approximately 39% of this total amount (\$1,924,309) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed. The \$777,951 decrease in total fund balance is due to the capital outlay for the new elementary school construction project. The total combined fund balance of \$2,746,328 in the Capital Projects and Capital Reserve Funds is designated for the construction of a fourth elementary school to address enrollment growth and other capital improvement projects. A reserved fund balance has been recorded in the amount of \$287,000 to reflect the terms of settlement on a real estate assessment appeal that will result in lower assessed values in future years (2010-2012).

The General Fund is the chief operating fund of the Palmyra Area School District and provides 100% of the unreserved fund balance. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 5.7% of total general fund expenditures including transfers out for debt service.

Proprietary funds. The School District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As of the end of the current fiscal year, the net assets of the proprietary fund - Food Service were \$116,868, an increase of \$5,137. Management continually reviews the operations of the Food Service Fund and the user charges (lunch prices) to ensure that there are adequate cash reserves to meet operating needs and that the Food Service Fund is a break-even operation. In the previous year, a decrease in net assets was reported of \$54,291 at June 30, 2008. For the 2008-09 fiscal year, the School District entered into a food service management contract with Nutrition, Inc., a company with a current client list of over 100 school food service programs in Pennsylvania and Ohio. The terms of the contract with Nutrition, Inc., provide for a guaranteed surplus of \$85,000. Nutrition, Inc. met its contractual obligation for the guaranteed surplus based on the revenue and expenditure line items identified in the contract. The General Fund charged the Food Service Fund \$35,000 out of the guaranteed surplus to pay a portion of the energy costs used in food service operations.

General Fund Budgetary Highlights

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. All adjustments are again confirmed at the time the annual audit is accepted.

Departmental differences between the original budgeted revenues and expenses and the final financial statement can be briefly summarized as follows:

- Actual revenues were less than originally budgeted revenues by \$600,000. Budgeted local revenues decreased by \$420,000 due to the impact of the recession on revenue line items sensitive to the economy such as interim real estate taxes and real estate transfer taxes. Budgeted state revenues decreased by \$220,000 due to lower retirement rate subsidies and reimbursement on debt service payments explained below. Budgeted federal revenues increased by \$60,000 due to higher Medical Access funding.
- Actual expenditures were less than originally budgeted expenditures by \$170,000. At the recommendation of the Pennsylvania Department of Education, the School District budgeted for retirement contributions at 7% of budgeted salaries. This was in anticipation of state legislators setting a mandatory minimum retirement contribution rate for school districts to offset future rate spikes. This anticipated legislative action did not materialize and the School District's actual retirement expense was determined using the certified annual employer contribution rate of 4.76% set by the Board of Trustees of the Pennsylvania School Employees Retirement System. This resulted in retirement expenses under budget in the amount of \$376,000, offset by lower retirement subsidy revenues of \$194,000. Budgeted instructional services increased by \$206,000 for cyber charter school tuition expenditures.
- Actual financing uses were less than budgeted financing uses by \$857,000. The expenditures were lower than budgeted for debt service payments in the amount of \$616,000 due to savings from refinancing bond issues in the amount of \$247,000 and lower payments in the amount of \$369,000 due to a one-year delay in the start of the new elementary school construction project and the related borrowing. This savings was offset by a lower rental reimbursement subsidy in the amount of \$131,000. Budgeted financing uses decreased by \$200,000 for budgetary reserve due to the use of budgetary reserve to offset unfavorable variances in instructional expenditures.

The General Fund budget planned for a decrease in fund balance of \$200,000. Due to the favorable expenditure variances, the General Fund unreserved fund balance increased by \$242,317. As you will note in the discussion of the 2009-10 budget, this increase in anticipated fund balance allowed the School District to use unreserved fund balance to balance the 2009-10 budget while continuing to maintain a healthy fund balance reserve and minimizing the tax increase for taxpayers.

Capital Asset and Debt Administration

Capital assets. The School District's investment in capital assets for its governmental and business-type activities as of June 30, 2009 and 2008, is summarized in Table 3 below. The construction-in-progress balance represents capital expenditures for design and land development for an elementary school construction project. The total increase in the School District's investment in capital assets for the current fiscal year was 1%. The individual components of the Capital Assets were adjusted to reflect a third party valuation of fixed assets and depreciation. The School District engaged the Industrial Appraisal Company to perform a district wide fixed asset inventory to ensure the accuracy of record-keeping since the last physical inventory was conducted in 1994.

On September 30, 2009, the School District purchased 21 acres of land on Lingle Avenue in North and South Londonderry Townships for the construction of a fourth elementary school and kindergarten center. The total estimated cost of the project is \$28.5 million. Construction is expected to begin in the spring of 2010 with completion in June of 2011 and occupancy for the 2011-12 school year. The School District is seeking LEED (Leadership in Energy and Environmental Design) silver certification from the U.S. Green Building Council for the project, which is estimated to increase state reimbursement by \$420,000.

Renovations to the Palmyra High School in the amount of \$33 million were completed in 2007. The project included the addition of a two-story classroom wing resulting in 60 new or renovated classrooms, a net addition of 20 classrooms to address enrollment growth. Other key features are new site circulation, expanded parking, a renovated auditorium, a new and enlarged media center, a new kitchen and cafeteria for seating 400 students, upgraded Administration areas, more secure entryways, new electrical, plumbing and HVAC systems, and a new and enlarged maintenance building.

Renovations to the Pine Street Elementary School in the amount of \$12.1 million were completed in 2004. The project included the addition of five regular classrooms to accommodate growth, three additional special education classrooms and offices for the Special Education Administrative staff, a separate full-size gymnasium and a new media center. This was the first major renovation to Pine Street since it was built in 1962. The School District's other two elementary schools, Northside and Forge Road Elementary, were last renovated in 1989 and 1990. In 2002-2003, approximately \$2 million in upgrades were completed at these two elementary schools, including air conditioning at Forge, a new roof at Northside, painting, carpeting, telecommunications upgrades, furniture, playground equipment and improvements for handicapped accessibility at both schools.

Renovations to Palmyra Area Middle School and the adjacent stadium in the amount of \$12.5 million were completed in 2000. Through long-term planning, Palmyra Area School District has demonstrated its commitment to maintaining functional educational facilities that meet the needs of today's students, while also considering what is affordable for the community.

Table 3
Palmyra Area School District
Capital Assets - Net of Depreciation
(in thousands of dollars)
June 30, 2008 and 2009

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total School District</u>		Percentage Change 2008-09
	2008	2009	2008	2009	2008	2009	
Land and improvements	\$ 5,535	\$ 4,095	\$ -	\$ -	\$ 5,535	\$ 4,095	-26.0%
Buildings and building improvements	59,324	60,523	27	14	59,351	60,537	2.0%
Furniture and equipment	2,505	2,749	7	7	2,512	2,756	9.7%
Construction-in-progress	22	627	-	-	22	627	2750.0%
Total capital assets - net of depreciation	<u>\$ 67,386</u>	<u>\$ 67,994</u>	<u>\$ 34</u>	<u>\$ 21</u>	<u>\$ 67,420</u>	<u>\$ 68,015</u>	<u>0.9%</u>

Long-Term Debt. At the end of the current fiscal year, Palmyra Area School District had total debt outstanding of \$54,293,445. The total debt decreased by \$2.4 million due to principal repayments made during the fiscal year. The Series of 2009 General Obligation Note issued in March of 2009 was for the purpose of refunding the General Obligation Bonds, Series B of 2003. The District realized net savings of \$93,777 as a result of this current refunding. On October 13, 2009, the School District issued \$10 million in General Obligation Bonds, Series of 2009, the first of two anticipated borrowings for the elementary construction project. The second borrowing, estimated at \$16 million, is projected to occur in July of 2010, after the construction contracts have been awarded.

Strategic Plan

The Palmyra Area School District adopted a six-year Strategic Plan for 2008-2014. The planning committee and School Board reaffirmed our mission which states that, “Palmyra Area School District, in partnership with parents and the community, is committed to providing a positive, safe learning environment in which all students are empowered to develop their unique potential to become lifelong learners and responsible citizens in a rapidly changing world.” They also adopted a vision which builds on the District’s initials of **PASD** and reads, “**P**erformance, **A**chievement, **S**uccess with **D**ignity for all.”

The plan is a comprehensive one that includes the sub-plans of Academic Standards and Assessment Report, Professional Education Report, Teacher Induction Report, Educational Technology Report, Special Education Report, and Student Services Report. Six goals were developed to move the plan forward:

- **Goal #1: Content Area Achievement**
Improve knowledge and skills of all K-12 students in content areas where the state assessments exist or are in development. Palmyra students will exceed the state average each year that the assessment is given.
- **Goal #2: Four-Year Graduation Rate**
Graduate rate at Palmyra High School will exceed an 80% threshold.
- **Goal #3: Mathematics**
Improve student knowledge in all areas of mathematics as measured by a 56% or better proficiency in 2008, improving to 67% or better in 2011, 78% in 2012, 89% in 2013, and 100% in 2014 on the annual statewide assessment.
- **Goal #4: Reading**
Improve student knowledge and skills in all areas of literacy as measured by a 63% or better proficiency in 2008, improving to 72% or better in 2011, 81% in 2012, 91% in 2013, and 100% in 2014.
- **Goal #5: Student Attendance**
Student attendance will meet a 90% threshold and/or show growth.
- **Goal #6: Student Participation in State Assessments**
At least 95% of eligible students will participate in required state-wide assessments.

Strategies and activities were developed by all of the sub-plan committees as a means to implement the six goals. Implementation of the goals will continue for the next six years.

Economic Factors

The Standard and Poor’s Rating Services has assigned the Palmyra Area School District a AA-underlying rating. Standard and Poor’s cited that the AA- rating reflects the district’s “stable and affluent residential tax base, which is the primary source of revenue for the district; sound financial position, with unreserved fund balance remaining at good levels the past five years; good financial management practices and policies; and moderate debt profile, with an above-average rate of amortization. Additional security for bonds is provided by the Commonwealth of Pennsylvania Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default.

Under the Local Government Unit Debt Act, the School District's outstanding debt may not exceed 225% of the borrowing base. The borrowing base is defined as the average three years of total revenues as defined in the Act. The net debt of the Local Government Unit after the Series of 2009 General Obligation Bond was \$54,590,976. This leaves \$17,451,819 of available borrowing capacity out of the District's total debt limit of \$72,042,795. This is expected to be sufficient to accommodate the additional borrowing needed for the elementary construction project estimated at \$16 million.

The District's financial advisor estimated the impact of borrowing \$26 million to build a new elementary school to be 2.33 mills. The School District has started building in mills for the new school, including 1.26 mills for debt service in the 2008-09 and 2009-10 budgets and anticipated staffing costs. The remaining 1.07 mills will be phased in as part of the 2010-11 and 2011-12 general fund budgets. The timeline projects the start of construction in the spring of 2010 and completion for the start of the 2011-12 school year.

The School District acknowledges that its debt burden is above average in comparison to its peers. This has resulted from recent and planned construction projects needed to keep up with growing enrollments. More data is provided on this topic in the Enrollment Trends section below. In balance, Palmyra Area School District has demonstrated its commitment to controlling spending. In a comparison of the 2007-08 per pupil costs in the Lancaster-Lebanon Intermediate Unit, Palmyra's cost per student of \$10,526, is the second lowest among 22 school districts and significantly lower than the average of \$11,781. This comparison was prepared using the expenditures from the 2007-08 Annual Financial Report (AFR) submitted to the Department of Education.

In the last five years, the assessed value of real estate has grown by an average of 2.67% annually. This is a result of steady residential growth in the School District and the addition of several large commercial properties, most notably a new Redner's grocery store, an ice skating rink, a Lowe's Home Improvement store, Traditions of Hershey, an upscale apartment complex marketed to senior citizens and Lebanon Valley Brethren Homes relinquishing its appeal on the tax-exempt status of its residential cottages and apartments. The Lebanon County Tax Assessment Office will be conducting a countywide reassessment and adjusting assessed property values for the 2013-14 fiscal year.

A reserved fund balance has been recorded in the amount of \$287,000 to reflect the terms of settlement on a real estate assessment appeal that will result in lower assessed values in future years (2010-2012) for the mineral reserves in a quarry.

Act 1

Special Session Act 1 of 2006, the "Taxpayer Relief Act", approved by state legislators and signed into law by Governor Rendell on June 27, 2006, created a statewide property tax reduction program. Act 1 enacted sweeping changes to the way school taxes are imposed and how annual school budgets are adopted.

As required by Act 1, the Palmyra Area School Districts placed a question on the spring of 2007 primary election ballot asking voters if they wanted to increase the school district Earned Income Tax (EIT) for the purpose of generating revenues that would be used to reduce property tax rates for those who own eligible homestead or farmstead property. This tax shift was overwhelmingly rejected by the voters.

Under Act 1, School Districts have a new cap on any increase in the millage rate for property taxes. School Districts must obtain voter approval, known as a back-end referendum, for millage rate increases that exceed the Act 1 Index. The index for the Palmyra Area School District for its 2009-10 and 2010-11 budgets is 4.9% and 3.6%, respectively. Act 1 contains ten exceptions to the back-end referendum for extraordinary costs or circumstances that are beyond the School District's control. The District was eligible for three of these exceptions for the 2009-10 general fund budget for increases in special education costs, grandfathered debt service for the High School project, and maintenance of local revenues. In spite of state approval to raise real estate taxes by 6.2% for the 2009-10 school year, the District held the tax increase to 4.0%, an increase less than the allowable index of 4.9%.

To accommodate the exception process and the potential for back-end referendum, an accelerated budget timetable is required by Act 1. The earlier budget schedule increases the complexity of School District budgets since there is less actual data on which to base next year's costs and state revenues have not been announced in the Governor's Budget.

In 2009-10, as part of Act 1 tax relief, the School District was awarded \$342,048 from gaming revenues to be used to reduce real estate taxes. Approved homestead and farmstead owners received a real estate tax reduction in the amount of \$54.

2009-10 Budget and Tax Rates

A two-year comparison of the General Fund budget is provided in Table 4 below. The 2009-10 budget reflects an increase in the real estate tax from 88.25 to 91.75 mills, an increase of 4.0%. State revenues were budgeted with no increase due to the legislative impasse and in anticipation of the protracted delay in approval of a state budget. The 2009-10 budget includes a transfer of \$323,616 from the unreserved fund balance, using increases that resulted from lower local expenditures in 2008-09. Management projects that at the end of the 2009-10 fiscal year, the fund balance will be \$1.6 million or 4.6% of General Fund budgeted expenditures.

Highlights of the 2009-10 General Fund Budget are as follows:

- Increase of \$230,000 in net debt service payments to finance a fourth elementary school
- Increase of \$667,000 in salaries for 4% contractual increases
- An additional \$145,000 for increased medical premiums increasing at the rate of 10%
- Increase of \$148,000 in special education services funded by federal IDEA stimulus funds
- Appropriations for Technology initiatives include \$253,000 for new computer equipment and software upgrades throughout the K-12 program
- Increase of \$320,000 for one-time investment in software and professional development programs to support economically disadvantage students and special needs students using IDEA and Title I federal stimulus funds; programs are designed to promote better reading, language and cognitive skills and improve progress monitoring
- Implementation of in-house Alternative Education program that will result in estimated savings of \$60,000 and improve educational support for at-risk students

Table 4
Palmyra Area School District
General Fund Budget Summary
(in thousands of dollars)

	Approved Budget 2008-09	Approved Budget 2009-10	% Change
Revenues			
Local	\$ 23,606	\$ 24,112	2.14%
State	10,284	10,196	-0.86%
Federal	741	1,306	76.25%
Total revenues	\$ 34,631	\$ 35,614	2.84%
Expenditures			
Instructional	\$ 19,019	\$ 19,625	3.19%
Support services	9,243	9,570	3.54%
Operation of noninstructional services	534	552	3.37%
Building improvements	124	112	-9.68%
Operating transfers out and debt service	5,711	5,879	2.94%
Budgetary reserve	200	200	0.00%
Total expenditures	\$ 34,831	\$ 35,938	3.18%
Budgeted Use of Fund Balance	\$ 200	\$ 324	

Labor Relations

The “professional staff” of Palmyra Area School District is represented by the Palmyra Area Education Association, an affiliation of the Pennsylvania State Teachers Association (PSEA). This group, which represents approximately 235 of the School District’s 405 staff, has the responsibility of bargaining for these employees. This past year was the third year of a five-year agreement which ends August 31, 2011. Teaching salary increases average 4.5% in 2006-07 and 3.9% in 2007-08 through 2010-11. The increase in the first year represents an average 4% increase plus an average \$200 equity adjustment that is part of an effort over the life of the contract to maintain Palmyra teaching salaries at the mid-point of school districts in Lebanon County.

The “support staff” of Palmyra Area School District is represented by the Bakery, Confectionery, Tobacco Workers, and Grain Millers Union Local 464. This group represents approximately 130 clerical employees, custodial employees, maintenance employees, instructional and non-instructional assistants, and cafeteria employees. This past year was the second year of a five-year contract which ends June 30, 2012. Salary increases average 4.5% in 2007-08 and 4.0% in 2008-09 through 2011-12.

Enrollment Trends

Palmyra Area School District enrollment levels were relatively flat from 1998 through 2002 as indicated below. The 2002-03 school year provided the first indication of a trend of annual increases averaging 3%. Enrollment flattened for the 2008-09 school year, likely due to the economy, and reverted to the continued trend for 2009-10.

Year	Total Enrollment	Projected Enrollment
1998-1999	2,711	
1999-2000	2,733	
2000-2001	2,717	
2001-2002	2,682	
2002-2003	2,775	
2003-2004	2,898	
2004-2005	2,976	2,993
2005-2006	3,101	3,085
2006-2007	3,189	3,151
2007-2008	3,200	3,228
2008-2009	3,245	3,292
2009-2010		3,348
2010-2011		3,400
2011-2012		3,471
2012-2013		3,541
2013-2014		3,566
2014-2015		3,633
2015-2016		3,685
2016-2017		3,699

The School District commissioned the Pennsylvania Economy League (PEL) to prepare an extensive study of demographics and community growth patterns in order to project enrollments over the next ten years through 2013-14. PEL recently prepared a report to update the projections through 2016-17. If births hold steady at the average level of the past four years at the time of the study (222), PEL predicts that total enrollment in the District will increase by 16% by 2016-17 to a total enrollment of 3,699. This represents an increase of 801 students or a 27.6 percent increase over the thirteen years of the forecast. The table above shows six years of actual data for 2004-05 through 2009-10 compared to the PEL projections. To date, the projected enrollments have proven to be a reliable planning tool.

Addressing the projected enrollment growth is one of the most significant challenges facing Palmyra Area School District at present. The Board of Directors and the Administration have moved quickly to begin addressing the enrollment growth. Reese, Lower, Patrick & Scott, Architects, completed a District-wide Building Feasibility study that includes different options for facility renovations at the Elementary, Middle School and High School levels. The Board approved the recommendation of the Growth/Feasibility Committee to proceed with additions to Palmyra High School, which were completed during the 2007-08 school year.

During the 2006-07 school year, the Board of Directors and Administration revisited the Feasibility study to determine the next steps to address enrollment growth. Northside Elementary School added 8 modular classrooms in 2005-06 and an additional 8 classrooms and a multi-purpose space in 2007-08. Upon further study, the Administration recommended building a fourth elementary school with one wing housing first through fifth-graders and a separate wing to house all of the District's kindergarten students. The District has procured land and completed the design phase for an elementary school project with a targeted occupancy date at the start of the 2011-12 school year. A comprehensive transportation study will be undertaken to establish new boundaries considering the fourth elementary location and the new grade configuration. At the Middle School, two modular classrooms were added for the 2008-09 school year.

Request for Information

This financial report is designed to provide a general overview of the finances of Palmyra Area School District for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Darcy Brenner-Smith, Director of Business Affairs, 1125 Park Drive, Palmyra, Pennsylvania, 17078.

PALMYRA AREA SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2009

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 2,432,915	\$ 9,575	\$ 2,442,490
Investments	4,493,522	120,289	4,613,811
Receivables			
Taxes - net	999,825	-	999,825
Federal subsidies	97,272	-	97,272
State subsidies	544,802	-	544,802
Other	87,873	14,595	102,468
Intergovernmental receivables	44,811	-	44,811
Internal balances	37,351	-	37,351
Inventories	-	1,396	1,396
Total current assets	8,738,371	145,855	8,884,226
Noncurrent Assets			
Bond issuance costs - net	538,964	-	538,964
Land and site improvements - net	4,094,724	-	4,094,724
Building and building improvements - net	60,523,136	14,583	60,537,719
Furniture and equipment - net	2,748,911	6,877	2,755,788
Construction-in-progress	627,367	-	627,367
Total noncurrent assets	68,533,102	21,460	68,554,562
Total assets	\$ 77,271,473	\$ 167,315	\$ 77,438,788

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current Liabilities			
Internal balances	\$ -	\$ 37,351	\$ 37,351
Intergovernmental payables	106,808	-	106,808
Accounts payable	469,057	2,365	471,422
Current portion of long-term debt	2,810,000	-	2,810,000
Accrued salaries and benefits	2,381,619	-	2,381,619
Payroll deductions and withholdings	241,892	-	241,892
Deferred revenues	129,214	10,731	139,945
Accrued interest payable	260,899	-	260,899
Total current liabilities	6,399,489	50,447	6,449,936
Noncurrent Liabilities			
Long-term debt - net of current portion	51,483,445	-	51,483,445
Tax assessment liability	287,000	-	287,000
Accrued other postemployment benefits	48,870	-	48,870
Accrued compensated absences	956,511	-	956,511
Total noncurrent liabilities	52,775,826	-	52,775,826
Total liabilities	59,175,315	50,447	59,225,762
Net Assets			
Invested in capital assets - net of related debt	15,163,553	21,460	15,185,013
Unrestricted	2,932,605	95,408	3,028,013
Total net assets	18,096,158	116,868	18,213,026
Total liabilities and net assets	\$ 77,271,473	\$ 167,315	\$ 77,438,788

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 21,749,108	\$ 110,003	\$ 3,563,098	\$ -	\$(18,076,007)	\$ -	\$(18,076,007)
Instructional student support	2,358,146	-	299,483	-	(2,058,663)	-	(2,058,663)
Administration and financial support	3,136,533	-	128,664	-	(3,007,869)	-	(3,007,869)
Operation and maintenance of plant services	2,818,667	3,896	64,752	27,065	(2,722,954)	-	(2,722,954)
Pupil transportation	1,193,916	-	562,503	-	(631,413)	-	(631,413)
Student activities	810,035	61,510	32,430	-	(716,095)	-	(716,095)
Community services	2,500	-	-	-	(2,500)	-	(2,500)
Interest on long-term debt	2,440,406	-	326,865	-	(2,113,541)	-	(2,113,541)
Total governmental activities	34,509,311	175,409	4,977,795	27,065	(29,329,042)	-	(29,329,042)
Business-type activities:							
Food Service	1,166,570	889,554	280,364	-	-	3,348	3,348
Total School District	\$ 35,675,881	\$ 1,064,963	\$ 5,258,159	\$ 27,065	\$(29,329,042)	\$ 3,348	\$(29,325,694)

General Revenues:

Property taxes, levied for general purposes, net		\$ 20,025,904	\$ -	\$ 20,025,904
Public Utility Realty, Transfer, Earned Income, and Per Capita for General Purposes, Net		2,382,705	-	2,382,705
Grants subsidies and contributions not restricted		5,976,341	-	5,976,341
Investment earnings		375,646	1,789	377,435
Miscellaneous income		79,431	-	79,431
Total general revenues		28,840,027	1,789	28,841,816
Change in net assets		(489,015)	5,137	(483,878)
Net assets - July 1, 2008, as originally stated		16,278,343	111,731	16,390,074
Prior period adjustment		2,306,830	-	2,306,830
Net assets - July 1, 2008, restated		18,585,173	111,731	18,696,904
Net assets - ending		\$ 18,096,158	\$ 116,868	\$ 18,213,026

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2009

	Major		
	General Fund	Capital Projects Funds	Debt Service Fund
ASSETS			
Cash and cash equivalents	\$ 2,051,737	\$ 381,000	\$ -
Investments	1,948,254	1,262,969	-
Receivables			
Taxes - net	999,825	-	-
Federal subsidies	97,272	-	-
State subsidies	544,802	-	-
Other	86,677	-	-
Intergovernmental receivables	44,811	-	-
Due from other funds	37,941	-	-
Total assets	\$ 5,811,319	\$ 1,643,969	\$ -
LIABILITIES			
Due to other funds	\$ 5,169	\$ -	\$ -
Intergovernmental payables	106,808	-	-
Accounts payable	287,872	181,109	-
Accrued salaries and benefits	2,381,619	-	-
Payroll deductions and withholdings	241,892	-	-
Deferred revenues	556,903	-	-
Total liabilities	3,580,263	181,109	-
Fund Balances			
Unreserved - designated			
Capital Projects	-	1,462,860	-
Capital Reserve	-	-	-
Athletic	-	-	-
General - real estate tax	287,000	-	-
General - dental claims	19,747	-	-
Unreserved - undesignated	1,924,309	-	-
Total fund balances	2,231,056	1,462,860	-
Total liabilities and fund balances	\$ 5,811,319	\$ 1,643,969	\$ -

See Notes to Financial Statements.

Funds			
Capital Reserve Fund	Athletic Fund	Total Governmental Funds	
\$ -	\$ 178	\$ 2,432,915	
1,282,299	-	4,493,522	
-	-	999,825	
-	-	97,272	
-	-	544,802	
-	1,196	87,873	
-	-	44,811	
1,169	4,000	43,110	
<u>\$ 1,283,468</u>	<u>\$ 5,374</u>	<u>\$ 8,744,130</u>	
\$ -	\$ 590	\$ 5,759	
-	-	106,808	
-	76	469,057	
-	-	2,381,619	
-	-	241,892	
-	4,000	560,903	
<u>-</u>	<u>4,666</u>	<u>3,766,038</u>	
-	-	1,462,860	
1,283,468	-	1,283,468	
-	708	708	
-	-	287,000	
-	-	19,747	
-	-	1,924,309	
<u>1,283,468</u>	<u>708</u>	<u>4,978,092</u>	
<u>\$ 1,283,468</u>	<u>\$ 5,374</u>	<u>\$ 8,744,130</u>	

PALMYRA AREA SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2009**

Total Fund Balances - Governmental Funds	\$ 4,978,092
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$94,901,854, and the accumulated depreciation is \$26,907,716.	67,994,138
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred revenues in the funds.	431,689
Governmental funds report bond issuance costs as expenditures. However, in the statement of activities the cost of the issuance is allocated over the life of the debt issue. This is the amount by which bond issuance costs exceeds accumulated amortization.	538,964
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Bonds payable	(54,365,000)
Accrued interest	(260,899)
Bond issuance premium	(540,703)
Refunding loss	612,258
Tax assessment liability	(287,000)
Other postemployment benefits	(48,870)
Compensated absences	(956,511)
	(55,846,725)
Total net assets - governmental activities	\$ 18,096,158

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

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

Year Ended June 30, 2009

	Major Funds		
	General Fund	Capital Projects Funds	Debt Service Fund
Revenues			
Local sources	\$ 23,182,957	\$ 57,591	\$ 688
State sources	10,060,334	-	-
Federal sources	802,613	-	-
Total revenues	34,045,904	57,591	688
Expenditures			
Instructional	19,123,952	-	-
Support services	9,001,961	-	26,125
Operation of noninstructional services	505,381	-	-
Capital outlay	123,513	1,116,589	-
Debt service			
Principal	-	-	2,465,000
Interest	-	-	2,392,561
Other	53,341	-	-
Refund of prior year's receipts	964	-	-
Total expenditures	28,809,112	1,116,589	4,883,686
Excess (deficiency) of revenues over expenditures	5,236,792	(1,058,998)	(4,882,998)
Other Financing Sources (Uses)			
Operating transfers in	-	2,018,000	4,808,294
Operating transfers out	(4,994,475)	(2,018,000)	-
Bonds refunded	-	-	(2,690,000)
Proceeds from general long-term debt	-	-	2,745,000
Total other financing sources (uses)	(4,994,475)	-	4,863,294
Net changes in fund balances	242,317	(1,058,998)	(19,704)
Fund Balances:			
July 1, 2008	1,988,739	2,521,858	19,704
June 30, 2009	\$ 2,231,056	\$ 1,462,860	\$ -

See Notes to Financial Statements.

Capital Reserve Fund	Athletic Fund	Total Governmental Funds
\$ 56,004	\$ 61,696	\$23,358,936
-	-	10,060,334
-	-	802,613
56,004	61,696	34,221,883
-	-	19,123,952
6,388	-	9,034,474
-	239,059	744,440
-	-	1,240,102
-	-	2,465,000
-	-	2,392,561
-	-	53,341
-	-	964
6,388	239,059	35,054,834
49,616	(177,363)	(832,951)
7,169	179,012	7,012,475
-	-	(7,012,475)
-	-	(2,690,000)
-	-	2,745,000
7,169	179,012	55,000
56,785	1,649	(777,951)
1,226,683	(941)	5,756,043
\$ 1,283,468	\$ 708	\$ 4,978,092

PALMYRA AREA SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2009**

Net changes in fund balances - all governmental funds	\$ (777,951)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	1,085,767	
Less depreciation expense	<u>(2,784,286)</u>	(1,698,519)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenue increased by this amount this year. 85,414

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrued, regardless of when it is due. In addition, bond premiums, discounts, and refunding losses are recognized as interest throughout the life of the loan rather than at the issuance of the bonds. The effects of the modifications for accrued interest and bond issue discount and premiums are shown here. (47,846)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents compensated absences expenditures, other postemployment benefits and a future real estate tax liability. (386,535)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government 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. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt	(2,745,000)	
Repayment of long-term debt	5,155,000	
Amortization of bond issuance costs	<u>(73,578)</u>	2,336,422

Change in net assets of governmental activities	\$ <u>(489,015)</u>
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See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2009**

	Budgeted Amounts	
	Original	Final
Revenues		
Local sources	\$ 23,604,949	\$ 23,604,949
State sources	10,283,891	10,283,891
Federal sources	740,502	740,502
Total revenues	34,629,342	34,629,342
Expenditures		
Instructional	19,018,640	19,359,429
Support services	9,243,578	9,356,482
Operation of noninstructional services	534,226	534,226
Capital outlay	123,600	123,600
Debt service	57,830	57,830
Refund of prior year's receipts	-	-
Total expenditures	28,977,874	29,431,567
Excess of revenues over expenditures	5,651,468	5,197,775
Other Financing Sources (Uses)		
Operating transfers out	(5,652,824)	(5,381,090)
Budgetary reserve	(200,000)	(18,041)
Total other financing uses	(5,852,824)	(5,399,131)
Net changes in fund balance	\$ (201,356)	\$ (201,356)

Fund Balance:
July 1, 2008
June 30, 2009

See Notes to Financial Statements.

Actual	Variance with Final Budget Positive (Negative)
\$ 23,182,957	\$ (421,992)
10,060,334	(223,557)
802,613	62,111
<u>34,045,904</u>	<u>(583,438)</u>
19,123,952	235,477
9,001,961	354,521
505,381	28,845
123,513	87
53,341	4,489
964	964
<u>28,809,112</u>	<u>624,383</u>
5,236,792	40,945
(4,994,475)	386,615
-	18,041
<u>(4,994,475)</u>	<u>404,656</u>
242,317	<u>\$ 445,601</u>
<u>1,988,739</u>	
<u>\$ 2,231,056</u>	

PALMYRA AREA SCHOOL DISTRICT

STATEMENT OF NET ASSETS - PROPRIETARY FUND - FOOD SERVICE
June 30, 2009

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 9,575
Investments	120,289
Receivables	14,595
Inventories	1,396
Total current assets	<u>145,855</u>
Noncurrent Assets	
Building and building improvements - net	14,583
Furniture and equipment - net	6,877
Total noncurrent assets	<u>21,460</u>
Total assets	<u>\$ 167,315</u>
LIABILITIES AND NET ASSETS	
Liabilities - all current	
Internal balances	\$ 37,351
Accounts payable	2,365
Deferred revenues	10,731
Total liabilities	<u>50,447</u>
Net Assets	
Invested in capital assets	21,460
Unrestricted	95,408
Total net assets	<u>116,868</u>
Total liabilities and net assets	<u>\$ 167,315</u>

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUND - FOOD SERVICE**

Year Ended June 30, 2009

<hr/>	
Operating Revenues	
Sales	\$ 888,722
Other operating revenues	832
Total operating revenues	<u>889,554</u>
Operating Expenses	
Purchased services	579,362
Labor, taxes and benefits	471,514
Purchased property services	10,855
Purchased professional, technical and other services	88,403
Depreciation	14,857
Other	1,579
Total operating expenses	<u>1,166,570</u>
Operating loss	(277,016)
Nonoperating Revenues	
Investment earnings	1,789
Federal and state subsidies	280,364
Total nonoperating revenues	<u>282,153</u>
Changes in net assets	5,137
Net Assets:	
July 1, 2008	111,731
June 30, 2009	<u>\$ 116,868</u>

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND - FOOD SERVICE
 Year Ended June 30, 2009**

<hr/>	
Cash Flows From Operating Activities	
Cash received from meal sales	\$ 883,979
Cash payments for goods and services	(620,594)
Cash payments to employees for services	(476,856)
Cash received from other local sources	832
Net cash used in operating activities	<u>(212,639)</u>
Cash Flows From Noncapital Financing Activities	
Federal and state subsidies	<u>244,556</u>
Cash Flows From Investing Activities	
Investment earnings	1,789
Purchase of fixed assets	(1,968)
Change in investments	(38,987)
Net cash used in investing activities	<u>(39,166)</u>
Net decrease in cash and cash equivalents	(7,249)
Cash and Cash Equivalents:	
July 1, 2008	16,824
June 30, 2009	<u>\$ 9,575</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities	
Operating loss	\$ (277,016)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	14,857
Value of donated commodities used	44,648
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	(6,046)
Inventories	17,227
(Decrease) increase in:	
Internal balances	12,072
Accounts payable	(14,342)
Accrued salaries and benefits	(5,342)
Deferred revenues	1,303
Net cash used in operating activities	<u>\$ (212,639)</u>

PALMYRA AREA SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2009

	Consolidated Scholarship Trust Fund	Student Activities Fund
ASSETS		
Cash	\$ 34,972	\$ 38,405
Total assets	\$ 34,972	\$ 38,405
LIABILITIES		
Accounts payable	\$ -	\$ 38,405
NET ASSETS		
Restricted for Consolidated Scholarship Trust Fund	34,972	-
Total liabilities and net assets	\$ 34,972	\$ 38,405

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
CONSOLIDATED SCHOLARSHIP TRUST FUND
Year Ended June 30, 2009**

Additions	
Contributions	\$ 4,875
Investment earnings	360
Total additions	<u>5,235</u>
Deductions	
Scholarship awards	<u>9,479</u>
Change in net assets	(4,244)
Net Assets:	
July 1, 2008	39,216
June 30, 2009	<u>\$ 34,972</u>

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Palmyra Area School District operates three elementary schools, one middle school, and one high school in Lebanon County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The District operates under a locally elected nine member Board form of government.

The financial statements of Palmyra Area School District (the District) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

A. Reporting Entity

Palmyra Area School District's financial statements include the operations of all entities for which the School Board exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Palmyra Area School District is the lowest level of government which has oversight responsibility and control over all activities related to public school education in the Commonwealth of Pennsylvania. The District receives funding from local, state and Federal government sources and must comply with the requirements of these source entities. However, the District is not included in any other governmental "reporting entity" since the School Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Additionally, the District does not exercise oversight responsibility over any other entities and, consequently, no other entities have been included in the accompanying financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided in the report for all of the governmental funds, proprietary funds, and the fiduciary funds of the School District, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The School District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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 District has elected not to follow subsequent private-sector guidance.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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 revenues 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.

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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues 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.

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

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related liabilities (except those accounted for in Proprietary funds) are accounted for through Governmental funds.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be in another fund. Revenues are primarily derived from local property, earned income tax, per capita and occupational taxes, and state and Federal distributions. Many of the more important activities of the School District, including instruction, administration of the School District and certain non-instructional services are accounted for in this fund.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Debt Service Fund accounts for accumulation of resources for, and the payment of long-term debt principal, interest and related costs.

The Capital Reserve Fund (Section 2932 is authorized by P.L. 145, Act of April 30, 1943, known as Section 2932 School Laws of Pennsylvania) accounts for (1) monies transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, and (2) surplus monies in the General Fund of the School District at the end of any fiscal year. This fund is included in the financial statements as a Special Revenue Fund.

The District operates one enterprise fund, the Food Service Fund. This fund accounts for the activities of the District's food service program.

Additionally, the District reports the following non-major governmental funds:

The Athletic Fund is authorized by Section 511 of the Public School Code of 1949 to account for the certain revenues and expenditures of athletic activities. The fund accounts for gate receipts and other revenues from athletic events and certain budgeted costs of the District's athletic programs.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the school district's enterprise fund is food service charges. Operating expenses for the School District's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The School District does not attempt to allocate "building-wide costs" to the Food Service Fund. Thus, General Fund expenditures which partially benefit the Food Service Fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the Food Service Fund; similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no rental-of-facilities expense).

The District accounts for assets held by the District in a trustee capacity in a private-purpose trust fund. This fund accounts for activities in the various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as prescribed by donor stipulations.

The Activity Fund accounts for the monies authorized by Section 511 of the Public School Code of 1949 for school publications and organizations. A portion of the Activity Fund is an Agency Fund which is separate from other Agency Funds because of legal requirements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are also accounted for using the modified accrual basis of accounting.

D. Budget and Budgetary Accounting

An operating budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required. The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The School District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the School District.

Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows presented for the proprietary fund and the nonexpendable trust fund, the School District considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments: Investments are stated at fair value.

Allowances for Estimated Uncollectible Taxes and Deferred Revenues:

The allowance for estimated uncollectible taxes is based upon a historical estimate of delinquent taxes that will not be received within one year of the fiscal year-end. Deferred revenues are based upon a historical estimate of delinquent taxes expected to be received within one year of the fiscal year-end.

The portion of taxes receivable which is expected to be received within 60 days of June 30 is recorded as revenues in the current year. The remaining amount of taxes receivable which is expected to be received within one year from June 30 is recorded as deferred revenues. All other amounts in taxes receivable are written off as estimated uncollectible taxes.

Inventories: On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used.

A physical inventory of the Cafeteria Fund food and supplies was taken as of June 30, 2009. The inventory consisted of government donated commodities which were valued at estimated fair market value. The District has adopted a single inventory record keeping system which does not distinguish between donated and purchased commodities. Accordingly, no deferred revenues for donated commodities have been recorded.

Prepaid Expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items (consumption method) in both the government-wide and fund financial statements.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets and Depreciation: Capital assets, which include property, plant, and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are capitalized at the discretion of management, unless the assets acquired by debt proceeds, in which case the asset is required to be capitalized. Management considers various factors in the capitalization of assets, including the asset's estimated useful life, cost, and the extent to which the asset is part of a larger capital project. The District's policy excludes library books, classroom texts, computer equipment, classroom furniture, and other instructional equipment from capitalization, subject to the on-going discretion of management. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is provided for fixed assets on the straight-line basis over the estimated useful life of the asset or group of assets as determined by management.

Long-Term Obligations: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the Statement of Net Assets. Bond premium and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of 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 premium and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences: Under the system of financial accounting and reporting for Pennsylvania School Systems, the School District accrues for certain accumulated employee benefits, such as unpaid vacation and sick pay. Calculation of this amount is determined by the appropriate vacation, sick and retirement lump-sum payments which would be available to employees if they would leave or retire from the School District and is adjusted for expected turnover rates of employees. Accrued benefit days, multiplied by appropriate salary amounts, are reflected as a long-term liability unless retirements are likely within the upcoming fiscal year. Those costs determined to be current year costs are reflected as a liability of the General Fund.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Net Assets or Equity (Continued)

Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation, which is funded through the District's contribution to the statewide Public School Employee's Retirement System, a governmental cost-sharing multiple-employer defined-benefit pension plan. The District provides access to retiree health, vision, and dental care benefits, including prescription drug coverage, to eligible retired employees and qualified spouses/beneficiaries. The District has estimated the cost of providing these benefits through an actuarial valuation.

Transfers: Advances between funds that are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected, the advances are accounted for through the various due from and due to accounts.

Fund Balance:

The School District classifies fund balance as follows:

Unreserved - designated

Unreserved - designated fund is used to denote that portion of the fund balance, which is not available for expenditure appropriation or is legally segregated for a specific purpose. Designations are used to indicate intentions for financial resource utilization.

Unreserved - undesignated

Undesignated is used to denote that portion of fund balance which is available for appropriations.

Use of Estimates: Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenditures.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 26, 2009, the date the financial statements were available to be issued.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds consistent with sound business practices in the following types of investments:

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government or its agencies or its instrumentalities.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by either:
 1. The Federal Deposit Insurance Corporation (FDIC), or
 2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
 3. The National Credit Union Share Insurance Fund (NCUSIF)to the extent that such accounts are so insured, and for any amounts above maximum insurable limits, provided that approved collateral as provided by law shall be pledged by the depository
- Obligations of (a) the United States of America or its agencies or instrumentalities backed by the full-faith and credit of the United States of America, and (b) the Commonwealth of Pennsylvania or instrumentalities thereof backed by the full-faith and credit of these political subdivisions.
- Shares of investment companies whose investments are restricted to the above categories.

The deposit and investment policies of the District adhere to state statutes and prudent business practices. There were no deposit or investment transactions during the year that violated either state statutes or District policies.

Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank failure, the District's investments may not be returned to it. As of June 30, 2009, \$2,496,150 of the District's total bank balances of \$2,746,150 was exposed to custodial-credit risk as follows:

	Amount
Uninsured and collateralized by assets maintained in conformity with Act 72	\$ 2,496,150

Act 72 is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis and authorizing the appointment of custodians to act as the pledgor of the assets.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investments

As of June 30, 2009, the District had the following investments:

Investments	Weighted Avg.		Fair Values
	Maturities	Rating	
Pennsylvania Local Government Investment Trust (PLGIT) ARM	59 days	AAAm	\$ 1,285,593
Pennsylvania School District Liquid Asset Fund (PSDLAF)	24 days	AAAm	3,350,882
			<u>\$ 4,636,475</u>

Portfolio Assets

PLGIT ARM - This fund invests in U.S. Treasury and agency securities and repurchase agreements secured by such obligations, as well as certain municipal obligations and collateralized or insured certificates of deposit. Weighted-average portfolio maturity for the fund is expected to be kept at or below 60 days.

PSDLAF - This fund invests in U.S. treasury securities, U.S. government securities, its agencies and instrumentalities, and repurchase agreements, collateralized by such securities and contracted with highly rated counterparties. Weighted-average portfolio maturity for the fund is expected to be kept at or below 60 days.

Weighted-Average Maturity

The weighted-average maturity (WAM) method expresses investment time horizons - the time when investments become due and payable - in years or months, weighted to reflect the dollar size of individual investments within an investment type. In this illustration, WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Interest-Rate Risk

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

Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices.

Concentrations-of-Credit Risk

The District places no limit on the amounts invested in any one issuer. The percentage of the concentrations of the District's investments at June 30, 2009, are as follows:

<u>Investment</u>	<u>Portfolio</u>
Pennsylvania Local Government Investment Trust (PLGIT) ARM	27.73%
Pennsylvania School District Liquid Asset Fund (PSDLAF)	72.27%
	<u>100.00%</u>

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Taxes Receivable, Deferred Revenues and Estimated Uncollectible Taxes

A summary of the taxes receivable and related accounts at June 30, 2009, follows:

	Amount
Uncollected taxes	\$ 1,076,642
Estimated uncollectible taxes	<u>76,817</u>
Taxes Receivable - Net	<u>\$ 999,825</u>
Taxes to be collected within 60 days	\$ 568,136
Deferred revenues - delinquent taxes	<u>431,689</u>
Taxes Receivable - Net	<u>\$ 999,825</u>
Deferred Revenues	
Tax settlement	\$ 120,395
Restricted donation	4,000
State grant	4,819
Delinquent taxes	<u>431,689</u>
Total Deferred Revenues	<u>\$ 560,903</u>

Note 4. Property Taxes

Based upon assessed valuations provided by the County, the municipal tax collector bills and collects property taxes on behalf of the School District. The schedule for property taxes levied for 2008-2009 is as follows:

July 1, 2008	tax levy date
Through August 31, 2008	2% discount
Through October 31, 2008	face payment period
November 1, 2008	10% penalty period
4th Monday, 2009	lien filing date
January 1, 2009	interim tax levy date

The School District tax rate for all purposes in 2008-2009 was 88.25 mills (\$88.25 per \$1,000 assessed valuation). Refunds on payments of prior year taxes are classified as Other Debt Service items under the Commonwealth of Pennsylvania accounting system. Current tax collections for the School District were approximately 96% of the total tax levy.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Balances

Individual fund-level receivables and payables balances at June 30, 2009, are as follows:

	Interfund Receivables	Interfund Payables
<hr/>		
Governmental Fund Types		
General	\$ 37,941	\$ 5,169
Capital projects	1,169	-
Athletic	4,000	590
Total Governmental Fund Types	<hr/> 43,110	<hr/> 5,759
Proprietary Fund Type - Food Service	-	37,351
	<hr/> <u>\$ 43,110</u>	<hr/> <u>\$ 43,110</u>

All interfund receivable/payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be repaid within the following year.

Operating transfers between funds during the year ended June 30, 2009, are as follows:

Fund	Transfers In	Transfers Out
<hr/>		
Governmental Funds		
General	\$ -	\$ 4,994,475
Capital Projects	2,018,000	2,018,000
Capital Reserve	7,169	-
Debt Service	4,808,294	-
Athletic	179,012	-
Total governmental funds	<hr/> <u>\$ 7,012,475</u>	<hr/> <u>\$ 7,012,475</u>

Transfers and payments within the District are substantially for purposes or subsidizing operating functions, funding capital project and asset acquisition, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. General Fixed Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	July 1, 2008, Restated	Increases	Decreases	June 30, 2009
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 1,803,847	\$ -	\$ -	\$ 1,803,847
Capital assets being depreciated				
Land and improvements	3,887,343	-	-	3,887,343
Buildings and building improvements	82,372,456	-	-	82,372,456
Furniture and equipment	5,730,747	480,094	-	6,210,841
Total capital assets being depreciated	91,990,546	480,094	-	92,470,640
Less accumulated depreciation				
Land and improvements	1,417,697	178,769	-	1,596,466
Buildings and building improvements	19,802,608	2,046,712	-	21,849,320
Furniture and equipment	2,903,125	558,805	-	3,461,930
Total Accumulated Depreciation	24,123,430	2,784,286	-	26,907,716
Total capital assets being depreciated, net	67,867,116	(2,304,192)	-	65,562,924
Construction-in-progress	21,694	627,367	(21,694)	627,367
Governmental Activities, Capital Assets - Net	\$ 69,692,657	\$ (1,676,825)	\$ (21,694)	\$ 67,994,138
Business-Type Activities				
Capital assets being depreciated				
Buildings and building improvements	\$ 150,000	\$ -	\$ -	\$ 150,000
Furniture and equipment	277,126	1,968	-	279,094
Total Business-Type Activities Assets	427,126	1,968	-	429,094
Less accumulated depreciation				
Buildings and building improvements	122,917	12,500	-	135,417
Furniture and equipment	269,860	2,357	-	272,217
Total Accumulated Depreciation	392,777	14,857	-	407,634
Business-Type Activities, Capital Assets - Net	\$ 34,349	\$ (12,889)	\$ -	\$ 21,460

As discussed in Note 15, the District recorded a prior period adjustment during the year to reflect effects of a fixed asset valuation performed during the year by the District's appraiser.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. General Fixed Assets (Continued)

Depreciation expense was charged to the functions/programs of the District as follows:

	Amount
Governmental Activities:	
Instruction	\$ 2,068,284
Instructional Student Support	236,493
Admin and Financial Support	273,174
Op. and main of plant svcs.	137,480
Student Activities	68,855
Total governmental activities	<u>2,784,286</u>
 Business-type activities:	
Food Service	14,857
Total School District	<u><u>\$ 2,799,143</u></u>

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt

During the fiscal year ended June 30, 2009, general long-term debt changed as follows:

	Balances July 1, 2008	Increases	Decreases	Balances June 30, 2009
Bonds Payable				
General Obligation Bonds - Series of 2002	\$ 11,430,000	\$ -	\$ (595,000)	\$ 10,835,000
General Obligation Bonds - Series of 2003	360,000	-	(100,000)	260,000
General Obligation Note - Series B of 2003	2,690,000	-	(2,690,000)	-
General Obligation Bonds - Series of 2005	19,475,000	-	(800,000)	18,675,000
General Obligation Bonds - Series of 2006	2,840,000	-	(5,000)	2,835,000
General Obligation Bonds - Series of 2007	9,985,000	-	(10,000)	9,975,000
General Obligation Bonds - Series of 2008	9,995,000	-	(700,000)	9,295,000
General Obligation Note - Series of 2009	-	2,745,000	(255,000)	2,490,000
	<u>56,775,000</u>	<u>2,745,000</u>	<u>(5,155,000)</u>	<u>54,365,000</u>
Refunding loss, net of amortization	(650,469)	(37,519)	75,730	(612,258)
Bond issuance premium - net	603,156	-	(62,453)	540,703
Total Bonds Payable	<u>56,727,687</u>	<u>2,707,481</u>	<u>(5,141,723)</u>	<u>54,293,445</u>
Other Postemployment Benefits	-	48,870	-	48,870
Compensated Absences	905,845	50,666	-	956,511
Total Long-Term Debt	<u>\$ 57,633,532</u>	<u>\$ 2,807,017</u>	<u>\$ (5,141,723)</u>	<u>\$ 55,298,826</u>

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt (Continued)

General Obligation Bonds - Series of 2002

During 2001-2002, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds, Series of 2002, in the aggregate principal amount of \$12,000,000. The proceeds of the Bonds were used to fund various capital projects in the District and to pay the costs of issuing and insuring the bonds. The interest rates for the 2002 Bond Issue varies from 1.85% to 5.375%.

General Obligation Bonds - Series of 2003

During fiscal 2002-03, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds, Series of 2003, in the aggregate principal amount of \$6,790,000. The proceeds of the Bonds were used to refund a portion of the outstanding General Obligation Bonds, Series of 1998 and to pay the issuance costs of the Bonds. The economic gain on the refunding of the 1996 Bonds was \$441,633. The interest rates for the 2003 Bond Issue varies from 1.80% to 4.2%.

General Obligation Bonds - Series B of 2003

During fiscal 2003-04, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds, Series B of 2003, in the aggregate principal amount of \$4,055,000. The proceeds of the Bonds were used to refund a portion of the outstanding General Obligation Bonds, Series of 1999 and to pay the issuance costs of the Bonds. The economic gain on the refunding of the 1996 Bonds was \$73,060. The interest rates for the 2003 Bond Issue varies from 1.45% to 4.2%.

General Obligation Bonds - Series of 2005

During 2004-2005, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds, Series of 2005, in an aggregate principal amount of \$21,000,000. The proceeds of the Bonds were used to fund various capital projects in the District and to pay the costs of issuing and insuring the bonds. The interest rates for the 2005 Bond Issue varies from 3.00% to 5.00%.

General Obligation Bonds - Series of 2006

During 2006-2007, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds, Series of 2006, in an aggregate principal amount of \$12,000,000. The proceeds of the Bonds were used to fund various capital projects in the District and to pay the costs of issuing and insuring the bonds. The interest rates for the 2005 Bond Issue varies from 3.70% to 5.00%.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt (Continued)

General Obligation Bonds - Series of 2007

During 2006-2007, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds, Series of 2007, in an aggregate principal amount of \$12,000,000. \$9,150,000 of the total proceeds is to be used as an advance refund on the General Obligation Bonds - Series of 2006. The economic gain on the refunding of the 2006 Bonds was \$266,965. The remainder of the proceeds of the Bonds was used to fund various capital projects in the District and to pay the costs of issuing and insuring the bonds. The interest rates for the 2007 Bond Issue varies from 3.50% to 4.00%.

General Obligation Bonds - Series of 2008

During 2007-2008, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds, Series of 2008, in an aggregate principal amount of \$9,995,000. The proceeds were used to partially refund the General Obligation Bonds - Series of 2003, to fully refund the General Obligation Bonds - Series A-2003, and to pay the costs of issuing and insuring the bonds. The interest rates for the 2008 Bond Issue varies from 3.00% to 4.00%.

General Obligation Note – Series of 2009

During 2008-2009, the Board of Directors of Palmyra Area School Board issued General Obligation Note, Series of 2009, in an aggregate principal amount of \$2,745,000. The proceeds were used to fully refund the General Obligation Bonds – Series B of 2003 and to pay the costs of issuing and insuring the note. The economic gain on the refunding of the 2003 bonds was \$93,777. The interest rate for the 2009 Note is 2.75%.

The District is in compliance with all debt covenants in the outstanding Bond Issues. Those covenants include the following: the School District shall include the annual debt service in its budget for the fiscal year; shall appropriate these amounts from its general revenues; and shall punctually cause the payment of the principal and interest of each of the Bonds.

The maturity of the long-term debt issues are as follows:

Year	General Obligation Debt		
	Principal	Interest	Total
2010	\$ 2,810,000	\$ 2,291,296	\$ 5,101,296
2011	3,025,000	2,193,226	5,218,226
2012	3,230,000	2,085,771	5,315,771
2013	3,350,000	1,964,874	5,314,874
2014	3,435,000	1,843,036	5,278,036
2015-2019	19,620,000	6,815,001	26,435,001
2020-2024	17,255,000	2,294,200	19,549,200
2025	1,640,000	77,900	1,717,900
	<u>\$ 54,365,000</u>	<u>\$ 19,565,304</u>	<u>\$ 73,930,304</u>

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt (Continued)

Compensated Absences

Under the terms of the School District's employment policies, employees are reimbursed for accrued vacation upon retirement or other termination of employment. The reimbursement rate is established by the employment contract and varies by employee classification. In addition, employees are granted sick days per school year and any unused sick days are permitted to be carried over to future years. Upon retirement from the School District, employees are reimbursed for accumulated sick days equal to the number of unused days multiplied by an amount pre-established amount per the employment contract. The employees are also offered options regarding retirement payouts as prescribed in the contract if certain conditions are met. The total liability for accrued vacation, sick leave and retirement bonuses has been reflected in the Statement of Net Assets.

Note 8. Joint Venture

Lebanon County Career and Technology Center (LCCTC)

Lebanon County Career and Technology Center is a separate legal entity. LCCTC provides vocational-technical training and education to participating students of the member districts. The District is one of six member school districts of the Lebanon County Career and Technology Center (LCCTC). LCCTC is controlled and governed by the Area Vocational-Technical Board for Lebanon County (Vo-tech Board), which is composed of school board members of all the member districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The District's financial obligation to LCCTC for the year ended June 30, 2009, was \$756,633 which has been reported in the District's General Fund. Complete financial statements for LCCTC can be obtained from the administrative Office at 833 Metro Drive, Lebanon, PA 17042.

Lebanon County Earned Income Tax Bureau (EIT)

The Lebanon County Earned Income Tax Bureau is a separate legal entity. The Bureau, through Keystone Municipal Collections, collects earned income taxes for all school districts, townships and municipalities in the county. The Palmyra Area School District is one of six member school districts in the Lebanon County which provide direct oversight of the Lebanon County Earned Income Tax Bureau. Each participating school district has a representative on the Board, these representatives, along with representatives from participating municipalities, control and govern the Bureau. The Palmyra Area School District's share of the annual operating costs is based on its percentage of total taxes collected and is reflected in the expenditures of the General Fund. Costs were approximately \$88,870 for the year ended June 30, 2009. Audited financial statements for EIT can be obtained through the Palmyra Area School District office.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Joint Venture (Continued)

Lebanon County Vo-Tech School Authority

The District is also a member of the Lebanon County Vo-Tech School Authority (Authority). In 1965, the Authority entered into an agreement with the member schools and the Vo-Tech Board to acquire land and construct buildings to provide for the operation of LCCTC.

During year fiscal 2001-02, the Authority issued Lease Revenue Bonds, Series of 2002, in the aggregate amount of \$2,100,000 for the purpose of providing funds for the costs of design and construction improvements, renovations and extraordinary repairs to and the acquisition and installation of related equipment for the facilities of Lebanon County Vocational Technical School. In April 2008, the bonds were refunded and a new issuance Lease Revenue Bonds Series of 2008, was issued in the aggregate amount of \$9,035,000. The School District's allocated principal portion of the lease rentals to the Authority is \$1,526,102. The purpose of the issuance is to provide funds to cover costs of renovations, alterations, additions and equipping of existing facilities of the LCCTC. Concurrent with the issuance of these Bonds, the District entered into a supplemental lease agreement with the Authority, the rentals of which act as security for the Bonds. The District is required, under terms of the lease, to pay lease rentals in connection with the Lease Revenue Bonds, Series of 2008, as follows:

Year	Principal	Interest	Total
2010	\$ 1,689	\$ 57,869	\$ 59,558
2011	1,689	57,830	59,519
2012	46,450	57,113	103,563
2013	48,139	55,694	103,833
2014	49,828	54,224	104,052
2015-2019	271,945	245,981	517,926
2020-2024	325,997	191,431	517,428
2025-2029	397,784	108,876	506,660
2030-2033	381,736	32,246	413,982
	<u>\$ 1,525,257</u>	<u>\$ 861,264</u>	<u>\$ 2,386,521</u>

The District treats these lease payments as operating leases to the Authority as no assets or additional rights have been conveyed to the District. If the Authority and LCCTC cease to be a going concern, the District would be obligated to satisfy its allocable portion of the debt obligations. Concurrently, under terms of the organizing documents, the allocable assets of the entities would also be transferred to the District. Complete financial statements for the Authority can be obtained from the Administrative Office at 833 Metro Drive, Lebanon, PA 17042.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Joint Venture (Continued)

Lancaster-Lebanon Joint Authority

The District is a member in the Lancaster-Lebanon Joint Authority (Authority), which is a separate legal entity. The Authority was incorporated on February 14, 1980 under the Municipality Authorities Act of 1945, Act of May 2, 1945, P.L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purpose of acquiring, holding, constructing, improving, maintaining, operating, owning and /or leasing projects for public school purposes and for the purposes of Lancaster-Lebanon Intermediate Unit No.13. The School District did not have any financial transactions with the Authority during the year ended June 30, 2009. Complete financial statements for the Authority can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 20 members from the IU's constituent school districts. The LLIU Board members are school district board members, who are elected by the public, and are appointed to the LLIU Board by the member districts' Boards of Directors. Palmyra Area School District is responsible for appointing one of these members. The LLIU board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Palmyra Area School District contracts with LLIU for special education services for District students and for computer consortium services. The direct and indirect amounts paid for these services in the year ended June 30, 2009, was approximately \$712,319. Complete financial information for LLIU can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

Lebanon School District

Palmyra Area School District is in affiliation with the Lebanon School District. On September 12, 2002, the affiliates entered into a fifteen year sublease agreement for the building located at One Cumberland Street, Lebanon City, Lebanon County, PA. During the year ended June 30, 2009, Palmyra Area School District made one lease payment to the Lebanon School District in the amount of \$10,944.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Defined-Benefit Pension Plan

Plan Description:

The School District contributes to the statewide Public School Employee's Retirement System (the System), a governmental cost-sharing multiple-employer defined-benefit pension plan administered by the System. In addition to regular retirement benefits, the System also provides for disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. Membership in the System is mandatory for substantially all full-time public school employees in the Commonwealth of Pennsylvania (Commonwealth). State statutes assign the authority to establish and amend benefit provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) to the Pennsylvania General Assembly (Act No. 96 of October 2, 1975, as amended)(24 Pa. C.S. 8101-8535). The Public School Employees' Retirement System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the defined-benefit pension plan. This report may be obtained by writing to Barbara D. Flurie, Office of Financial Management, Public School Employees' Retirement System of Pennsylvania, P.O. Box 125, Harrisburg, PA 17108-0125. This report is also available in the publications section of the PSERS website and www.psers.state.pa.us.

Funding Policy:

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by the active employees, School District and the Commonwealth.

Contribution Rates:

The current contribution rate for active employees joining the System before July 22, 1983, is set by law at 5.25% or at 6.50% for the employee's qualifying compensation. For active employees joining the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, the rate of contribution is 6.25% or at 7.50% of the employee's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50%. For all new hires, the higher contribution rates began with service rendered on or after January 1, 2002.

District Contributions:

The School District's required contributions are based upon an actuarial valuation. For the fiscal year ended June 30, 2009, the District's rate of contribution was 4.76% of covered payroll. The 4.76% rate is composed of a pension contribution rate of 4.00 percent for pension benefits and .76 for healthcare insurance premium assistance. The School District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ration (as defined in Act 29 of 1994), which is at least one half of the total School District's rate. The School District's contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, were \$801,203, \$1,027,671, and \$807,222, respectively, and are equal to the required contributions for the year.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits

Effective July 1, 2008, the District adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Plan Description:

The District provides access to retiree health, vision, and dental care benefits, including prescription drug coverage, to eligible retired employees and qualified spouses/beneficiaries. The plan also provides for retirement benefits outlined in employment contracts. This is a single employer defined benefit plan administered by the District. Benefits are provided to all faculty, academic staff and support staff who meet the following requirements. Administrative personnel must retire into PSERS. Teaching and support personnel are required to have 10 years with the district or 30 years of PSERS service. Currently, the plan has approximately 319 members. The plan does not issue a separate stand-alone financial statement.

Funding Policy:

The District's medical plans are self-funded and each plan's premiums are updated annually based on actual claims. The employee is responsible for paying the full premium. The District funds OPEB on a pay-as-you-go basis, and there is no obligation to make contributions in advance of when the insurance premiums or claims are due for payment.

Funding Progress:

For the year ended June 30, 2009, the District has estimated the cost (annual expense) of providing retiree health, vision, and dental care benefits through an actuarial valuation as of July 1, 2008. In accordance with GASB Statement No. 45, the valuation computes an annual required contribution, which 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 over a period of 30 years. This valuation's computed contribution and actual funding are summarized as follows:

	Amount
Annual required contribution	\$ 161,782
Less adjustment to the annual required contribution	<u>-</u>
Annual OPEB cost	161,782
Amounts contributed:	
Payments of current premiums and claims	(112,912)
Advance funding	<u>-</u>
Increase in net OPEB obligation	48,870
OPEB obligation - beginning of year	<u>-</u>
OPEB obligation - end of year	<u>\$ 48,870</u>

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the current year are as follows:

For Fiscal Year Ended June 30, 2009:

Annual OPEB cost	\$	161,782
Percentage contributed		69.8%
Net OPEB obligation	\$	48,870

Actuarial methods and assumptions:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts are determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 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 July 1, 2008, actuarial valuation, the Entry Age Normal cost method was used. The actuarial assumptions include an annual health care cost trend rate of 8.5% initially, reduced by decrements to an ultimate rate of 5% after eight years. Both rates included a 4.5% inflation assumption. The UAAL is being amortized over 30 years as a level percentage of projected payroll on an open basis, with 29 years remaining.

Note 11. Employee Insurance Program

Effective January 1, 2004, the School District instituted a self funded insurance program to cover up to \$1,500 of dental costs per participant. During the year ending June 30, 2009, the School District paid claims of \$188,018 under the program. In addition, based on the history of benefits paid under private insurance, the School has designated \$19,747 of additional fund balance to provide for future claims.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Commitments

Operating Leases

The School District maintains copying machines under long-term operating leases. Future minimum rental payments required under operating leases that have an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2009, are:

Years	Minimum Lease Obligation
2009-2010	\$ 67,441
2010-2011	67,090
2011-2012	67,040
2012-2013	63,367
2013-2014	29,370
	<u>\$ 294,308</u>

The rental expense for leases is \$51,699 for the year ended June 30, 2009. There are no options under the current leases for renewal or purchase of the copying machines.

Purchase Commitments

During the year the District entered into a purchase commitment for land. The total purchase price was \$538,305 of which a deposit of \$25,000 was expended during the year.

Capital leases

On June 20, 2005, the District entered a 60-month lease agreement for the leasing of seven modular classrooms. In addition to an upfront fee of \$209,901 for installation and delivery costs, the District is obligated to make monthly payments in the amount of \$3,400.

On April 10, 2007, the District entered a 36-month lease agreement, effective for the 2007-2008 fiscal year, for the leasing of eight modular classrooms and a multi-purpose space used as an extension to the cafeteria. In addition to the upfront fee of \$326,056 for installation and delivery costs, the District is obligated to make monthly payments in the amount of \$5,000.

On June 13, 2008, the District entered a 60-month lease agreement, effective for the 2008-2009 fiscal year, for the leasing of two modular classrooms. In addition to an upfront fee of \$129,805 for installation and delivery costs, the District is obligated to make monthly payments in the amount of \$900.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Contingencies

Lebanon County Earned Income Tax Bureau Settlements

During the years 2004-2007, the Lebanon County Earned Income Tax Bureau may have overpaid or underpaid earned income tax amounts to the District. Accordingly, the Bureau may request that settlement be made with the Bureau. Since the final amount of differences could not be reasonably estimated, no amounts have been reflected in the financial statements.

General Obligation Bonds - Series of 2009

On October 13, 2009, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds, Series of 2009, in an aggregate principal amount of \$10,000,000. The proceeds were used to begin construction on a new elementary school.

Tax Settlement Liability

During the year ended June 30, 2009, the District reached a tentative agreement to settle the appeal of Pennsy Supply, Inc. with the Lebanon County Board of Assessment for real estate tax valuation assessments. Under the settlement, the parties agreed to revised assessments of the Pennsy Supply, Inc.'s parcels beginning with the 2005-2006 years. Under the settlement, the District is required to repay the 2005-2006 assessment adjustment. Subsequent year adjustments will be settled through reduced valuations which will extend through the 2012-2013 fiscal year. The District has recorded approximately \$407,000 in liabilities related to the effects of this settlement in its financial statements, \$287,000 of which is recorded as a long term liability on the statement of net assets.

Note 14. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors, or omissions. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current or the three prior years. Total claims paid for the year ended June 30, 2009, did not exceed \$5,000.

Note 15. Prior Period Adjustment

During the year ended June 30, 2009, the District recorded a prior period adjustment to reflect effects of a fixed asset valuation performed during the year by the District's appraiser. The prior period adjustment of \$2,306,830 increased the net book value of the District's capital assets and the beginning net assets on the government-wide statements. Beginning cost and accumulated depreciation figures were restated in Note 6.

REQUIRED SUPPLEMENTARY INFORMATION

PALMYRA AREA SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

POSTEMPLOYMENT BENEFITS PLAN

Year Ended June 30, 2009

Actuarial 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)
7/1/2008	\$ -	\$ 1,263,692	\$ 1,263,692	0.00%	\$ 13,692,792	9.23%

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of School Directors
Palmyra Area School District
Palmyra, 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 Palmyra Area School District as of and for the year ended June 30, 2009, which collectively comprise the Palmyra Area School District's basic financial statements and have issued our report thereon dated October 26, 2009. 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 Palmyra Area School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Palmyra Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Palmyra Area School District's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

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

A

Camp Hill, Pennsylvania
October 26, 2009

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Board of School Directors
Palmyra Area School District
Palmyra, Pennsylvania

Compliance

We have audited the compliance of Palmyra Area 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, 2009. Palmyra Area School District's major Federal programs are identified in the summary of auditor's results section in 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 Palmyra Area School District's management. Our responsibility is to express an opinion on Palmyra Area School District's compliance based on our audit.

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

In our opinion, Palmyra Area School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2009.

Internal Control over Compliance

The management of Palmyra Area 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 Palmyra Area 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 Palmyra Area School District's internal control over compliance.

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

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

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

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

A

Camp Hill, Pennsylvania
October 26, 2009

PALMYRA AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? ___ Yes X No
- Significant deficiency(ies) identified that is not
 considered to be a material weakness (es)? ___ Yes X None Reported

Noncompliance material to financial statements
noted? ___ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ___ Yes X No
- Significant deficiency(ies) identified that is not
 considered to be a material weakness (es)? ___ Yes X None Reported

Type of auditor's report issued on compliance for the major programs: Unqualified

- Any audit findings disclosed that are
 required to be reported in accordance
 with Section .510(a) of Circular A-133? ___ Yes X No

PALMYRA AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2009

Identification of the major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs/Cluster</u>
84.027	Special Education - Grants to States

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

Auditee qualified as low-risk auditee? X Yes No

Section II -- Financial Statement Findings

A. Significant Deficiency(ies) in Internal Control

There were no findings relating to the financial statement audit required to be reported.

B. Compliance Findings

There was no compliance findings relating to the financial statement audit required to be reported.

Section III -- Federal Award Findings and Questioned Costs

A. Significant Deficiency(ies) in Internal Control

There were no findings relating to the Federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

B. Compliance Findings

There were no findings relating to the Federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

PALMYRA AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2009

	Source Code	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period
U.S. Department of Education				
Passed through the Pennsylvania Department of Education:				
Title I - Grants to Local Educational Agencies	I	84.010	013-080318	07-08
Title I - Grants to Local Educational Agencies	I	84.010	013-090318	08-09
Title I - Academic Achievement Award	I	84.010	077-080318	07-08
Title I - Academic Achievement Award	I	84.010	077-090318	08-09
Title V - Innovative Education	I	84.298	011-080318	07-08
Title II - Improving Teacher Quality	I	84.367	020-080318	07-08
Title II - Improving Teacher Quality	I	84.367	020-090318	08-09
Safe and Drug-Free Schools and Communities	I	84.186	100-090318	08-09
Passed through the Lancaster-Lebanon Area Intermediate Unit:				
Special Education - Grants to States - IDEA Part B	I	84.027	062-09-0-013	08-09
Special Education - Grants to States - IDEA Part B	I	84.027	062-09-0-013	08-09
Total U.S. Department of Education				

Program or Annual Award	Total Received (Refunded) in Fiscal Year	Restated Accrued (Deferred) Revenue at 7/1/2008	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2009
\$ 184,775	\$ 85,850	\$ 85,850	\$ -	\$ -	\$ -
\$ 193,332	142,643	-	193,332	193,332	50,689
\$ 4,152	1,938	1,938	-	-	-
\$ 2,000	800	-	2,000	2,000	1,200
\$ 2,867	-	(798)	798	798	-
\$ 61,900	12,380	6,276	6,104	6,104	-
\$ 63,402	54,948	-	63,402	63,402	8,454
\$ 7,266	4,360	-	7,266	7,266	2,906
	302,919	93,266	272,902	272,902	63,249
\$ 87,110	87,110	-	87,110	87,110	-
\$ 408,377	408,377	-	408,377	408,377	-
	495,487	-	495,487	495,487	-
	798,406	93,266	768,389	768,389	63,249

PALMYRA AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2009

	Source Code	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period
U.S. Department of Agriculture				
Passed through the Pennsylvania Department of Education:				
National School Lunch Program	I	10.555	N/A	07-08
National School Lunch Program	I	10.555	N/A	08-09
School Breakfast Program	I	10.553	N/A	07-08
School Breakfast Program	I	10.553	N/A	08-09
Passed through the Pennsylvania Department of Agriculture:				
Food Distribution	I	10.550	N/A	08-09
Total U.S. Department of Agriculture				
Total Expenditures of Federal Awards				

Test of 25% Rule:

Total Federal Expenditures	<u>\$ 989,848</u>		
Program selected for testing major programs			
Special Education - Grants to States - IDEA Part B	<u>\$ 495,487</u>		
	<u>\$ 495,487</u>	/ 989,848 =	<u>50.06%</u>

Source Codes:

I - Indirect Funding

Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 7/1/2008	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2009
N/A	5,236	5,236	-	-	-
N/A	172,390	-	172,390	172,390	-
N/A	82	82	-	-	-
N/A	4,421	-	4,421	4,421	-
N/A	44,648	-	44,648	44,648	-
	226,777	5,318	221,459	221,459	-
	\$ 1,025,183	\$ 98,584	\$ 989,848	\$ 989,848	\$ 63,249

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the School District's Federal award programs and presents transactions that would be included in financial statements of the District presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.

PALMYRA AREA SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2009

There were no prior year audit findings.