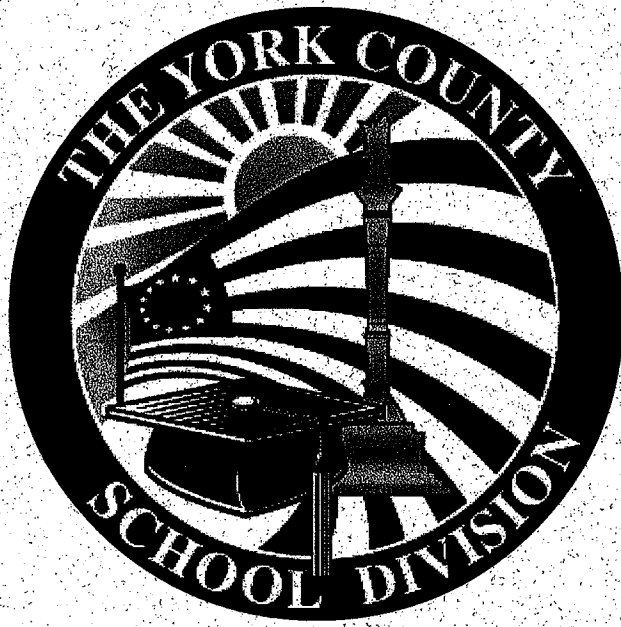


Comprehensive Annual Financial Report



The York County School Division

County of York, Virginia
(A Component Unit of the County of York, Virginia)

*For the Fiscal Year
Ended June 30, 2006*

COMPREHENSIVE ANNUAL FINANCIAL REPORT

The York County School Division Component Unit of the County of York, Virginia

For the Fiscal Year Ended June 30, 2006

Prepared by the Department of Finance

Dennis R. Jarrett
Chief Financial Officer

Karen L. Hendricks
Senior Budget and Financial Analyst

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**THE YORK COUNTY SCHOOL DIVISION
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2006**

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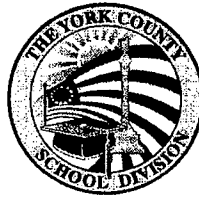
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INTRODUCTORY SECTION

THE YORK COUNTY SCHOOL DIVISION



DIVISION
SUPERINTENDENT
Steven R. Staples, Ed. D.

YORK COUNTY, VIRGINIA

SCHOOL BOARD
Barbara S. Haywood
District 1
Linda S. Meadows
District 2
Mark A. Medford
District 3
R. Page Minter
District 4
Barrent M. Henry
District 5

October 20, 2006

Citizens of York County and Honorable Members of the School Board of the County of York, Virginia:

The Comprehensive Annual Financial Report of the York County School Division (hereafter School Division), a component unit of the County of York, Virginia for the fiscal year ended June 30, 2006, is hereby submitted. Responsibility for the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the School Division. All disclosures necessary to enable the reader to gain an understanding of the School Division's financial activities have been included.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The School Division's MD&A can be found immediately following the report of the independent auditors.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical and compliance. The introductory section includes this transmittal letter, an organizational chart and a list of principal officials. The financial section includes the MD&A, basic and fund financial statements, notes to the financial statements, required supplemental information (RSI) other than MD&A, as well as the independent auditor's report on the MD&A, financial statements and schedules. The statistical section includes selected financial and demographic information, presented on a multi-year basis, where possible. The compliance section includes reports by the independent auditor on compliance and internal control.

The School Division is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and questioned costs, and auditor's reports, is included in the County of York's Comprehensive Annual Financial Report.

Profile of the Reporting Entity and Organization

York County, which was originally named Charles River County, was one of Virginia's eight original "shires" formed in 1634. It was renamed nine years later in 1643 when the river that determines the County's character was given the name of the then Duke of York. York County has played a major role in the development of the nation. Most importantly, it was the location of the culminating battle of the Revolutionary War and the subsequent surrender of Lord Cornwallis and his British army on October 19, 1781.

York County is located in the Atlantic Coast's "urban crescent" on the beautiful Virginia peninsula. Situated midway between Richmond and Virginia Beach, the County's residents help comprise one of the nation's largest metropolitan areas, commonly referred to as Hampton Roads.

The School Division is responsible for elementary and secondary education (kindergarten through twelfth grade) within the County. Total enrollment in fiscal year 2006 was 12,797 and projected enrollment for fiscal year 2007 is 12,970. Students are offered a broad range of services including regular education, special education, career and technical education, and gifted education. The oldest school building was built in the early 1950's and the newest school building was built in the mid 1990's. All school facilities undergo a complete renovation every 20 years.

The elected five member School Board, vested with legislative powers, appoints the Superintendent, the executive and administrative head of the public school division. The School Division is fiscally dependent (i.e., it does not have taxing, levying, or borrowing authority) and is a component unit of the County of York. It derives most of its funding from allocations from the County and the Commonwealth of Virginia. The County Board of Supervisors approves the School Division's operating budget, levies the necessary taxes to finance operations, and approves the borrowing of money and issuance of bonds when necessary. The Board of Supervisors is prohibited from exercising any control over specific appropriations within the operating budget of the School Division. However, the Board of Supervisors may exercise control in total by major categories (e.g., Instruction, Pupil Transportation) as prescribed by the Code of Virginia, as amended.

In accordance with the requirements of the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government (the County of York) and its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable (e.g., a component unit that is fiscally dependent on the primary government). The School Division is considered a component unit of the County of York.

This report includes all funds of the School Division. The School Division has no component units for financial reporting purposes.

Economic Condition and Outlook

York County is fortunate to have an expanding commercial and industrial base, while also enjoying affordable and plentiful housing and a moderate cost of living. As members of the dynamic Hampton Roads community, York County citizens have at their fingertips a wide variety of personal, professional and leisure opportunities, including numerous colleges and universities, theme parks, historical areas and much more. During the year, population grew to more than 63,500 and both residential and commercial tax bases continued to expand.

In May 2004, York County ranked in the top two percent of best counties in a nation-wide quality of life study conducted by American City Business Journals, Inc. York County ranked 37th among the nation's 3,141 counties and independent cities for quality of life among citizens. American City Business Journals' study used 20 categories for the quality of life rating, including median household income, racial diversity, unemployment (York County has very low unemployment), commute times for residents and high school graduation rates.

Economic development in the County had another prosperous year in FY06. Retail growth, tourism related investment and mid-sized light industrial development remained strong in 2006. The focus on the Route 17 commercial corridor in 2005 continued to pay dividends as several commercial redevelopment projects were completed in 2006.

The Lightfoot Corridor remained the fastest growing commercial area of the County in 2006. The completion of the Sentara Williamsburg Regional Medical Center has firmly established this corridor as a commercial and service hub for the greater Williamsburg area. Construction on the Great Wolf Lodge expansion of another 100 suites and new water park attractions is well underway. Phase II of the Williamsburg Market Center, anchored by a 52,000 square foot Ukrops grocery store is nearing completion and will open in October 2006. Construction of the Cedar Valley Shopping Center across from Wal Mart has started and will add another 26,000 square feet of retail space. Existing retail development and projects underway are rapidly approaching a million square feet.

"Riverwalk Landing", the County's \$12 million waterfront dining and shopping destination celebrated its one year anniversary on Memorial Day. This unique development has continued to be positively received by tourists and locals. The project has had a major fiscal impact on Yorktown, almost doubling gross taxable receipts. Gross receipts were \$6.3 million before Riverwalk Landing and in 2006 they are projected to reach \$11.3 million.

In addition to local economic growth, the current period's financial statements were positively impacted by federal grants. In accordance with School Board policy, the School Division accepts all federal funds which are available, provided there is a specific need for such funds. In continuing to implement that policy, the School Division applied for and received funds from the federal government for programs such as Impact Aid, No Child Left Behind, Special Education Title VIB, and one-time Katrina funds for students displaced to York County by Hurricanes Katrina and Rita. In total, federal grant revenue totaled 12.7% of total General Fund Revenue.

Accounting System

In developing and evaluating the School Division's accounting system, consideration is given to the adequacy of the internal control structure. The internal control structure is designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the School Division's internal control structure adequately safeguards assets and provides reasonable assurance of the proper recording of financial transactions. The accounting system is organized and operated on a function basis. Each function, relating to a specific area of operation, includes a report of appropriations, expenditures, encumbrances, and fund balances for each line item appropriate for that function.

Budgetary Controls

The School Division's budgetary controls are an integral part of the School Division's internal control system. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the School Board and County Board of Supervisors. Activities of the General Fund and Special Revenue Fund are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects Fund.

Major Initiatives

In 2005-06, the York County School Division began work on or continued the expansion of several new initiatives that will help continue the tradition of excellence in York County:

The York County School Division continues to meet the academic requirements of the state, to maintain its own tradition of excellence, and to provide a well-rounded approach to education. The Division has fine-tuned existing academic programs, added new courses to the Program of Studies, consistently correlated its curriculum with the state Standards of Learning (SOL), and provided professional development opportunities that expand the experience and expertise of the Division's instructional staff. Highlights of 2005-06 curriculum and professional development efforts include:

◆ Community Surveys

A survey of parents was conducted in the spring of 2006 to assess parent satisfaction in many areas including school environment, effectiveness of how schools communicate with parents, instructional programming, and how safe are schools to list a just a few of the topics surveyed. There was a 78% return rate for the survey. Overall conclusions of the survey include: parents think the school environment is safe and conducive to learning; ninety-seven percent of the respondents were “satisfied” with the educational program; and ninety-three percent of the respondents were either “satisfied” or “very satisfied” with how the school informs the parents.

In December 2003, the school division commissioned a community opinion survey that was designed to gather information regarding satisfaction with division programs and initiatives and to determine the issues related to public education that our community believed to be the most important. The survey as conducted by an outside marketing research firm to ensure data was properly tabulated and analyzed. The survey results were very positive. Most respondents were either “satisfied” or “very satisfied” with the many aspects of the School Division.

◆ Curriculum Development

The School Division's curriculum development effort is an ongoing process of development and review that emphasizes the Standards of Learning within a rich instructional program. Curriculum development provides descriptive and reliable guides for teachers and ensures that York County School Division students are taught in a manner that prepares them adequately for SOL tests. As new courses that broaden students' interests and guide them to meaningful and appropriate career paths are added to the *Program of Studies K-12*, curriculum is written for each of these courses. In addition, a comprehensive and user-friendly *Secondary Program of Studies Registration and Information Guide*, containing all middle and high school courses as well as general academic information, is published to assist students and their parents in planning secondary school course work.

In FY06 a forensic science curriculum was implemented in the middle schools. Curriculum for math labs and reading works was also developed for the middle school curriculum program.

◆ No Child Left Behind

No Child Left Behind (NCLB) legislation requires annual testing of at least 95% of all students to measure progress in reading and math, and requires schools and school divisions to meet targets for achievement in four subgroups. The subgroups are students with disabilities, Limited English Proficient students, economically disadvantaged students (based on free/reduced lunch status), and major racial/ethnic groups.

NCLB sets annual objectives (or targets) for student participation and performance on these reading and math tests. As we move closer to 2014 – the 100%-proficiency deadline – the Annual Yearly Progress (AYP) bar will be raised each school year. For a school or school division to “make AYP” it must meet or exceed all targets for participation in statewide testing, achievement in reading and math, and

attendance (elementary and middle schools) or graduation (high schools). Missing a single target results in a school or school division not making AYP. Eighteen of 19 division schools in York County made AYP last school year.

◆ Virginia Standardized Tests (Standards of Learning)

Standards of Learning (SOL) tests are administered to students in grades 3, 5, & 8, and students enrolled in certain high school courses. Students are required to earn a certain number of verified credits to be eligible for a standard or advanced high school diploma. Verified credits for graduation will be based on achievement by the student of a passing score on the required end-of-course SOL tests.

Based on spring 2005 SOL test results, the York County School Division had all elementary, middle, and high schools *Fully Accredited*. All York County Schools have achieved the state's highest accreditation ranking (Fully Accredited) in school years 2002, 2003, 2004 and 2005.

◆ Scholastic Aptitude Test (SAT)

The total combined mean of math and verbal scores on the SAT continue to be above the state and national level for York County School Division students.

◆ Virtual High School

The York County Virtual High School began in FY03 as a pilot to serve homebound and alternative education students. The goal of the Virtual High School is to offer anytime, anywhere education to all students in York County. Coursework offered on-line by qualified York County teachers provides students with opportunity for expanded course selection and solutions to course conflicts. The Virtual High School (VHS) was expanded again in FY06 so more students can take advantage of this new, effective instructional model. The VHS has been so successful that student slots have been purchased by other school divisions and the Commonwealth of Virginia so that students across the state could take advantage of this unique instructional method. The Division entered into an agreement with WHRO (a public educational media corporation) in FY06 for the sale of Virtual High School programs and coursework for use by WHRO across the state.

◆ Instructional Technology

While all Division schools have integrated technology into the classroom and instructional program, seven schools are utilizing mobile laptops to integrate technology into everyday instruction. A mobile lab is an innovative alternative to a hard-wired classroom lab and creates more flexibility in the computer-learning environment. These labs consist of 30 laptops on rolling tables that can be easily transported from room to room. A teacher can use as many or as few of these computers as needed – allowing multiple classrooms to use the lab at the same time, something that is not feasible in a standard computer lab.

- ◆ Division continues to grow with the community.

Several construction projects were started or completed during the 2005-06 school year:

- Completed construction of a band room and storage area at Grafton High School.
- Completed construction of a practice gymnasium at Tabb High School.
- Began a \$12 million addition and renovation of York High School. The construction work for a major renovation and addition is scheduled to be completed in fiscal year 2007. Scope of the project included replacement of the HVAC and mechanical system, lighting, floor and ceiling.
- Began a \$2.5 million addition and renovation of the School Board Office. The construction work includes the renovation of approximately 15,000 square feet and the addition of approximately 10,000 square feet.

◆ Future Initiatives

In the future, the School Division will continue to focus resources on maintaining or reducing student to teacher ratios. Available revenues will also be directed toward programs and initiatives that will enhance the School Division's ability to continue to meet or exceed the State Standards of Learning and the requirements of the federal *No Child Left Behind* legislation.

Maintain a competitive compensation plan for licensed and non-licensed staff.

Major facility renovations planned for fiscal year 2007 include the completion of the School Board Office building renovation along with classroom additions and renovations at York High School. Major capital improvement projects planned for the future are the addition and renovation of Yorktown Middle School, the renovation of the athletic fields at York High School, and the addition of 10 classrooms to Dare Elementary School. The additional classroom space is needed to meet classroom space needs for students presently enrolled that exceed building capacity in the School Division.

Cash Management

Cash and temporary investments pertaining to the School Division's funds (except school activity account funds) are pooled and invested with the cash and temporary investments of the County. The County Treasurer, through daily activity with several local banking institutions, carries out an aggressive cash management program. Temporary idle funds are invested promptly in

repurchase agreements and other instruments that are secured or collateralized by governmental securities as required by the Code of Virginia.

Independent Audit

An annual audit of the books of accounts, financial records, and transactions of all departments of the School Division has been performed by Cherry, Bekaert and Holland, L.L.P., Certified Public Accountants. The auditor's report, which includes their unqualified opinion on the basic financial statements of the School Division, is contained in this report.

Risk Management

The School Board's risk management program is designed to protect the investment of taxpayers by identifying and reducing risks that confront the School Division. The School Board manages the program with a combination of in-house staff and third-party administrators. For fiscal year 2006, the County and the School Division contracted with a third party to administer a joint deductible workers' compensation program with risk of up to \$200,000 for each occurrence subject to a \$600,000 annual aggregate on the combined claims. The County and the School Division continue to effectively manage the joint deductible workers' compensation program.

Instructional Leadership Award

The York County School Division received special designation from the Southern Association of Colleges and Schools Council on Accreditation and School Improvement as a 2005-2006 *Super System for Quality Schools*. Only 54 school divisions out of 134 in Virginia were awarded this honor, given to divisions that have all eligible elementary, middle, and secondary schools accredited.

Financial Reporting Certificate Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the York County School Division for its comprehensive annual financial report for the fiscal year ended June 30, 2005. In addition, the Association of School Business Officials of the United States and Canada (ASBO) awarded a Certificate of Excellence in Financial Reporting to the York County School Division for its comprehensive annual financial report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement from the GFOA or a Certificate of Excellence from ASBO, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate is the highest form of recognition awarded in the field of governmental financial reporting.

A Certificate is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements and we are submitting it to the GFOA to determine its eligibility for

another certificate. We also believe that our current comprehensive annual financial report continues to meet the Certificate of Excellence program requirements and we are submitting it to ASBO to determine its eligibility for another certificate.

Budget Presentation Awards

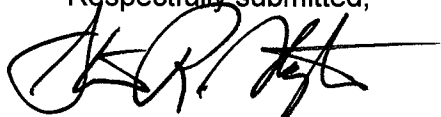
The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the York County School Division for its annual budget for the fiscal year beginning July 1, 2005. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device. In addition, the Association of School Business Officials of the United States and Canada (ASBO) presented a Meritorious Budget Award to the York County School Division for its annual budget for the fiscal year beginning July 1, 2005. This program is designed to recognize school systems for achieving excellence in their school system budget presentation. The foundation of this program is a set of criteria developed by ASBO.

Both the GFOA and ASBO budget presentation awards are valid for a period of one year only. We believe that our budget for the current fiscal year beginning July 1, 2006 continues to meet both programs requirements and we have submitted it to the GFOA and ASBO to determine its eligibility for another award.

Acknowledgments

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated service of the entire staff of the Department of Finance. We would also like to thank the members of the School Board for their interest and support in planning and conducting the financial operations of the School Division in a responsible and progressive manner.

Respectfully submitted,



Steven R. Staples, Ed. D.
Division Superintendent



Dennis R. Jarrett
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to
The York County
School Division,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emen

Executive Director

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

YORK COUNTY SCHOOL DIVISION

**For its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2005**

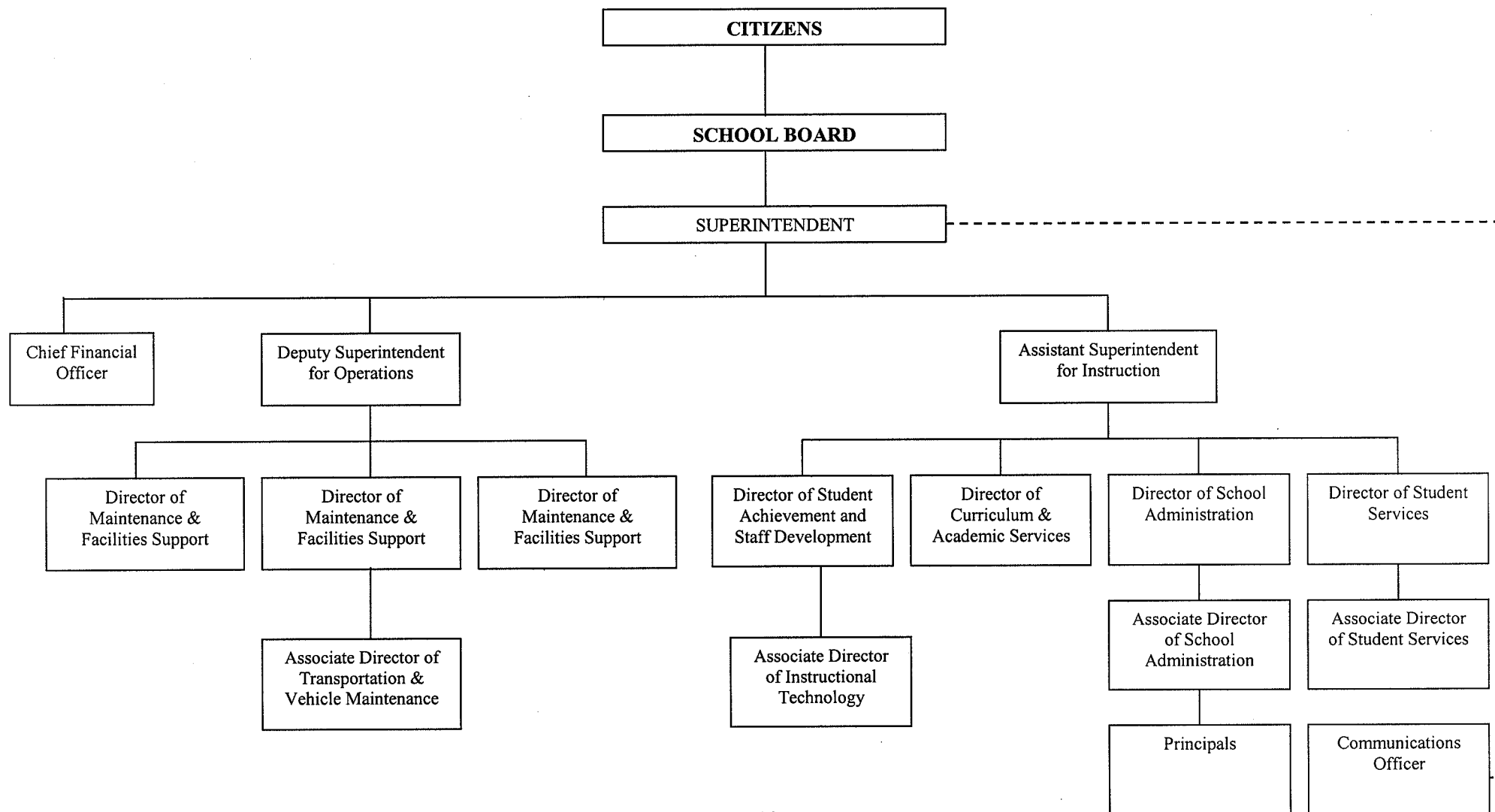
Upon recommendation of the Association's Panel of Review which has judged that the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

President

Interim Executive Director

YORK COUNTY SCHOOL DIVISION ORGANIZATION CHART

As of June 30, 2006



THE YORK COUNTY SCHOOL DIVISION

Members of the School Division and School Division Officials
June 30, 2006

School Division

Mark A. Medford, Chair
R. Page Minter, Vice-Chair
Barbara S. Haywood
Barrent M. Henry
Linda S. Meadows

School Officials

Superintendent of Schools
Deputy Superintendent for Operations
Assistant Superintendent for Instruction
Chief Financial Officer
Director of Student Services
Director of Curriculum and Academic Services
Director of Staff Development and Student Achievement
Director of School Administration
Director of Human Resources
Director of Maintenance and Facilities Support
Director of Information Services

Dr. Steven R. Staples
Richard M. Hixson
Dr. James R. Tucker
Dennis R. Jarrett
Dr. Suzanne M. Creasey
Dr. Lucia V. Sebastian
Dr. Jennifer B. Parish
Dr. Carl L. James
Dr. Judy Davis-Dorsey
James M. Wilkins
Douglas M. Meade

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FINANCIAL SECTION

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REPORT OF INDEPENDENT AUDITORS

Members of the School Board
York County School Division

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the York County School Division, a component unit of the County of York, Virginia, as of and for the year ended June 30, 2006 which collectively comprise the School Division's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the York County School Division's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit 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 the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and aggregate remaining fund information of the York County School Division as of June 30, 2006, and the respective changes in financial position 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 20, 2006, on our consideration of the York County School Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 19 through 34, the budgetary comparison schedules of the general fund and the other required supplementary information on pages 68 through 77 listed in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 made for the purpose of forming opinions on the financial statements that collectively comprise the York County School Division's basic financial statements. The introductory section, other supplemental information, and the statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental 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. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Bekart & Holland, L.L.P.

Richmond, Virginia
October 20, 2006

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York County School Division
Management's Discussion and Analysis
For the Year Ended June 30, 2006

The discussion and analysis of the York County School Division's (hereafter School Division) financial performance provides an overall review of the School Division's financial activities for the fiscal year ended June 30, 2006 (FY 2006). The intent of this discussion and analysis is to look at the School Division's financial performance as a whole; readers should also review the transmittal letter at the front of this report and the School Division's financial statements and notes to the basic financial statements which immediately follow this section, to enhance their understanding of the School Division's financial performance.

Financial Highlights

- For the governmental funds, General Fund revenues accounted for \$103.9 million or 81.8% of all revenues and expenditures were \$103.9 million or 84.8% of all expenditures, compared to \$95.6 million (94.1%) in revenues and \$95.4 million (93.2%) in expenditures in FY 2006.
- Net assets increased by \$15.7 million to a total of \$127.2 million. The value of net assets reflects the financial health of the School Division and includes certain assets procured with debt. The School Division is a component unit of, and fiscally dependent on the County of York. As such, all debt related to School Division assets is shown on the County's statement of net assets. The most significant reason for the \$15.7 million increase in net assets was the addition of construction in progress for projects that began in FY 2006 but were not completed, and funded through a contribution from York County.
- Food Services ended the fiscal year with a fund balance of \$471,007, an increase of \$63,056 over the beginning of year fund balance. This is a significant improvement over the fund balance decrease of \$2,661 in FY 2005.

Using This Comprehensive Annual Financial Report

The Comprehensive Annual Financial Report consists of four sections: introductory, financial, statistical, and compliance.

As illustrated in Figure A-1, the financial section of this annual report consists of three parts: *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*.

The basic financial statements include two kinds of statements that present different views of the School Division.

- The first two statements are *School Division-wide financial statements* that provide both *short-term* and *long-term* information about the School Division's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School Division, reporting the School Division's operations in *more detail* than the School Division-wide statements.
- The *governmental funds statements* tell how basic services, such as regular and special education, were financed in the *short term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the School Division acts solely as a *trustee* or *agent*.

The basic financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements with a comparison of the School Division's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

FIGURE A-1

Organization of York County School Division Annual Financial Report

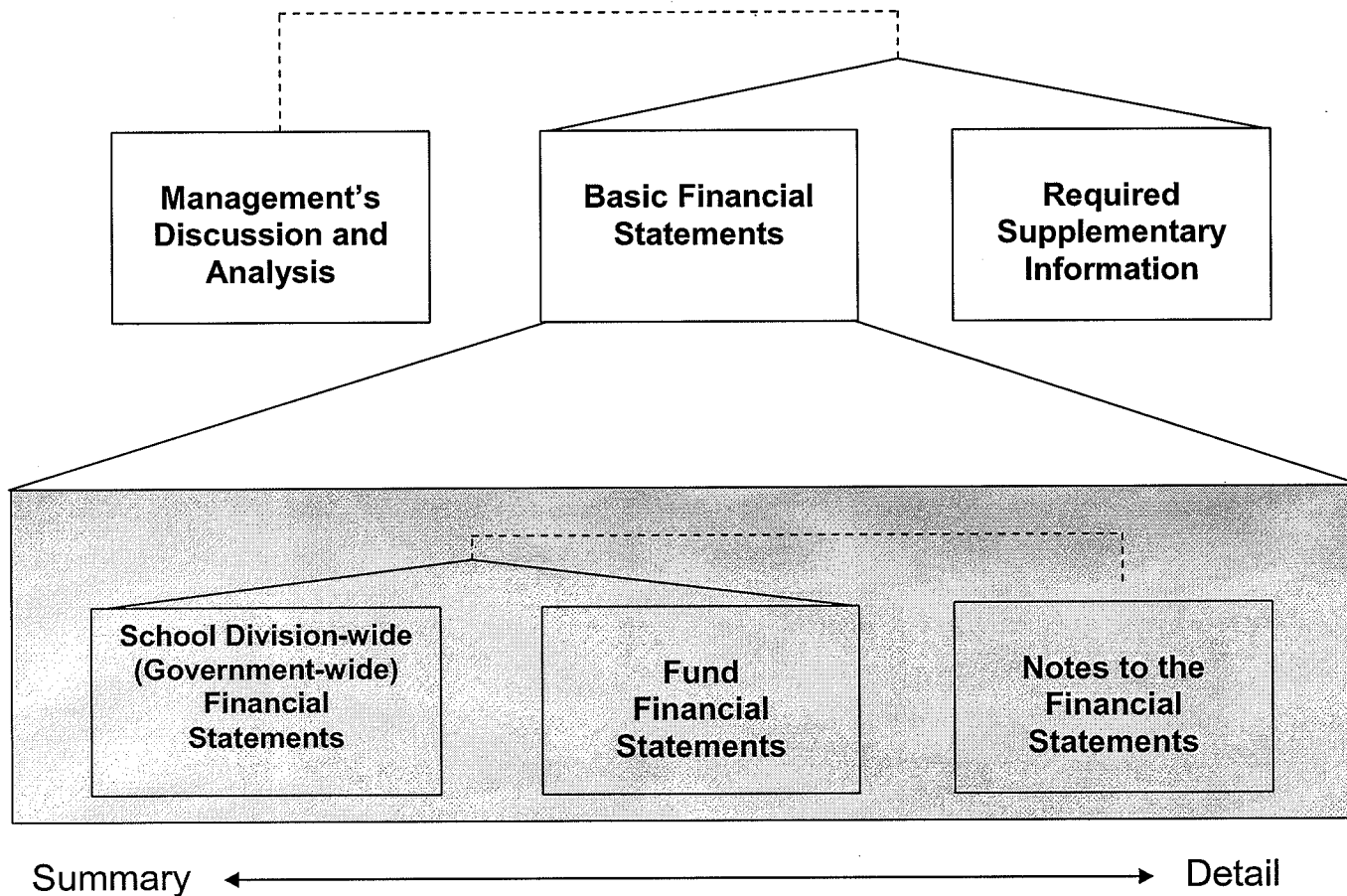


Figure A-2 summarizes the major features of the School Division's financial statements, including the portion of the School Division's activities they cover and the types of information they contain. The remainder of the overview section of the MD&A highlights the structure and contents of each of the financial statements.

FIGURE A-2

Major Features of the School Division-Wide and Fund Financial Statements			
	School Division-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire School Division (except fiduciary funds)	The activities of the School Division that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the School Division administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures, and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

School Division-wide Statements

The School Division-wide statements report information about the York County School Division as a whole using accounting methods similar to those used in private-sector companies. While this document contains a number of funds used by the School Division to provide programs and activities, the view of the School Division, as a whole, looks at all financial transactions and asks the question, “How did we do financially during FY 2006?” The Statement of Net Assets and the Statement of Activities answer this question. These statements report all of the assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

The two School Division-wide statements report the School Division’s *net assets* and how they have changed. Net assets—the difference between the School Division’s assets and liabilities—are only one way to measure the School Division’s financial health or position.

- Over time increases or decreases in the School Division’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School Division, additional non-financial factors may also be relevant, such as changes in the County tax base, the condition of school buildings and other facilities, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School Division reports only activities related to governmental-type activities, since it has no business-type activities. The School Division’s governmental-type activities include: instruction, administration/attendance and health, transportation, operations and maintenance, food service, and interest on capital leases and capital projects.

Fund Financial Statements

The fund financial statements provide more detailed information about the School Division’s most significant or “major” funds. Funds are accounting devices that the School Division uses to help keep track of specific sources of funding and spending for particular purposes.

The School Division has two types of funds:

- *Governmental Funds*: Most of the School Division’s activities are reported in governmental funds, which focus on how much money flows into and out of those funds and the balances remaining at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School Division’s general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer resources that can be spent in the near future to finance educational programs. Because the governmental funds information does not encompass the additional long-term focus of the School Division-wide statements, additional information has been added in the form of a reconciliation between the total fund balances of the governmental funds and the total net assets of the School Division-wide activities.

Fund Financial Statements (Continued)

- *Fiduciary Funds:* The School Division is trustee or fiduciary for the York County School Board Benefit and Pension Trust Fund. All of the fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the division-wide statements because the School Division cannot use these assets to finance its operation. The student activity monies are also accounted for in this fund type, as an agency fund.

Financial Analysis of the School Division as a Whole

Net Assets:

The condensed statement of net assets below describes the financial position of the School Division on June 30, 2006. The School Division's financial position improved during fiscal year 2006. The largest portion of the School Division net assets reflects its investment in capital assets (buildings, land, equipment, and construction-in-progress). Capital assets account for 93.2% of the total net assets and have increased by \$10.6 million since June 30, 2005. The only debt netted against capital assets is for capital leases. As a component unit (School Division) in Virginia, the School Division does not have the authority to issue debt. All debt is issued by the County of York and, therefore, is shown as a liability on its statement of net assets. In years where there are substantial additions to capital assets that are funded through the issuance of County debt, the School Division will have substantial increases in net assets invested in capital assets, net of related debt. A more detailed discussion on debt is contained in a later section entitled "Outstanding Long-Term Debt".

The other components of net assets are restricted net assets and unrestricted net assets. Restricted net assets represent those resources that have externally imposed constraints on their use. Restricted net assets represent those resources that have externally imposed constraints on their use. Unrestricted net assets are those resources that may be used to meet the obligations placed on the School Division by its creditors and to pay for ongoing operations of the School Division. Restricted net assets increased \$5.5 million from June 30, 2005 due to unspent bond proceeds contributed by York County for capital projects that were started but not completed at year end. At the end of the fiscal year unrestricted net assets amounted to \$3.3 million, remaining virtually unchanged from June 30, 2005. All three components of net assets show positive balances.

Financial Analysis of the School Division as a Whole (Continued)

Net Assets: (Continued)

Condensed Statement of Net Assets				
(in millions)				
	Governmental Activities 2006	Governmental Activities 2005	Total Percentage Change	
Assets				
Current and other assets	\$ 28.2	\$ 19.6	43.9%	
Capital assets	119.0	108.1	10.1%	
Total assets	147.2	127.7	15.3%	
Liabilities				
Current liabilities	18.6	14.5	28.3%	
Long-term liabilities	1.4	1.7	-17.6%	
Total liabilities	20.0	16.2	23.5%	
Net assets				
Invested in capital assets, net of related debt	118.5	107.9	9.8%	
Restricted	5.4	0.0	100.0%	
Unrestricted	3.3	3.6	-8.3%	
Total net assets	\$ 127.2	\$ 111.5	14.1%	

Financial Analysis of the School Division as a Whole (Continued)

Net Assets: (Continued)

The following table summarizes the changes in the School Division's net assets for the year ended June 30, 2006.

Changes in Net Assets (in millions)			
	Governmental Activities 2006	Governmental Activities 2005	Total Percentage Change
Revenues			
Program revenues			
Charges for services	\$ 3.2	\$ 3.2	0.0%
Operating grants and contributions	56.7	52.0	9.0%
Capital grants and contributions	1.3	1.7	-23.5%
General revenues			
County	54.3	34.6	56.9%
Shared intergovernmental revenues	10.3	9.3	10.8%
Revenues from the use of money and property	0.9	0.5	80.0%
Miscellaneous revenues	0.3	0.4	-25.0%
Total revenues	<u>127.0</u>	<u>101.7</u>	24.9%
Expenses			
Instruction	\$ 81.9	\$ 76.6	6.9%
Administration/attendance and health	7.5	6.4	17.2%
Transportation	6.7	5.3	26.4%
Operations and maintenance	11.2	10.9	2.8%
Food service	4.0	3.9	2.6%
Interest on capital leases	0.0	0.0	0.0%
Total expenses	<u>111.3</u>	<u>103.1</u>	8.0%
Change in net assets	<u>15.7</u>	<u>(1.4)</u>	1214.5%
Net assets - beginning of year	<u>111.5</u>	<u>112.9</u>	-1.2%
Net assets - end of year	<u>\$ 127.2</u>	<u>\$ 111.5</u>	14.1%
Note: Totals may not add due to rounding.			

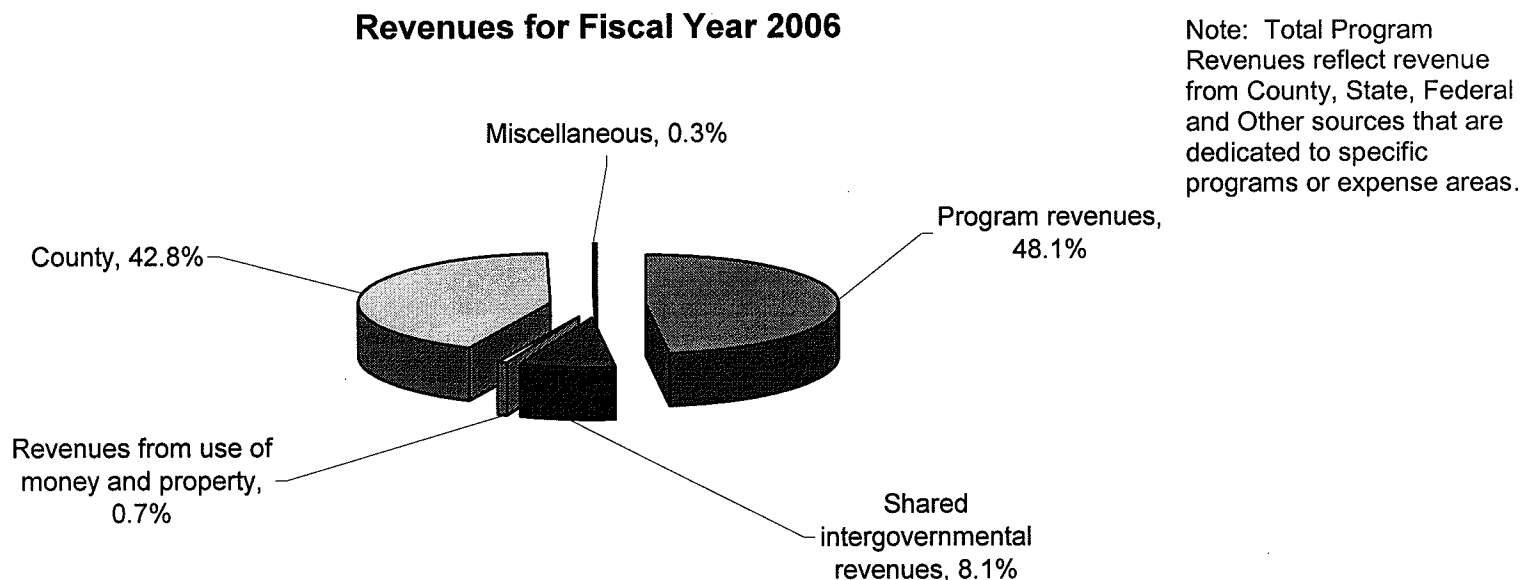
Financial Analysis of the School Division as a Whole *(Continued)*

Changes in net assets:

For the fiscal year ended June 30, 2006, revenues from governmental activities totaled \$127.0 million. State and federal revenue for operating grants and contributions account for 53.8% of the School Division's resources as compared to 51.1% for the fiscal year ended June 30, 2005. This includes state funding for meeting the Standards of Quality and federal impact aid. Revenues from the County totaled \$54.3 or 42.8% of the total revenues as compared to \$34.6 or 34.0% for the fiscal year ended June 30, 2005. The increase in County funding relates to a major portion of the capital projects in FY06 being funded in advance of the anticipated FY07 project completion date.

The total cost of all programs was \$111.3 million in FY 2006. Instruction made up 73.6% of the total costs of the School Division in FY 2006 and 74.3% in FY 2005. The School Division's operations and maintenance activities accounted for 10.0% of total costs for FY 2006 while administration/attendance and health amounted to 6.8% of total costs.

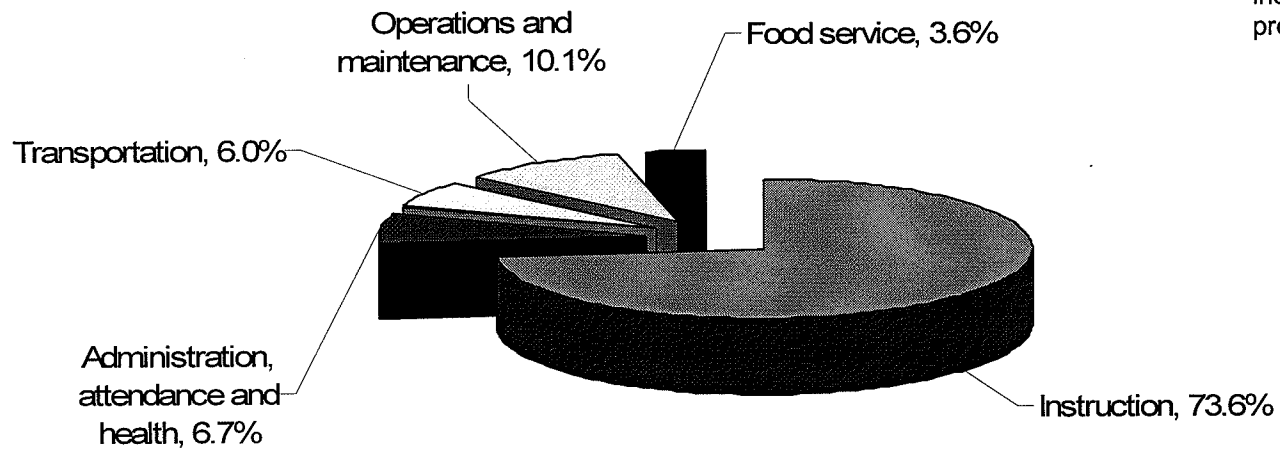
For the fiscal year ended 2006, revenues exceeded expenses by a total of \$15.7 million. A substantial portion of the increase in Net Assets results from the funding of construction in progress for capital projects through County contributions.



Financial Analysis of the School Division as a Whole (Continued)

Changes in net assets: (Continued)

Expenses for Fiscal Year 2006



Note: Expenses are summarized for display purposes. Each section may include one or more specific program areas.

Governmental Activities

The three primary sources of revenue for the School Division are from the County of York, the Commonwealth (State) of Virginia, and the United States Department of Education. State and federal government funding is included in Total Program Revenues. Funding from the County is provided by the York County Board of Supervisors.

State funding is provided through a formula that calculates the State share of the cost of education, as determined in the Standards of Quality, including basic aid and categorical funds. Sales tax (Shared Intergovernmental revenue) revenue totaled \$10.3 million in FY 2006.

Federal funding comes to the School Division from federal grants and impact aid. Impact aid is designed to reimburse school districts for the loss of revenue due to the presence of the federal government. This is an important reimbursement source of revenue to the School Division since the federal government does not pay property taxes.

The following table shows, for government-type activities, the total cost of services and the net cost of services. The net cost of services reflects the support to be provided by tax revenue, state aid, and federal aid not restricted to specific programs.

Net Cost of Governmental Activities				
(in millions)				
	Total cost of services 2006	Total cost of services 2005	Net cost of services 2006	Net cost of services 2005
Instruction	\$ 81.9	\$ 76.6	\$ 24.7	\$ 23.5
Administration/attendance and health	7.5	6.4	7.5	6.4
Transportation	6.7	5.3	6.7	5.3
Operations and maintenance	11.2	10.9	11.2	10.9
Food service	4.0	3.9	0.1	0.2
Total expenses	\$ 111.3	\$ 103.1	\$ 50.2	\$ 46.3

Governmental Activities *(Continued)*

Significant changes in governmental activities include:

- The cost of all governmental activities was \$111.3 million.
- The net cost of governmental activities was \$50.2 million.
- The federal and state governments subsidized certain programs with operating and capital grants and contributions of \$57.9 million.
- Most of the School Division's net cost of services of \$50.2 million was funded by the County and state taxpayers.
- Food Service's net cost of services of \$0.1 million was funded primarily by a one-time payment related to a performance contract with the food service management company (Aramark).

Financial Analysis of the School Division's Funds

The strong financial performance of the School Division is also reflected in its major governmental funds, the General Fund and the Capital Projects Fund. As the School Division completed the year, the General Fund reported a fund balance of \$6.1 million or a \$0.02 million increase from the fund balance reported for the fiscal year ended June 30, 2005. The Capital Projects Fund reported a fund balance at the end of FY 2006 of \$5.9 million or \$4.9 million increase from the fund balance reported for the fiscal year ended June 30, 2005. The increase of \$4.9 million relates unspent revenue from the County to fund the completion of capital projects. The Food Service Fund, the non-major governmental fund, reported a fund balance of \$0.5 million at the end of FY 2006, representing only a minor change from the fiscal year ended June 30, 2005 reported fund balance.

General Fund Budgetary Highlights

The School Division's budget is prepared in accordance with Virginia School Laws. The most significant budgeted fund is the General Fund. During the course of FY 2006, the School Division amended its general fund budget as follows:

- Amended appropriation of \$3,943,555 to reflect the carryover of encumbrances from FY 2005 to FY 2006.
- Supplemental appropriations totaling \$1,365,011 for increases in state revenue and federal grant allocations.
- Amended appropriation of \$41,739 for carryover of electronic classroom funds.

The School Division's final budget for the General Fund anticipated that revenues and expenditures would be equal. The actual results for the year mimic expectations and show a net change in fund balance of \$18,764. General Fund revenues were \$8.7 million or 9.1% greater in FY 2006 as compared to FY 2005. This increase, for the most part, was driven by increases in state, federal and county funding. State revenue increased \$3.6 million or 7.3% in FY 2006 as compared to the previous fiscal year.

Capital Assets

At the end of FY 2006, the School Division had \$119.0 million (a 10.1% increase from FY 2005) invested in furniture and equipment, land, buildings, and construction in progress in governmental-type activities. The following table displays FY 2006 balances, net of accumulated depreciation. More detailed information about capital assets can be found in Note 3 to the financial statements.

Capital Assets <i>(Net of Accumulated Depreciation)</i> (in millions)			
	Governmental Activities 2006	Governmental Activities 2005	Total Percentage Change
Land	\$ 4.9	\$ 4.6	6.5%
Construction in progress	12.0	1.1	990.9%
Depreciable capital assets	102.1	102.4	-0.3%
Total	\$ 119.0	\$ 108.1	10.1%

Major capital asset additions for FY 2006 included:

- Completed construction of a band room and storage area at Grafton High School.
- Completed construction of a practice gymnasium at Tabb High School.
- Began a \$12 million addition and renovation of York High School. The construction work for a major renovation and addition is scheduled to be completed in fiscal year 2007. Scope of the project included replacement of the HVAC and mechanical system, lighting, floor and ceiling.
- Began a \$2.5 million addition and renovation of the School Board Office. The construction work includes the renovation of approximately 15,000 square feet and the addition of approximately 10,000 square feet.

The following major capital projects are included in the School Division's FY 2007 capital budget:

- Construction on a major addition and renovation of Yorktown Middle School. The renovation will include HVAC, lighting, floor, ceiling, painting, electrical and the addition of classrooms for the New Horizons Regional Education Center autistic program. Temporary mobile units housed on the campus of York High School will be used as classrooms during the renovation of the building.
- Addition of HVAC in the gymnasium at Grafton High School.

Funding for the FY 2007 capital projects includes \$11.7 million in appropriated funds from the County of York.

Outstanding Long-Term Debt

School Divisions in the Commonwealth of Virginia are fiscally dependent, in that they do not have taxing authority and rely upon appropriations from the County/City. Only government entities with taxing authority are legally permitted to incur long-term debt, therefore all debt required for capital projects for the School Division is incurred by the County. As a result, the County of York government retains the liability for the portion of general obligation bonds issued to fund capital projects for the School Division.

The County Government appropriates funds to the School Division for the education of the students of the County of York. The School Board, in its annual budget process and in consultation with the County, determines the amount of these funds to support the financing of capital projects for the School Division.

Outstanding Long-Term Debt (continued)

The School Division's long-term debt is related to compensated absences, worker's compensation claims, and capital leases on equipment. Long-term debt had a net increase of approximately \$0.3 million, due to an increase in compensated absences and capital leases payable. The following table lists out the long term debt for the School Division.

York County School Division - Outstanding Debt (in millions)			
	Governmental Activities 2006	Governmental Activities 2005	Total Percentage Change
Compensated absences	\$ 2.1	\$ 1.8	16.7%
Workers' compensation claims	1.8	2.1	-14.3%
Capital leases payable	0.5	0.2	150.0%
Total	\$ 4.4	\$ 4.1	7.3%

Additional information on the School Division's long-term debt can be found in Note 5 on page 59 of this report.

Factors influencing future budgets:

The FY 2007 budget provides funding for the following significant costs:

- A step increase and a 3.5% average market salary adjustment for licensed staff (teachers) and a 2.0% average market salary adjustment for non-licensed staff.
- A significant increase in employer retirement contributions for employee participation in the State retirement system.
- Funding to support the capital projects included in the FY 2007 – 2012 CIP.

At the time these financial statements were prepared and audited, the School Division was aware of the following existing circumstances that could significantly affect its financial health in the future.

- The Commonwealth of Virginia will be considering the second year of the biennium budget (FY 2008) during the 2007 General Assembly session. The impact on the School Division of the new biennium budget is unknown at this time.

Factors influencing future budgets *(continued)*

- Dare Elementary will undergo an addition of 10 classrooms in FY 2007. The total construction cost of the project is expected to be \$2.7 million.
- The Federal government will be considering the budget for Impact Aid for FY 2008 during the next Congressional session. The impact on the School Division of the new Federal budget is also unknown at this time.

Contacting the York County School Division's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, parents, students, and creditors with a general overview of the School Division's finances and to show the School Division's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Department at York County School Division, 302 Dare Road, Yorktown, Virginia 23692, (757) 898-0303.

BASIC FINANCIAL STATEMENTS

The York County School Division

Statement of Net Assets June 30, 2006

	Governmental Activities
Assets	
Cash and investments	\$ 5,045,070
Restricted cash and investments	5,331,245
Other receivables	18,874
Due from primary government	14,020,358
Due from other governments	2,619,004
Prepaid expenses	1,165,320
Capital assets:	
Land	4,871,494
Construction in progress	12,006,913
Buildings, improvements and equipment, net	102,100,277
Total capital assets	118,978,684
Total assets	147,178,555
Liabilities	
Vouchers and accounts payable	3,191,645
Retainage payable	564,842
Salaries, taxes and benefits payable	11,789,814
Unearned revenue - prepaid lunches	57,742
Due to primary government	118,359
Due within one year	2,840,518
Due in more than one year	1,436,215
Total liabilities	19,999,135
Net assets	
Invested in capital assets, net of related debt	118,521,776
Restricted for:	
Capital projects	5,331,245
Unrestricted	3,326,399
Total net assets	\$ 127,179,420

The accompanying notes are an integral part of the basic financial statements.

The York County School Division

**Statement of Activities
Year Ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Primary government:					
Governmental activities:					
Instructional	\$ 81,915,003	\$ 376,286	\$ 55,531,174	\$ 1,272,416	\$ (24,735,127)
Administrative, attendance, and health services	7,517,621	-	-	-	(7,517,621)
Transportation	6,716,845	-	-	-	(6,716,845)
Operations maintenance	11,140,232	-	-	-	(11,140,232)
Food services	4,016,427	2,804,096	1,139,720	-	(72,611)
Interest on capital leases	7,126	-	-	-	(7,126)
Total governmental activities	<u>111,313,254</u>	<u>3,180,382</u>	<u>56,670,894</u>	<u>1,272,416</u>	<u>(50,189,562)</u>
Total primary government	<u>\$ 111,313,254</u>	<u>\$ 3,180,382</u>	<u>\$ 56,670,894</u>	<u>\$ 1,272,416</u>	<u>(50,189,562)</u>
General revenues:					
Payments from the County of York					54,314,617
Shared intergovernmental revenues (unrestricted)					10,333,640
Revenues from use of money and properties					886,946
Miscellaneous					321,693
Total general revenues and transfers					<u>65,856,896</u>
Change in net assets					15,667,334
Net assets - beginning					111,512,086
Net assets - ending					<u>\$ 127,179,420</u>

The accompanying notes are an integral part of the basic financial statements.

The York County School Division

**Balance Sheet
Governmental Funds
June 30, 2006**

	<u>General</u>	<u>Capital Projects</u>	<u>Non-major Governmental Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and temporary investments	\$ 1,779,101	\$ 2,710,068	\$ 555,901	\$ 5,045,070
Restricted cash and temporary investments	-	5,331,245	-	5,331,245
Other receivables	6,654	10,140	2,080	18,874
Due from primary government	14,020,358	-	-	14,020,358
Due from other governments	2,573,621	-	45,383	2,619,004
Prepaid expenditures	1,165,320	-	-	1,165,320
Total assets	<u>\$ 19,545,054</u>	<u>\$ 8,051,453</u>	<u>\$ 603,364</u>	<u>\$ 28,199,871</u>
Liabilities and fund balances				
Liabilities:				
Vouchers and accounts payable	\$ 1,613,986	\$ 1,573,566	\$ 4,093	\$ 3,191,645
Retainage payable	-	564,842	-	564,842
Salaries, taxes and benefits payable	11,719,292	-	70,522	11,789,814
Due to primary government	118,359	-	-	118,359
Deferred revenue	-	-	57,742	57,742
Total liabilities	<u>13,451,637</u>	<u>2,138,408</u>	<u>132,357</u>	<u>15,722,402</u>
Fund balances:				
Reserved for:				
Encumbrances	4,338,943	5,442,581	-	9,781,524
Unreserved				
Designated for:				
Self insurance	1,754,474	-	-	1,754,474
Construction	-	470,464	-	470,464
Undesignated:				
Special revenue fund	-	-	471,007	471,007
Total fund balances	<u>6,093,417</u>	<u>5,913,045</u>	<u>471,007</u>	<u>12,477,469</u>
Total liabilities and fund balances	<u>\$ 19,545,054</u>	<u>\$ 8,051,453</u>	<u>\$ 603,364</u>	<u>\$ 28,199,871</u>

The accompanying notes are an integral part of the basic financial statements.

The York County School Division

**Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2006**

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

Ending fund balance - governmental funds	\$ 12,477,469
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	118,978,684
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.	<u>(4,276,733)</u>
Net assets of governmental activities	<u><u>\$ 127,179,420</u></u>

The accompanying notes are an integral part of the basic financial statements.

The York County School Division

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006**

	General	Capital Projects	Non-major Governmental Fund	Total Governmental Funds
Revenues				
Intergovernmental:				
From the County of York	\$ 36,881,138	\$ 17,433,479	\$ -	\$ 54,314,617
From the Commonwealth of Virginia	52,596,586	1,272,416	61,065	53,930,067
From the Federal government	13,264,274	-	1,078,654	14,342,928
Revenues from use of money and property	535,608	331,864	19,474	886,946
Charges for services	376,286	-	2,804,096	3,180,382
Miscellaneous	246,902	1,850	76,896	325,648
Total revenues	103,900,794	19,039,609	4,040,185	126,980,588
Expenditures				
Current - education:				
Instruction	79,042,519	-	-	79,042,519
Administration, attendance and health services	7,420,691	-	-	7,420,691
Pupil transportation	6,069,668	-	-	6,069,668
Operations and maintenance	11,080,684	-	-	11,080,684
Total education	103,613,562	-	-	103,613,562
Food services	-	-	3,977,129	3,977,129
Capital outlay	-	14,684,782	-	14,684,782
Debt service:				
Principal retirement	257,000	-	-	257,000
Interest and fiscal charges	7,126	-	-	7,126
Total expenditures	103,877,688	14,684,782	3,977,129	122,539,599
Excess of revenues over expenditures	23,106	4,354,827	63,056	4,440,989
Other financing sources (uses)				
Capital lease	495,658	-	-	495,658
Transfers in	-	500,000	-	500,000
Transfers out	(500,000)	-	-	(500,000)
Total other financing sources (uses)	(4,342)	500,000	-	495,658
Net change in fund balances	18,764	4,854,827	63,056	4,936,647
Fund balance - beginning	6,074,653	1,058,218	407,951	7,540,822
Fund balance - ending	\$ 6,093,417	\$ 5,913,045	\$ 471,007	\$ 12,477,469

The accompanying notes are an integral part of the basic financial statements.

The York County School Division

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

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

Net change in fund balances - total governmental funds	\$ 4,936,647
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense

Capital outlay	14,354,596	
Depreciation expense	<u>(3,469,438)</u>	10,885,158

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.	(44,136)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This is the amount by which payments exceeded proceeds.	(238,658)
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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.

Compensated absences	(248,301)	
Worker's compensation claims	<u>376,624</u>	<u>128,323</u>

Change in net assets of governmental activities	<u>\$ 15,667,334</u>
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The accompanying notes are an integral part of the basic financial statements.

The York County School Division

Statement of Fiduciary Net Assets
June 30, 2006

ASSETS	Pension Trust Fund Optional Plan	Agency Fund - School Activity Funds
Cash and investments	\$ -	\$ 1,493,649
Restricted cash	33,485	-
Restricted investments:		
Federal agency bonds and notes	244,023	-
Corporate obligations	87,414	-
Mutual funds	29,128	-
Commercial paper	780,615	-
Total investments	1,141,180	-
Total assets	<u>\$ 1,174,665</u>	<u>\$ 1,493,649</u>
LIABILITIES		
Assets held for others	<u>\$ -</u>	<u>\$ 1,493,649</u>
Total liabilities	<u>-</u>	<u>1,493,649</u>
NET ASSETS		
Net assets held in trust for pension benefits	<u>1,174,665</u>	-
Total liabilities and net assets	<u>\$ 1,174,665</u>	<u>\$ 1,493,649</u>

The accompanying notes are an integral part of the basic financial statements.

The York County School Division

Statement of Changes in Fiduciary Net Assets - Pension Trust Fund - Optional Plan
Year Ended June 30, 2006

Additions		
Contributions - Member		\$ 100,000
Investment income		
Earning from investments	\$ 37,303	
Net appreciation in the fair value of net assets	<u>34,621</u>	<u>71,924</u>
Total Additions		<u>171,924</u>
Deductions		
Benefits	179,426	
Administrative expense	<u>11,200</u>	<u>190,626</u>
Total Deductions		<u>190,626</u>
Net Decrease		(18,702)
Net assets held in trust for pension benefits - beginning of year		<u>1,193,367</u>
Net assets held in trust for pension benefits - end of year		<u><u>\$ 1,174,665</u></u>

The accompanying notes are an integral part of the basic financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

THE YORK COUNTY SCHOOL DIVISION
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements presented for the York County School Division, (School Division) are prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). The School Division's significant accounting and reporting policies are described in the following notes:

The Financial Reporting Entity

The School Division is considered a component unit of the County of York (County). The School Division has no component units. Component units are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: (a) the primary government is accountable for the component unit, and (b) the primary government is able to impose its will upon the component unit (or there is a possibility that the component unit may provide specific financial benefits or impose specific financial burdens on the primary government). The information included in these basic financial statements will also be included in the County of York's basic financial statements because of the significance of the School Division's financial relationship with the County.

The School Board determines educational policy and employs a Superintendent of Schools to administer the School Division's policies. The members of the School Board are elected by the citizens of York County.

The School Division is responsible for elementary and secondary education for the County of York.

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

Basis of Presentation

The School Division's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government-Wide Financial Statements: The statement of net assets and the statement of activities display information about the School Division as a whole, except for fiduciary funds. These statements are reflected on a full accrual basis of accounting and economic resources measurement focus, which incorporates long-term assets as well as long-term liabilities. Operating transfers are eliminated to avoid "doubling up" revenues and expenditures. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net assets presents the financial condition of the governmental type activities of the School Division at year-end. The School Division does not have any business-type activities. The statement of activities presents a comparison between direct expenses and program revenues for each function of the School Division's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore identifiable to a particular function. Expenses are grouped in the following categories: instruction, administration, attendance and health services, transportation, operations and maintenance, capital projects (not capitalized), and food services.

Program revenues include charges paid by the recipient for the goods or services offered by the program or from grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Charges for services include pupil fees, summer school tuition and cafeteria sales. Revenues not classified as program revenues are presented as general revenues of the School Division. The comparison of direct expenses with program revenues identifies the extent to which the governmental function is self-financing or draws from the general revenues of the School Division. The School Division does not allocate indirect expenses.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used, however, are not eliminated in this process.

Fund Financial Statements: During the year, the School Division segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements present financial information of the School Division at this more detailed level. The focus of governmental fund financial statements is on major funds, each displayed in a separate column. The School Division has identified the general fund and the capital project fund as major.

The accounts of the School Division are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The fund statements are presented on a current financial resources measurement focus and the modified accrual basis of accounting. The acquisition, use and balances of the School Division's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is based upon the determination of changes in financial position, rather than upon net income determination. The following fund types groups are used by the School Division:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Governmental Funds

Governmental Funds are those through which most governmental functions of the School Division are financed. The acquisition, use and balances of the School Division's expendable financial resources and the related liabilities are accounted for through governmental funds. Governmental fund types use the "flow of current financial resources" measurement focus. This means that generally only current assets and current liabilities are reflected on their balance sheets. Their operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net fund balance. The following are the School Division's governmental fund types:

General Fund - The General Fund (School Operating Fund) is the general operating fund of the School Division. It is used to account for all financial resources except those accounted for in another fund.

Capital Projects Fund - The Capital Projects Fund (School Construction Fund) is used to account for financial resources to be used for the acquisition or construction of major capital facilities or maintenance of school facilities (other than those financed by the operating fund).

Non-Major Governmental Fund - The non-major Governmental Fund (School Food Services Fund) is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Accordingly, the School Food Services Fund is used to account for the school operations. Revenues restricted for cafeteria operations include cafeteria sales and Federal grant reimbursements.

Fiduciary Funds

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. Accordingly, the measurement focus is upon determination of changes in financial position rather than upon net income determination. The Trust and Agency funds consist of the Pension Trust Fund - Optional Plan and the School Activity Funds.

Trust Fund - The Pension Trust Fund - Optional Plan accounts for the revenues and expenses related to the School Division sponsored retirement plan, which is administered by a fiduciary agent of the York County School Division. The Pension Trust Fund - Optional Plan follows the accrual basis of accounting. The recognition of contributions, benefits and refunds use the "flow of economic resources" measurement focus. The costs of plan administration are financed through employer and member contributions and earnings on investments.

Agency Fund - The Agency Fund is custodial in nature and does not involve measurement of results of operations. The School Division's agency fund is the School Activity Funds, which accounts for the student activity monies maintained on behalf of the students by the principal of each school.

Fiduciary funds are not included in the government-wide financial statements.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Governmental activities in the government-wide financial statements and the fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The primary revenues susceptible to accrual include intergovernmental revenues. In applying the subject to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the School Division; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

The governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Generally revenues collected within 45 days of year-end are recognized. For grants, revenue is recognized when all eligibility requirements have been met. The primary revenues susceptible to accrual include From the County of York, From the Commonwealth of Virginia, and From the Federal government. Expenditures, other than interest and principal on long-term debt which is recorded when due, are recorded when the fund liability is incurred, if measurable.

Cash, Cash Equivalents and Temporary Investments

Cash and temporary investments are pooled with the cash and investments of the County. The School Division utilizes the pooled cash investment method wherein income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and cash equivalents of each fund to the total pooled cash and cash equivalents. Investments that are held for more than one year to maturity are stated at fair value while investments that are held for less than one year to maturity are stated at amortized cost. The value of investments reflected at amortized cost are not materially different than fair value. The cash in the agency fund represents the student activity funds cash balances in the separate bank accounts maintained by the individual schools. Investments with original maturities of 90 days or less are considered cash equivalents.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Receivables and Due from Other Governments

Amounts due from the Commonwealth of Virginia consist primarily of June sales tax, receivables from state entitlements and reimbursement of grants expenditures. Amounts due from Federal governments are for reimbursement of grants expenditures. Receivables consist primarily of amounts due from students and other customers of the School Division. All amounts should be collected within one year.

Inventory

Inventory is accounted for under the purchase method and is stated at the lower of cost or market on a first-in, first-out basis. The cost is recorded as an expenditure at the time inventory is purchased. USDA donated food commodities are accounted for in the School Food Services Fund at the estimated value at the time of receipt. Revenues are recorded when goods are received and expenditures are recorded as goods are used.

Capital Assets

General capital assets have been acquired for general school purposes. Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent the School Division capitalization threshold is met.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are recorded at estimated fair market value on the date received. The School Division maintains a capitalization threshold of \$5,000 for equipment, improvements and buildings. Land is capitalized regardless of value. The School Division has no infrastructure assets.

Depreciation is recorded on general capital assets on a government-wide basis. All reported capital assets except land and construction in progress are depreciated. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Description	Estimated useful lives
Buildings	25-80 years
Improvements other than buildings	30-80 years
Machinery and equipment and vehicles	10-25 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation pay earned and, upon retirement, termination or death, may be compensated as salary related payments for certain amounts at their then current rates of pay. The cost of accumulated compensated absences pay including associated benefits is accounted for as a liability in the government-wide financial statements. Compensated absences are reported in the governmental funds only if they have matured (i.e. unused reimbursable leave still outstanding following an employee's resignation or retirement).

Fund Balances/Net Assets

Fund balances have been classified to reflect the limitations and restrictions placed on the respective funds as follows:

Fund Balances - Reserved - indicates that a portion of fund equity, which has been legally segregated for specific purposes or does not represent available expendable resources.

Fund Balances - Unreserved, Designated - indicates tentative plans for financial resource utilization in future periods.

Fund Balances - Unreserved, Undesignated - represents the remainder of the School Division's equity in governmental fund – type balances.

Net Assets in government-wide financial statements are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statute.

Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements, or transfers. Loans are reported as due to and due from as appropriate and are subject to elimination in the government-wide statements. Services provided are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide statements.

Retirement Plan

Retirement contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30-year period. The School Division's policy is to fund pension cost as it accrues.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Management of the School Division has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Management believes any differences between these estimates and actual results should not materially affect the School Division's reporting of its financial position.

2. DEPOSITS AND INVESTMENTS

The Code of Virginia, as amended, requires the election of a County Treasurer. By law, the Treasurer is the custodian of cash investments for both the County of York and the York County School Division, and has powers and duties prescribed by general law. Cash and temporary investments pertaining to the School Division's funds, except the Pension trust fund and the school activity funds, are pooled and invested with the cash and temporary investments of the County.

Deposits

All cash is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. At June 30, 2006 cash and investments of the County, which contain pooled cash and investments of the School Division, consisted of:

Bank deposits	\$ 2,625,668
Restricted cash	6,226,015
Investments	74,807,339
Petty cash	<u>4,425</u>
Total cash and investments	<u>\$ 83,663,447</u>

Cash and investments of the School Division, including fiduciary funds, at June 30, 2006 consisted of:

Pooled cash and investments	\$ 5,044,470
Restricted cash	5,331,245
Bank deposits	1,493,649
Investments	1,174,665
Petty cash	<u>600</u>
Total cash and investments	<u>\$ 13,044,629</u>

2. DEPOSITS AND INVESTMENTS *(Continued)*

Investments

Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "2a7 like pool" risk limiting requirements of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" with the portfolio securities valued by the amortized cost method. Investments with a maturity date of one year or less are stated at amortized cost. All investments stated at amortized cost approximate the fair value. The fair value of the County's position in the LGIP is the same as the value of the pool shares. All other investments are stated at fair value.

Investment Policy

In accordance with the Code of Virginia and other applicable law, including regulations, the County's investment policy (the Policy) permits investments in U.S. Government obligations, certain municipal bonds, prime quality commercial paper, high grade corporate notes and bonds, bankers acceptances, repurchase agreements, certificates of deposit and other evidences of deposit at financial institutions, money market mutual funds, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a7 like pool).

State statute limits the percentage of the portfolio that can be invested in commercial paper to 35%. The Policy does not impose additional diversification limits, but does require that the portfolio avoid over-concentration in specific security types, issuers and business sectors.

The School Division has a separate funding policy (Trust Policy) for their Pension trust fund. The Trust Policy's principal goal is to invest in funds considering both the safety of principal with long-term stability and moderate capital appreciation commensurate with the expected retirement dates of plan participants; however, these investments should be liquid in order to enable the plan, on short notice, to make distributions of benefits in the event of death, disability or termination of a plan participant. The Trust Policy establishes the percentage of the portfolio that can be invested in fixed income investments to 40% - 70% and equity investments to 25% - 50%.

Credit Risk

As required by state statute, the Policy requires that commercial paper be rated "prime quality" by at least two nationally recognized statistical rating organizations and corporate notes and bonds must be rated in the AAA or AA categories by both Standard & Poor's and Moody's Investor Service. The County's Policy further limits credit risk by limiting investments in securities that have higher credit risks.

2. DEPOSITS AND INVESTMENTS *(Continued)*

The Trust Policy does not limit credit risk to any specific category.

As of June 30, 2006, the County's investments as rated by Standard & Poor's were as follows:

<u>Investment Type</u>	<u>AAA</u>	<u>AA</u>	<u>A-1</u>
Virginia LGIP	\$ 27,681,246	\$ -	\$ -
Money market	4,798,985	-	-
Commercial paper	-	-	6,595,301
Federal agency bonds and notes	17,308,462	-	-
Corporate obligations	4,776,513	13,646,832	-
Total investments	<u>\$ 54,565,206</u>	<u>\$ 13,646,832</u>	<u>\$ 6,595,301</u>

As of June 30, 2006, the School Divisions Pension trust fund investments as rated by Standard & Poor's were as follows:

<u>Investment Type</u>	<u>AAA</u>	<u>A</u>	<u>B</u>	<u>Not Rated</u>
Money market	\$ 33,485	\$ -	\$ -	\$ -
Commercial paper	-	87,414	282,287	29,128
Federal agency bonds and notes	244,023	-	-	-
Corporate obligations	-	498,328	-	-
Total investments	<u>\$ 277,508</u>	<u>\$ 585,742</u>	<u>\$ 282,287</u>	<u>\$ 29,128</u>

Concentration of Credit Risk

State statute limits the percentage of the portfolio that can be invested in commercial paper of a single issuer to no more than 5%. The County's policy does not set additional credit concentration limits. As of June 30, 2006, the portion of the County's portfolio, excluding the Virginia LGIP and U.S. Government guaranteed obligations, that exceeded 5% of the total portfolio was a Federal National Mortgage Association note, which represented 5.15% of the total investment portfolio.

As of June 30, 2006, the portion of the School Division's Pension trust portfolio that exceeded 5% of the total portfolio were the Federal Home Loan Bank and Federal Farm Credit Bank bonds, which represented 14.99% and 6.39%, respectively, of the total investment portfolio.

Custodial Credit Risk

The policy requires that all investment securities purchased by the County be held by an independent third-party custodian and evidenced by safekeeping receipts in the County's name. As of June 30, 2006, all of the County's investments were held in a bank's trust department in the County's name.

2. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the County's Policy limits the investment portfolio holdings to no more than 18 months, unless approved by the Treasurer. As of June 30, 2006, the carrying values and weighted average maturity of the County's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>
Money market-Virginia LGIP	\$ 27,681,246	-
Money market	4,798,985	-
Commercial paper	6,595,301	0.03
Federal agency bonds and notes	17,308,462	2.69
Corporate obligations	18,423,345	4.84
Total investments	<u>\$ 74,807,339</u>	
Weighted average of portfolio		<u>1.81</u>

The carrying values and weighted average maturity of the School Division's Pension trust investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>
Money market	\$ 33,485	-
Commercial paper	780,615	-
Mutual funds	29,128	-
Federal agency bonds and notes	244,023	2.54
Corporate obligations	87,414	2.02
Total investments	<u>\$ 1,174,665</u>	
Weighted average of portfolio		<u>0.68</u>

3. CAPITAL ASSETS – NET

The following is a summary of changes in capital assets for the year ended June 30, 2006:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,669,160	\$ 202,334	\$ -	\$ 4,871,494
Construction in progress	1,080,428	11,347,650	421,165	12,006,913
Total capital assets - not being depreciated	<u>5,749,588</u>	<u>11,549,984</u>	<u>421,165</u>	<u>16,878,407</u>
Capital assets being depreciated:				
Buildings	131,511,872	1,930,019	-	133,441,891
Improvements other than buildings	2,415,673	-	-	2,415,673
Machinery and equipment	1,558,568	167,497	35,054	1,691,011
Motor vehicles	7,771,131	1,128,261	521,674	8,377,718
Total capital assets being depreciated	<u>143,257,244</u>	<u>3,225,777</u>	<u>556,728</u>	<u>145,926,293</u>
Less accumulated depreciation for:				
Buildings	35,853,393	2,719,781	-	38,573,174
Improvements other than buildings	1,179,676	64,473	-	1,244,149
Machinery and equipment	525,431	127,163	19,439	633,155
Motor vehicles	3,310,670	558,021	493,153	3,375,538
Total accumulated depreciation	<u>40,869,170</u>	<u>3,469,438</u>	<u>512,592</u>	<u>43,826,016</u>
Other capital assets being depreciated - net	<u>102,388,074</u>	<u>(243,661)</u>	<u>44,136</u>	<u>102,100,277</u>
Governmental activities capital assets - net	<u>\$ 108,137,662</u>	<u>\$ 11,306,323</u>	<u>\$ 465,301</u>	<u>\$ 118,978,684</u>

3. CAPITAL ASSETS – NET *(Continued)*

Depreciation expense was charged to functions as follows:

Governmental activities:

Instruction	\$ 2,819,914
Administration, attendance and health services	54,833
Pupil transportation	497,070
Operations and maintenance	58,323
Food services	<u>39,298</u>
Total governmental activities depreciation expense	<u>\$ 3,469,438</u>

Construction in progress is composed of the following at June 30, 2006:

	Project authorization	Expended through June 30, 2006	Balance of authorization	Future requirements
School projects	<u>\$ 21,459,222</u>	<u>\$ 12,006,913</u>	<u>\$ 9,452,309</u>	<u>\$ -</u>

The majority of the capital assets were donated to the School Division by the County. The County has issued general obligation bonds and obtained literary loans from the Commonwealth of Virginia on behalf of the School Division. Certain school buildings have been pledged as collateral for the literary loans.

4. LEASES

In July 1997 the School Division replaced the lighting at 9 elementary schools, 2 middle schools and 1 high school as part of an energy conservation program. The lighting was financed with a capital lease agreement that expires in October 2007. In November 2005 the School Division financed 8 new buses with a capital lease agreement that expires in December 2009.

A summary of future minimum lease payments under these capital leases together with the present value of the net minimum lease payments as of June 30, 2006, is as follows:

<u>Fiscal Year</u>	
2007	\$ 195,482
2008	118,707
2009	94,110
2010	94,111
Total minimum payments	502,410
Less - amount representing interest	(45,502)
Present value of principal	<u>\$ 456,908</u>

The School Division leases certain equipment and office space under non-cancelable operating lease agreements. A summary of future minimum rental payments under non-cancelable operating leases as of June 30, 2006, is as follows:

<u>Fiscal Year</u>	
2007	\$ 192,569
2008	165,939
2009	165,939
2010	15,242
2011	9,166
Total minimum payments	<u>\$ 548,855</u>

Rental expenditures for the year ended June 30, 2006 for all operating leases were \$243,352.

4. LEASES (Continued)

Lessor - The School Division leases certain land where radio towers are located. The School Division does not own the radio towers but does own the land. The radio towers are located at York Middle School, York High School, and Waller Elementary School. The School Division also leases a portion of Yorktown Middle School to the New Horizons Regional Education Center. The total cost and accumulated depreciation of the Yorktown Middle School building at June 30, 2006 is \$1,066,600 and \$694,989, respectively.

A summary of future minimum rental receipts under non-cancelable operating leases as of June 30, 2006, is as follows:

<u>Fiscal Year</u>	
2007	\$ 112,755
2008	102,655
2009	102,655
2010	102,655
Total minimum receipts	<u>\$ 420,720</u>

Rental revenue for all operating leases was \$133,755 for the year ended June 30, 2006.

5. LONG-TERM LIABILITIES

Long-term liabilities are normally paid from the General Fund.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due within one year</u>
Compensated absences	\$ 1,817,050	\$ 888,285	\$ 639,984	\$ 2,065,351	\$ 2,065,351
Workers' compensation claims	2,131,098	476,038	852,662	1,754,474	600,000
Capital leases payable	218,250	495,658	257,000	456,908	175,167
Totals	<u>\$ 4,166,398</u>	<u>\$ 1,859,981</u>	<u>\$ 1,749,646</u>	<u>\$ 4,276,733</u>	<u>\$ 2,840,518</u>

6. DEFINED BENEFIT PENSION PLANS

Virginia Retirement System (VRS)

Plan Description

The School Division contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System.

Professional and non-professional employees of the School Division are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool. As of June 30, 1992, non-professional employees of the School Division are also covered by the VRS. The payroll for professional employees covered by VRS for the year ended June 30, 2006, was \$56,055,917 the total payroll was \$56,608,651. The payroll for non-professional employees covered by VRS for the year ended June 30, 2006, was \$5,888,421; the total payroll was \$7,084,725.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of credited service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at age 50 with 30 years of service for participating employers, payable monthly for life, in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their web site at <http://www.varetire.org/Pdf/2005AnnuRept.pdf> or obtained by writing to the VRS at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

VRS plan members are required, by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution may be assumed by the employer. This 5% member contribution has been assumed by the School Division. In addition, the School Division is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The School Division's contribution rate for non-professional employees for the fiscal years ended 2006, 2005, and 2004, was 11.5%, 11.5% and 10%, respectively, of annual covered payroll, or in the amounts of \$678,920, \$658,200, and \$614,300, respectively, and was fully funded for each fiscal year. The School Division's required contribution to the teacher cost-sharing pool for the fiscal years ended 2006, 2005, and 2004 was \$6,513,698, \$5,664,731, and \$4,439,787, respectively, and was fully funded for each fiscal year.

6. DEFINED BENEFIT PENSION PLANS (Continued)

Annual Pension Cost

For 2006, the School Division's annual pension cost was equal to the School Division's required and actual contributions. This actuarial valuation uses the assumptions and methods that were adopted as a result of the 2004 Experience Study. In particular it uses an assumed investment return rate of 7.50%; an assumed annual cost of living adjustment of 2.50%; projected salary increases ranging from 3.50% - 5.73% per year depending on the members service and classification; and retirement, mortality and disability and termination rates that were also based on the 2004 Experience Study prepared for the VRS. A 2.50% inflation adjustment is implicit in the investment rate of return and annual cost of living adjustment. Liabilities were determined under the Entry Age Normal actuarial cost method. The actuarial value of the School Division's assets is the adjusted market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period at the rate of 20% per year. It reflects only a portion of the excess (or shortfall) between recent investment returns and the corresponding expected returns based on the 8% investment return assumption. The funding excess is being amortized as a level percentage of payroll on an open basis within a period of thirty years or less.

Contributions are recognized in the period in which amounts are due pursuant to formal commitments, and benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs are paid from the School operating fund.

York County Public Schools - Optional Plan

Description

The Optional Plan, a single employer defined benefit pension plan, provides pension benefits to non-professional employees of the School Division who were not previously covered by VRS. A fiduciary agent of the School Division administers the optional plan, which provides retirement benefits as well as death and disability benefits. As of June 30, 1992, the optional plan was frozen and the non-professional employees who participated in the plan became fully vested. The non-professional employees now participate in the VRS as noted above. Stand-alone financial reports are not issued for this plan. The optional plan's current membership, as of June 30, 2006, includes 50 active participants, 66 retirees and beneficiaries, and 7 vested terminations.

6. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy

The actuarial accrued liability for the optional plan was determined as part of an actuarial valuation on June 30, 2006 using the projected unit credit actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7% per year compounded annually, (b) post-retirement benefit increases of 2% per year, and (c) percentage of current retiree benefits to be paid of 100%. Because the plan is frozen, no salary increases are projected. A 2.5% inflation adjustment is implicit in the investment rate of return. The unfunded actuarial liability is being amortized over 20 years, using the closed method, and at the valuation interest rate with payments increasing 4 1/4% per year. The optional plan uses the level percentage of projected payroll payment method to amortize the unfunded liability over 20 years. The actuarial value of the Schools Division's assets is the market value of the assets, adjusted for accrued contributions and unpaid benefits. Actual contributions to the optional plan were \$100,000, \$200,000, and \$100,000 for the years ended 2006, 2005, and 2004, respectively.

Contributions are recognized in the period in which amounts are due, and benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Non-actuarial administrative costs are financed directly from the plan assets. Actuarial administrative costs are paid from the School operating fund.

Schedule of Annual Pension Costs and Employer Contributions for Optional Plan

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2001	\$ 41,043	100%
2002	\$ 79,598	100%
2003	\$ 82,264	100%
2004	\$ 87,912	100%
2005	\$ 96,878	100%
2006	\$ 124,695	100%

7. CONTINGENT LIABILITIES

Risk Management

The School Division is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School Division reports all of its risk management activities in its School Operating Fund and pays all claims for retained risks from School Operating Fund resources. The School Division maintains comprehensive property and casualty policies, commercial general liability policies, comprehensive liability vehicle fleet policies and coverages for errors and omissions, and employer's liability and certain other risks with commercial insurance companies. The School Operating Fund retains the full risk for unemployment compensation, up to \$100,000 for each health care claim and up to \$200,000 for each workers' compensation occurrence subject to a \$600,000 annual aggregate on the combined claims. All unemployment, health care claims and workers' compensation claims are paid through a third-party administrator through resources from the School Operating Fund. There have been no reductions in insurance coverages from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The School board health care claim liability at June 30 is included in salaries, taxes, and benefits payable balance of the Schools Operating Fund.

The Schools had available \$1,165,320 for health care claims and \$1,754,474 for workers' compensation claims at June 30, 2006, which is considered sufficient to cover pending claims and incurred but not reported claims that may arise.

Changes in the reported amounts since June 30, 2004 resulted from the following:

	<u>2006</u>	<u>2005</u>
Accrued liability/designated fund balance - beginning of year	\$ 4,030,015	\$ 3,971,243
Claims and changes in estimates	7,013,415	6,941,451
Claim payment	<u>(8,213,636)</u>	<u>(6,882,679)</u>
Accrued liability/designated fund balance - end of year	<u>\$ 2,829,794</u>	<u>\$ 4,030,015</u>

7. CONTINGENT LIABILITIES (Continued)

Grants

The School Division received grant funds, principally from the State and Federal Government, for instructional and various other programs. Expenditures from these grants are subject to audit by the grantor, and the School Division is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the management of the School Division, any refunds that may be required as a result of expenditures disallowed by the grantors will not be material to the financial statements.

8. POST-RETIREMENT BENEFITS

In addition to the pension benefits described in Note 6, the School Division provides post-retirement health care benefits, in accordance with School Division policy, to all employees who retire from York County Public Schools with 100 days of accumulated sick leave, 10 years of service and a minimum of 24 months participation in the health insurance program immediately prior to retirement. Currently, 50 retirees are participating in this program. The School Division pays a monthly contribution of \$25 toward the health care program premium for a total period of time not to exceed 10 years or until the retiree is eligible for Medicare, whichever occurs first. Expenditures for post-retirement health care benefits are recognized as incurred. During the year, expenditures of \$104,443 were recognized as incurred for post-retirement health care.

9. DEFERRED COMPENSATION PLAN

The School Division offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to all School Division employees, permits them to defer a portion of their salary to future years. Participation in the plan is optional. The deferred compensation is not available to employees until separation from service, retirement, death, disability, financial hardship and/or reaching age 59 ½. The School Division offers a selection of investment options to participants. All earnings on the invested funds compound tax-free until withdrawn from the account.

10. TRANSACTIONS BETWEEN PRIMARY GOVERNMENT AND THE SCHOOL DIVISION

The following activities took place between the Primary Government and the School Division during the year ended June 30, 2006:

	Intergovernmental Revenues From the County of York
School Operating Fund	\$ 36,881,138
Capital Projects Fund	17,433,479
	<u>\$ 54,314,617</u>

	Due From	Due To
Primary Government: General Fund	<u>\$ 14,020,358</u>	<u>\$ 118,359</u>

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REQUIRED SUPPLEMENTARY INFORMATION

The York County School Division

Schedule of Revenues Budget and Actual - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Intergovernmental:				
County of York	\$ 37,175,901	\$ 37,217,640	\$ 36,881,138	\$ (336,502)
Commonwealth of Virginia:				
State sales tax	10,133,054	10,133,054	10,333,640	200,586
Basic aid	31,941,365	32,244,351	31,852,161	(392,190)
Lottery	1,004,753	1,012,665	984,470	(28,195)
Adult education	3,712	3,712	-	(3,712)
RLCC	-	-	4,000	4,000
Foster home children	38,951	38,951	38,547	(404)
Gifted and talented	311,374	313,825	313,758	(67)
Remedial programs	196,657	198,205	198,163	(42)
Remedial summer school	100,032	100,032	99,051	(981)
Reading intervention	53,627	53,627	70,385	16,758
Special education-SOQ	2,622,093	2,642,739	2,642,169	(570)
Homebound	20,000	20,000	15,833	(4,167)
Comprehensive services act	267,800	267,800	147,274	(120,526)
Free textbooks	517,208	521,280	521,168	(112)
VOC ED-SOQ	409,702	412,928	412,839	(89)
Special education support	337,967	337,967	306,715	(31,252)
Employer share benefits	3,206,870	3,226,138	3,005,467	(220,671)
New Horizons-Regional	-	-	10,000	10,000
Other CAT/VOC ED	16,000	16,000	48,871	32,871
At-risk	76,277	76,837	76,837	-

(Continued)

The York County School Division

Schedule of Revenues Budget and Actual - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
K-3 initiative	129,275	129,275	143,614	14,339
SOL algebra readiness	27,566	27,566	27,566	-
Tech Init- FY2006	544,000	544,000	544,000	-
Miscellaneous grants	457,696	457,696	150,332	(307,364)
ESL	106,067	106,067	71,751	(34,316)
Salary Supplement	573,583	578,099	577,975	(124)
Total from the Commonwealth of Virginia	53,095,629	53,462,814	52,596,586	(866,228)
Federal government:				
Title I	479,313	977,139	1,097,852	120,713
Adult recreation	29,146	29,146	37,592	8,446
Title II A	305,074	305,074	314,594	9,520
Title II D	20,697	20,697	7,368	(13,329)
Title IV A	44,201	44,201	40,306	(3,895)
Title V A	38,716	38,716	24,940	(13,776)
Impact aid	9,700,000	9,700,000	9,699,694	(306)
Department of Defense	-	-	11,339	11,339
Title VI B	1,735,428	1,735,428	1,550,781	(184,647)
Troops to Teachers	12,027	12,027	-	(12,027)
E-Rate	75,000	75,000	131,783	56,783
NJROTC	85,000	85,000	111,090	26,090
Miscellaneous grants	660,405	660,405	215,508	(444,897)
Title IIIA	11,578	11,578	21,427	9,849
Total from the Federal government	13,196,585	13,694,411	13,264,274	(430,137)

(Continued)

The York County School Division

**Schedule of Revenues Budget and Actual - General Fund
Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Miscellaneous revenues:				
Use of money and property	480,800	480,800	535,608	54,808
Charges for services	345,000	345,000	376,286	31,286
Miscellaneous	125,000	125,000	246,902	121,902
Total miscellaneous revenues	950,800	950,800	1,158,796	207,996
Other financing sources:				
Capital lease	495,658	495,658	495,658	-
Total other financing sources	495,658	495,658	495,658	-
Total revenues and other financing sources	<u>\$ 104,914,573</u>	<u>\$ 105,821,323</u>	<u>\$ 104,396,452</u>	<u>\$ (1,424,871)</u>

The York County School Division

Schedule of Expenditures Budget and Actual - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Education				
Instruction:				
Classroom instruction services:				
Regular education	\$ 49,857,092	\$ 51,201,446	\$ 50,249,024	\$ 952,422
Special education	7,714,160	7,693,142	6,874,245	818,897
Vocational education	3,068,053	2,917,843	2,603,436	314,407
Gifted and talented	322,045	324,862	320,420	4,442
Other programs	5,594,277	4,543,532	3,528,697	1,014,835
Instructional support-student:				
Guidance	2,636,614	2,634,559	2,563,583	70,976
Homebound	53,794	53,794	28,082	25,712
Instructional support-staff:				
Management and staff development	3,046,144	3,145,202	3,179,351	(34,149)
Media services	1,730,700	1,701,437	1,551,356	150,081
Instructional support- school administration:				
Principals' offices	6,415,462	6,301,155	6,261,810	39,345
School carryover	-	2,366,863	1,882,515	484,348
Total instruction	80,438,341	82,883,835	79,042,519	3,841,316
Administration, attendance and health services:				
Board services	116,870	124,494	94,200	30,294
Executive services	469,075	501,843	593,100	(91,257)
Communication services	363,639	359,943	353,607	6,336
Human resources	1,054,909	1,064,285	978,651	85,634

(Continued)

The York County School Division

**Schedule of Expenditures Budget and Actual - General Fund
Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fiscal services	904,339	901,951	836,004	65,947
Information services	2,263,553	2,310,154	2,328,910	(18,756)
Health services	1,068,458	1,220,386	1,065,167	155,219
Psychological services	489,560	484,074	497,331	(13,257)
Speech and audiology services	527,658	539,646	545,153	(5,507)
School carryover	-	177,382	128,568	48,814
Total administration, attendance and health services	7,258,061	7,684,158	7,420,691	263,467
Operating costs:				
Pupil transportation:				
Vehicle operation services	4,627,035	4,806,324	4,421,994	384,330
Vehicle maintenance services	1,579,376	1,574,306	1,497,614	76,692
School carryover	-	157,265	150,060	7,205
Total pupil transportation	6,206,411	6,537,895	6,069,668	468,227
Operations and maintenance:				
Management and direction	259,173	260,622	257,426	3,196
Building services	9,822,219	10,180,038	9,083,156	1,096,882
Vehicle services	282,082	284,784	300,117	(15,333)
Warehouse and distribution services	346,198	347,674	329,711	17,963
School carryover	-	1,283,784	1,110,274	173,510
Total operations and maintenance	10,709,672	12,356,902	11,080,684	1,276,218
Total operating costs	16,916,083	18,894,797	17,150,352	1,744,445
Total education	104,612,485	109,462,790	103,613,562	5,849,228

(Continued)

The York County School Division

**Schedule of Expenditures Budget and Actual - General Fund
Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Debt Service				
Principal	302,088	302,088	257,000	45,088
Interest	-	-	7,126	(7,126)
Total debt service	<u>302,088</u>	<u>302,088</u>	<u>264,126</u>	<u>37,962</u>
Other financing uses				
Transfers out	-	500,000	500,000	-
Total other financing uses	<u>-</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Total expenditures and other financing uses	<u>\$ 104,914,573</u>	<u>\$ 110,264,878</u>	<u>\$ 104,377,688</u>	<u>\$ 5,887,190</u>

The York County School Division

Schedule of Funding Progress for Defined Pension Benefit Plans (Unaudited) Year Ended June 30, 2006

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL) -Entry Age	Unfunded AAL (UAAL) (Funding Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funding Excess) as a % of Payroll
School Division Plan - Non-Professional						
June 30, 2002	\$ 6,664,536	\$ 6,788,354	\$ 123,818	98.18%	\$ 5,635,990	2.20%
June 30, 2003	\$ 7,460,867	\$ 7,724,877	\$ 264,010	96.58%	\$ 6,032,108	4.38%
June 30, 2004	\$ 8,218,016	\$ 8,705,727	\$ 487,711	94.40%	\$ 6,124,050	7.96%
June 30, 2005	\$ 8,951,677	\$ 9,750,067	\$ 798,390	91.81%	\$ 5,771,901	13.83%
Optional Plan						
June 30, 2000	\$ 1,106,125	\$ 1,603,196	\$ 497,071	68.99%	\$ -	N/A
June 30, 2001	\$ 981,289	\$ 1,631,198	\$ 649,909	60.16%	\$ -	N/A
June 30, 2002	\$ 725,405	\$ 1,726,804	\$ 1,001,399	42.01%	\$ -	N/A
June 30, 2003	\$ 1,010,494	\$ 1,765,392	\$ 754,898	57.24%	\$ -	N/A
June 30, 2004	\$ 1,078,623	\$ 1,812,950	\$ 734,327	59.50%	\$ -	N/A
June 30, 2005	\$ 1,193,367	\$ 1,855,924	\$ 662,557	64.30%	\$ -	N/A
June 30, 2006	\$ 1,174,655	\$ 2,140,987	\$ 966,332	54.87%	\$ -	N/A

The York County School Division

**Schedule of Employer Contributions for Single-Employer
Defined Benefit Pension Plan (Unaudited)
Year Ended June 30, 2006**

School Board - Optional Plan

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2000	\$ 43,413	100%
2001	41,043	100%
2002	79,598	100%
2003	82,264	100%
2004	87,912	100%
2005	96,878	100%
2006	124,695	100%

**THE YORK COUNTY SCHOOL DIVISION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2006

1. BUDGETARY DATA

The School Division follows these procedures in establishing the budgetary data reflected in the combined financial statements:

As required under Section 22.1-92 of the *Code of Virginia*, the Division Superintendent prepares an estimate of the amount of money deemed to be needed in the General Fund, Special Revenue Fund and Capital Projects Fund during the next fiscal year for the support of the public schools of the School Division. The estimate is required to be allocated for each major classification prescribed by the State Division of Education. Section 22.1-115 of the *Code of Virginia* states "the Division shall prescribe the following major classifications for expenditures of school funds: (i) instruction, (ii) administration, attendance and health (iii) pupil transportation, (iv) operation and maintenance, (v) school food services and other non-instructional operations, (vi) facilities, and (vii) debt and fund transfers."

The Superintendent's proposed budget is based on budget requests prepared by administrative and supervisory staff. The Superintendent also receives input from the School Division, employee associations, Parent Teacher Associations, County Administrator, etc., in formulating the budget proposal. Citizen input is provided via a public forum early in the budget process. After the Superintendent's budget is made public, the School Division conducts a public hearing on the proposed budget.

The School Division is required by state law (Section 22.1-92 of the *Code of Virginia*) to conduct a public hearing on the proposed budget to receive the views of citizens. The School Division also holds several work sessions on the proposed budget and modifies the proposed budget if necessary. The School Division must approve the budget by April 1 and submit it to the Division of Supervisors for the County of York for its approval.

The Board of Supervisors is required by state law to approve a School Division budget by May 1. If the Board of Supervisors approves a local appropriation that is less than the amount the School Division requested, the School Division must reduce the proposed budget accordingly.

1. BUDGETARY DATA *(Continued)*

The School Division appropriates funds on a major classification level and may make supplemental appropriations based on the availability of financial resources. The Division Superintendent may only authorize the transfer of funds within the major classification, the legal level of budgetary control.

Every appropriation lapses at the close of the fiscal year to the extent that it has not been expended. Funding for projects such as the capital improvement program is reappropriated annually until the project has been accomplished or abandoned.

The budgets are prepared on a basis consistent with the modified accrual basis of accounting. Budgeted amounts reflected in the required supplementary information are as originally adopted or as amended by the School Division. The General Fund's budget is adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America.

2. LEGALLY ADOPTED BUDGETS

The general, capital projects, and special revenue funds have legally adopted annual budgets.

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OTHER SUPPLEMENTARY INFORMATION

The York County School Division

**Schedule of Revenues and Expenditures
Budget and Actual - Capital Projects Fund
Year Ended June 30, 2006**

	Capital Projects Fund		Variance with Final Budget Positive (Negative)
	Final Budget	Actual	
Revenues			
Intergovernmental:			
From the County of York	\$ 17,538,730	\$ 17,433,479	\$ (105,251)
From the Commonwealth of Virginia	1,271,109	1,272,416	1,307
Revenue from the use of money	50,000	331,865	281,865
Miscellaneous	112,500	1,850	(110,650)
Total revenues	<u>\$ 18,972,339</u>	<u>\$ 19,039,610</u>	<u>\$ 67,271</u>
Expenditures			
Capital outlay	\$ 21,459,222	\$ 14,684,782	\$ 6,774,440
Total expenditures	<u>\$ 21,459,222</u>	<u>\$ 14,684,782</u>	<u>\$ 6,774,440</u>
Other financing sources			
Transfers in	\$ 500,000	\$ 500,000	\$ -
Total other financing sources	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ -</u>

The York County School Division

**Schedule of Revenues and Expenditures
Budget and Actual - Non-major Special Revenue Fund
Year Ended June 30, 2006**

	School Food Service Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
From the Commonwealth of Virginia	\$ 55,000	\$ 55,000	\$ 61,065	\$ 6,065
From the Federal government	895,000	895,000	1,078,654	183,654
Revenue from the use of money	10,000	10,000	19,474	9,474
Charges for services	3,241,054	3,241,054	2,804,096	(436,958)
Miscellaneous	-	-	76,896	76,896
Total revenues	\$ 4,201,054	\$ 4,201,054	\$ 4,040,185	\$ (160,869)
Expenditures				
Food Services:				
Contractual services and purchases for resale	\$ 2,599,647	\$ 2,599,647	\$ 2,493,049	\$ 106,598
Donated commodities	200,000	200,000	229,191	(29,191)
Salaries and wages	953,192	953,192	887,641	65,551
Fringe benefits	385,050	385,050	351,113	33,937
Repairs and maintenance	43,165	43,165	13,166	29,999
Materials and supplies	-	-	30	(30)
Equipment replacement	10,000	10,000	-	10,000
Employee development	5,000	5,000	1,487	3,513
Travel	5,000	5,000	1,452	3,548
Total expenditures	\$ 4,201,054	\$ 4,201,054	\$ 3,977,129	\$ 223,925

The York County School Division

**Schedule of Changes in Assets and Liabilities
Agency Fund - School Activity Funds
Year Ended June 30, 2006**

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assets				
Cash and temporary investments	<u>\$ 1,363,563</u>	<u>\$ 5,872,064</u>	<u>\$ 5,741,978</u>	<u>\$ 1,493,649</u>
Liabilities				
Amounts held for others	<u>\$ 1,363,563</u>	<u>\$ 5,872,064</u>	<u>\$ 5,741,978</u>	<u>\$ 1,493,649</u>

STATISTICAL SECTION
(Unaudited)

The York County School Division
Net Assets by Component - Accrual Basis of Accounting
Last Four Fiscal Years (1)
(unaudited)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental activities				
Invested in capital assets, net of related debt	\$ 118,521,776	\$ 107,919,412	\$ 108,311,650	\$ 105,811,183
Restricted	5,331,245	-	796,427	1,019,930
Unrestricted	<u>3,326,399</u>	<u>3,592,674</u>	<u>3,761,644</u>	<u>4,654,077</u>
Total primary government net assets	<u>\$ 127,179,420</u>	<u>\$ 111,512,086</u>	<u>\$ 112,869,721</u>	<u>\$ 111,485,190</u>

(1) Reflects retroactive reporting to the year of GASB34 implementation, June 30, 2003.

The York County School Division
Changes in Net Assets - Accrual Basis of Accounting
Last Four Fiscal Years (1)
(unaudited)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Expenses				
Governmental activities:				
Instruction	\$ 81,915,003	\$ 76,669,205	\$ 69,082,634	\$ 63,465,754
Administrative, attendance and health services	7,517,621	6,412,274	5,837,793	5,564,214
Transportation	6,716,845	5,242,264	4,968,615	4,534,200
Operations maintenance	11,140,232	10,918,247	10,145,537	9,129,334
Food services	4,016,427	3,852,601	3,455,830	2,620,622
Interest on capital leases	7,126	8,189	18,933	23,975
Total primary government expenses	<u>111,313,254</u>	<u>103,102,780</u>	<u>93,509,342</u>	<u>85,338,099</u>
Program Revenues				
Governmental activities:				
Charges for services:				
Instruction	376,286	538,102	511,710	484,708
Food services	2,804,096	2,646,324	2,268,203	1,943,016
Operating grants and contributions	56,670,894	51,993,529	46,002,007	45,670,293
Capital grants and contributions	<u>1,272,416</u>	<u>1,660,145</u>	<u>1,623,841</u>	<u>1,188,266</u>
Total primary government program revenues	<u>61,123,692</u>	<u>56,838,100</u>	<u>50,405,761</u>	<u>49,286,283</u>
Net (expense)/revenue				
Total primary government net expense	<u>(50,189,562)</u>	<u>(46,264,680)</u>	<u>(43,103,581)</u>	<u>(36,051,816)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Payments from York County	54,314,617	34,637,955	35,808,975	37,698,293
Shared intergovernmental revenues	10,333,640	9,306,537	7,940,139	7,291,952
Revenues from the use of money and property	886,946	536,367	512,158	580,480
Miscellaneous	<u>321,693</u>	<u>426,186</u>	<u>226,840</u>	<u>124,877</u>
Total primary government	<u>65,856,896</u>	<u>44,907,045</u>	<u>44,488,112</u>	<u>45,695,602</u>
Changes in Net Assets				
Total primary government	<u>\$ 15,667,334</u>	<u>\$ (1,357,635)</u>	<u>\$ 1,384,531</u>	<u>\$ 9,643,786</u>

(1) Reflects retroactive reporting to the year of GASB34 implementation, June 30, 2003.

The York County School Division
Fund Balances of Governmental Funds - Modified Accrual Basis of Accounting
Last Ten Fiscal Years
(unaudited)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
General Fund										
Reserved	\$ 4,338,943	\$ 3,943,555	\$ 3,751,632	\$ 4,813,836	\$ 4,001,899	\$ 2,358,472	\$ 2,311,659	\$ 2,619,906	\$ 1,745,697	\$ 2,186,588
Unreserved	<u>1,754,474</u>	<u>2,131,098</u>	<u>1,699,006</u>	<u>1,586,692</u>	<u>1,517,263</u>	<u>1,180,451</u>	<u>803,586</u>	<u>532,439</u>	<u>266,775</u>	<u>-</u>
Total general fund	<u>\$ 6,093,417</u>	<u>\$ 6,074,653</u>	<u>\$ 5,450,638</u>	<u>\$ 6,400,528</u>	<u>\$ 5,519,162</u>	<u>\$ 3,538,923</u>	<u>\$ 3,115,245</u>	<u>\$ 3,152,345</u>	<u>\$ 2,012,472</u>	<u>\$ 2,186,588</u>
All Other Governmental Funds										
Reserved	\$ 5,442,581	\$ 960,971	\$ 1,208,122	\$ 1,855,968	\$ 3,670,236	\$ 1,620,305	\$ 2,256,413	\$ 1,237,649	\$ 1,085,358	\$ 343,992
Unreserved, reported in:										
Special revenue fund	471,007	97,247	737,954	630,976	592,109	683,538	677,620	583,077	407,327	381,665
Capital project fund	<u>470,464</u>	<u>407,951</u>	<u>410,562</u>	<u>1,534,822</u>	<u>2,941,033</u>	<u>2,178,524</u>	<u>2,982,649</u>	<u>3,744,546</u>	<u>4,661,287</u>	<u>-</u>
Total all other governmental funds	<u>\$ 6,384,052</u>	<u>\$ 1,466,169</u>	<u>\$ 2,356,638</u>	<u>\$ 4,021,766</u>	<u>\$ 7,203,378</u>	<u>\$ 4,482,367</u>	<u>\$ 5,916,682</u>	<u>\$ 5,565,272</u>	<u>\$ 6,153,972</u>	<u>\$ 725,657</u>

The York County School Division
Changes in Fund Balances of Governmental Funds - Modified Accrual Basis of Accounting
Last Ten Fiscal Years
(unaudited)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	(1)	1997
Revenues:											
Federal sources:											
Federal grants	\$ 13,264,274	\$ 11,781,101	\$ 11,112,236	\$ 10,369,003	\$ 10,356,463	\$ 8,838,647	\$ 8,835,044	\$ 8,215,508	\$ 7,583,831	\$ 5,975,924	
Food services	<u>1,078,654</u>	<u>942,366</u>	<u>859,717</u>	<u>782,113</u>	<u>814,525</u>	<u>734,918</u>	<u>691,770</u>	<u>733,472</u>	<u>679,455</u>	<u>655,752</u>	
Total federal sources	<u>14,342,928</u>	<u>12,723,467</u>	<u>11,971,953</u>	<u>11,151,116</u>	<u>11,170,988</u>	<u>9,573,565</u>	<u>9,526,814</u>	<u>8,948,980</u>	<u>8,263,286</u>	<u>6,631,676</u>	
State sources:											
State education basic aid	31,852,161	31,003,195	26,214,429	25,239,532	23,259,516	22,280,390	20,709,264	19,709,536	19,195,272	-	
State sales tax	10,333,640	9,306,537	7,940,139	7,291,953	7,254,188	7,228,441	6,915,810	6,420,337	5,971,937	-	
Food services	61,065	54,920	51,053	48,969	49,350	49,559	47,584	47,758	47,198	-	
State grants and other	<u>11,683,201</u>	<u>9,872,092</u>	<u>9,386,313</u>	<u>10,395,441</u>	<u>9,616,908</u>	<u>9,523,443</u>	<u>9,109,311</u>	<u>8,227,067</u>	<u>5,701,576</u>	<u>29,396,210</u>	
Total state sources	<u>53,930,067</u>	<u>50,236,744</u>	<u>43,591,934</u>	<u>42,975,895</u>	<u>40,179,962</u>	<u>39,061,823</u>	<u>36,781,969</u>	<u>34,404,698</u>	<u>30,915,983</u>	<u>29,396,210</u>	
Local sources:	(2)		(2)						(2)		
Payments from York County	54,314,617	34,637,955	35,808,975	37,698,293	30,450,732	27,725,788	28,049,407	25,337,527	36,998,822	21,053,657	
Food service sales	2,804,096	2,646,324	2,268,203	1,943,016	1,835,792	1,694,299	1,633,450	1,486,265	1,327,920	1,296,338	
Interest and other income	886,946	536,367	512,158	580,480	605,155	891,193	756,771	627,875	1,087,715	615,988	
Other revenues	<u>701,934</u>	<u>964,288</u>	<u>740,650</u>	<u>585,599</u>	<u>727,654</u>	<u>681,870</u>	<u>760,996</u>	<u>772,742</u>	<u>568,139</u>	<u>477,514</u>	
Total local resources	<u>58,707,593</u>	<u>38,784,934</u>	<u>39,329,986</u>	<u>40,807,388</u>	<u>33,619,333</u>	<u>30,893,150</u>	<u>31,200,624</u>	<u>28,224,409</u>	<u>39,882,696</u>	<u>23,443,497</u>	
Total revenues	<u>126,980,588</u>	<u>101,745,145</u>	<u>94,893,873</u>	<u>94,934,399</u>	<u>84,970,283</u>	<u>79,628,538</u>	<u>77,509,407</u>	<u>71,578,087</u>	<u>79,161,965</u>	<u>59,471,383</u>	
Expenditures:											
Instruction	79,042,519	72,199,940	64,156,077	60,385,900	56,268,252	55,176,078	53,324,635	47,244,857	41,189,687	53,644,554	
Administration, attendance, and health services	7,420,691	6,404,403	5,907,512	5,429,175	4,705,618	4,250,250	3,763,534	3,271,627	2,637,881	-	
Pupil Transportation	6,069,668	5,618,939	5,101,840	4,858,132	3,961,244	4,672,831	3,583,816	3,140,159	3,245,285	-	
Operations and maintenance	11,080,684	11,023,760	10,111,467	8,950,532	8,022,027	7,673,108	6,958,758	6,953,359	7,712,139	-	
Food services	3,977,129	3,823,924	3,416,064	2,745,592	2,798,917	2,513,444	2,311,130	2,174,669	1,990,881	1,963,980	
Capital outlay	14,684,782	3,116,248	8,419,194	14,791,825	4,386,992	6,222,336	8,148,945	4,126,206	11,244,772	7,994,769	
Debt service:											
Principal retirement	257,000	97,000	97,000	97,000	97,000	97,000	97,000	4,018,311	619,621	775,148	
Interest and fiscal charges	<u>7,126</u>	<u>8,189</u>	<u>18,933</u>	<u>23,975</u>	<u>28,983</u>	<u>34,128</u>	<u>38,967</u>	<u>97,726</u>	<u>392,738</u>	<u>374,910</u>	
Total expenditures	<u>122,539,599</u>	<u>102,292,403</u>	<u>97,228,087</u>	<u>97,282,131</u>	<u>80,269,033</u>	<u>80,639,175</u>	<u>78,226,785</u>	<u>71,026,914</u>	<u>69,033,004</u>	<u>64,753,361</u>	
Excess of revenues over expenditures	<u>4,440,989</u>	<u>(547,258)</u>	<u>(2,334,214)</u>	<u>(2,347,732)</u>	<u>4,701,250</u>	<u>(1,010,637)</u>	<u>(717,378)</u>	<u>551,173</u>	<u>10,128,961</u>	<u>(5,281,978)</u>	
Other financing sources (uses)											
Capital lease	495,658	-	-	-	-	-	-	-	970,000	207,737	
Transfers in	500,000	-	-	-	-	-	-	-	-	-	
Transfers out	<u>(500,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total other financing sources (uses)	<u>495,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>970,000</u>	<u>207,737</u>	
Net change in fund balances	<u>4,936,647</u>	<u>(547,258)</u>	<u>(2,334,214)</u>	<u>(2,347,732)</u>	<u>4,701,250</u>	<u>(1,010,637)</u>	<u>(717,378)</u>	<u>551,173</u>	<u>11,098,961</u>	<u>(5,074,241)</u>	
Debt service as a percentage of noncapital expenditures	0.25%	0.11%	0.13%	0.15%	0.17%	0.18%	0.19%	(3) 6.56%	1.81%	2.08%	

(1) - York County School Division did not prepare separate financial statements prior to 1998 - data obtained from York County general purpose financial statements. Detailed information for comparison to subsequent years is not available, but is shown in summary.

(2) - Significant increases in payments from York County are due to years in which long-term debt was issued by the County on behalf of the School Division. Capital Outlay expenditures are also notably increased in these years.

(3) - Increase is a result of the York County School Division paying off their \$3.2 million VRS Early Retirement Liability.

The York County School Division
Assessed Value and Estimated Actual Value of Taxable Property of the County of York, Virginia
Last Ten Calendar Years
(unaudited)

<u>Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Mobile Home</u>	<u>Public Utility</u>			<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as a Percentage of Actual Value</u>
				<u>Real Estate</u>	<u>Personal Property</u>	<u>CPC Equipment</u>				
2006	\$ 7,454,449,300	\$ 476,044,805	\$ 4,234,365	\$ 281,865,579	\$ 147,630	\$ 56,217,994	\$ 8,272,959,673	\$ 1.1824	\$ 8,272,959,673	100%
2005	5,342,391,200	438,975,665	4,533,300	308,441,261	195,614	108,900,347	6,203,437,387	1.0399	6,203,437,387	100%
2004	5,177,858,100	389,936,240	4,048,700	311,750,291	103,116	83,427,310	5,967,123,757	1.0224	5,967,123,757	100%
2003	4,332,695,900	372,586,710	4,483,220	383,517,402	81,725	47,572,000	5,140,936,957	0.9000	5,140,936,957	100%
2002	4,164,948,589	357,154,465	4,710,800	373,094,854	67,399	45,232,394	4,945,208,501	0.8651	4,945,208,501	100%
2001	3,731,519,800	341,671,410	5,499,500	396,014,109	75,058	48,741,804	4,523,521,681	0.7987	4,523,521,681	100%
2000	3,593,618,963	343,064,595	4,977,800	384,314,309	76,790	45,963,521	4,372,015,978	0.7785	4,372,015,978	100%
1999	3,290,329,596	283,997,377	4,308,423	405,887,634	72,600	47,599,984	4,032,195,614	0.7015	4,032,195,614	100%
1998	3,145,948,869	265,019,266	3,660,950	396,069,366	90,318	45,779,343	3,856,568,112	0.6676	3,856,568,112	100%
1997	2,971,921,465	208,420,993	3,269,862	398,953,489	105,708	47,014,196	3,629,685,713	0.6074	3,629,685,713	100%

The York County School Division
Property Tax Rates for the County of York, Virginia
Last Ten Fiscal Years
(unaudited)

Fiscal Year	Real Estate (1) (2) (3)	Personal Property (1)	Mobile Home (1) (3)	CPC Equipment (1) (3)
2006	\$0.8175/\$0.6975	\$ 4.00	\$0.8175/\$0.6975	\$0.654/\$0.558
2005	0.8175	4.00	0.8175	0.654
2004	0.86/0.8175	4.00	0.86/0.8175	0.688/0.654
2003	0.86	4.00	0.86	0.688
2002	0.86	4.00	0.86	0.688
2001	0.86	4.00	0.86	0.688
2000	0.86	4.00	0.86	0.688
1999	0.86	4.00	0.86	0.688
1998	0.86	4.00	0.86	0.688
1997	0.86	4.00	0.86	0.688

(1) Tax rate per \$100 of assessed valuation.

(2) The amount designated for school operating is \$0.623/\$0.567 for fiscal year 2006.

(3) The tax rate, 1st half/2nd half.

Note: The County has no overlapping taxes with other governments.

Source: County of York, Virginia
Comprehensive Annual Financial Report Fiscal Year 2006

The York County School Division
Principal Property Taxpayers of the County of York, Virginia - Calendar Year
Current Year and Nine Years Ago
(unaudited)

<u>Taxpayer</u>	<u>Description</u>	<u>2006 Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>	<u>1997 Taxable Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
Virginia Power Company	Generating plant	\$ 281,707,263	1	4.55%	\$ 389,116,391	1	7.26%
Giant Industries/Amoco Oil	Refinery	89,236,500	2	1.44%	67,842,825	2	1.27%
Lawyers Title Insurance Co./ Fairfield Communities	Fairfield timeshare condominiums	78,423,075	3	1.27%	56,880,000	4	1.06%
City of Newport News	Water system	72,501,000	4	1.17%	61,685,700	3	1.15%
Anheuser Busch Companies	Busch properties	46,097,170	5	0.74%	20,934,403	6	0.39%
Kings Creek Plantation	Timeshare condominiums	35,150,685	6	0.57%	-		
Wal-Mart	Retail sales	32,299,640	7	0.52%	-		
Kiln Creek Shopping Center	Retail sales	20,051,400	8	0.32%	16,435,000	8	0.31%
Verizon Virginia Inc. (formerly Bell Atlantic)	Telephone company	18,806,838	9	0.30%	22,362,222	5	0.42%
Virginia Natural Gas	Natural gas company	<u>17,889,498</u>	10	<u>0.29%</u>			
Williamsburg Pottery	Retail sales				17,818,660	7	0.33%
1991 Ashe Property	Apartments				15,333,300	9	0.29%
Colonial Properties	Retail sales				<u>9,988,745</u>	10	<u>0.19%</u>
Total		<u>\$ 692,163,069</u>		<u>11.17%</u>	<u>\$ 678,397,246</u>		<u>12.67%</u>

Source: Commissioner of the Revenue of the County of York, Virginia.

The York County School Division
Property Tax Levies and Collections of the County of York, Virginia
Last Ten Fiscal Years
(unaudited)

<u>Fiscal Year</u>	<u>Total Tax Levy (1) (2) (3)</u>			<u>Percent of Levy Collected</u>	<u>Collections in Subsequent Year</u>	<u>Total Collections to Date</u>	
						<u>Amount</u>	<u>Percentage of Levy</u>
2006	\$	67,054,087	\$	64,874,238	96.75%	\$ -	\$ 64,874,238 96.75%
2005		65,863,726		63,315,662	96.13%	1,497,788	64,813,450 98.41%
2004		60,823,449		58,099,636	95.52%	2,056,105	60,155,741 98.90%
2003		57,471,361		55,137,811	95.94%	1,822,747	56,960,558 99.11%
2002		53,335,585		51,353,839	96.28%	1,628,397	52,982,236 99.34%
2001		50,512,862		48,624,757	96.26%	1,551,806	50,176,563 99.33%
2000		47,039,600		44,889,391	95.43%	1,520,775	46,410,166 98.66%
1999		44,071,970		42,685,249	96.85%	1,285,853	43,971,102 99.77%
1998		46,709,768		45,569,100	97.56%	892,704	46,461,804 99.47%
1997		38,497,420		37,878,936	98.39%	618,484	38,497,420 100.00%

(1) Effective for 2006, the Commonwealth of Virginia passed legislation changing the nature of the Personal Property Tax Relief Act "PPTRA" (Virginia State Code, Title 58.1, Chapter 35) from a reimbursement based entitlement program to a block grant. Consequently, the levy and collections for the first half of calendar year 2006 (second half of fiscal year 2006), excludes the Commonwealth's noncategorical aid for PPTRA. Figures for the second half of calendar year 2005 (first half of fiscal year 2006) and for applicable prior years include the Commonwealth's reimbursement for PPTRA.

(2) The total tax levy was restated from previous years reported assessments for fiscal years 1999 and 2000.

(3) In 1998, the County implemented twice a year personal property tax collections. Total tax levy through June 30, 1998 was \$5,835,850.

Source: County of York, Virginia
Comprehensive Annual Financial Report Fiscal Year 2006

The York County School Division
Ratio of Outstanding Debt By Type of the County of York, Virginia
Last Ten Fiscal Years
(unaudited)

<u>Fiscal Year</u>	<u>Governmental Activities</u>						<u>Business-type Activities</u>			<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
	<u>General Obligation Bonds</u>	<u>Literary Loans</u>	<u>Capital Leases</u>	<u>Certificates of Participation</u>	<u>Lease Revenue Bonds</u>	<u>Note Payable</u>	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Capital Leases</u>			
2006	\$ 53,455,000	\$ 710,000	\$ 860,883	\$ -	\$ 17,740,000	\$ 2,345,211	\$ -	\$ 8,824,218	\$ 1,055,000	\$ 84,990,312	2.85%	\$ 1,347
2005	41,655,000	870,000	69,189	-	18,780,000	2,553,797	-	9,062,852	1,205,000	74,195,838	2.66%	1,191
2004	44,785,000	1,030,000	175,471	-	19,795,000	2,747,783	-	9,310,721	1,350,000	79,193,975	3.04%	1,288
2003	43,740,000	1,190,000	276,247	-	3,070,000	2,928,191	-	9,484,287	1,490,000	62,178,725	2.54%	1,031
2002	38,645,400	1,350,000	372,288	-	3,385,000	3,095,971	69,600	9,652,440	1,559,167	58,129,866	2.51%	980
2001	41,122,900	1,535,700	459,780	3,470,000	-	3,252,007	142,100	9,810,200	1,680,000	61,472,687	2.83%	1,049
2000	43,702,500	1,725,600	493,296	3,695,000	-	3,397,121	217,500	9,962,586	1,791,667	64,985,270	3.21%	1,154
1999	46,704,200	1,982,450	613,058	3,905,000	-	3,532,077	295,800	569,616	1,897,501	59,499,702	3.18%	1,070
1998	49,550,400	2,276,800	213,773	4,105,000	-	-	359,600	576,307	1,998,334	59,080,214	3.34%	1,086
1997	36,693,700	2,621,800	166,351	4,290,000	-	-	426,300	992,676	2,094,167	47,284,994	2.83%	887

Source: County of York, Virginia

The York County School Division
Ratio of General Bonded Debt Outstanding for the County of York, Virginia
Last Ten Fiscal Years
(unaudited)

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Less Amounts Available in Debt Service Fund</u>	<u>Total</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
2006	\$ 53,455,000	\$ -	\$ 53,455,000	0.65%	\$ 847
2005	41,655,000	-	41,655,000	0.67%	669
2004	44,785,000	-	44,785,000	0.75%	728
2003	43,740,000	-	43,740,000	0.85%	725
2002	38,715,000	-	38,715,000	0.78%	653
2001	44,735,000	-	44,735,000	0.99%	763
2000	47,615,000	-	47,615,000	1.09%	846
1999	50,905,000	-	50,905,000	1.26%	916
1998	54,015,000	-	54,015,000	1.40%	993
1997	41,410,000	-	41,410,000	1.14%	777

Source: County of York, Virginia
Comprehensive Annual Financial Report Fiscal Year 2006

**The York County School Division
Demographic and Economic Statistics
Last Ten Fiscal Years
(unaudited)**

Fiscal Year	Population (2)	Personal Income (1) (Thousands)	Per Capita Income (1)	Median Age (2)	Education Level In Years of Formal Schooling	Student Average Daily Membership	Unemployment Rate (3)
2006	63,100	\$ 2,983,100	\$ 39,200	39.30	12.80	12,797	2.8%
2005	62,300	2,791,500	37,170	38.90	12.80	12,442	2.9%
2004	61,500	2,603,144	35,917	38.50	12.80	12,363	2.9%
2003	60,300	2,443,756	34,029	38.00	12.80	12,184	3.1%
2002	59,300	2,316,285	32,685	37.60	12.80	12,010	3.0%
2001	58,600	2,174,435	31,355	37.20	12.80	11,750	2.5%
2000	56,297	2,025,203	29,709	36.50	12.80	11,667	1.9%
1999	55,600	1,870,073	27,863	36.30	12.40	11,434	2.0%
1998	54,400	1,767,157	26,602	35.90	12.40	11,159	1.9%
1997	53,300	1,670,019	25,374	35.50	12.40	10,884	2.5%

Source:

(1) County Planning Division 2006 - 2005 (estimated); U.S. Bureau of Economic Analysis (2004 - 1997).

(2) County Planning Division, except fiscal year 2000 - U.S. Bureau of the Census.

(3) Virginia Employment Commission.

**The York County School Division
Principal Employers
Current Year and Six Years Ago (1)**
(unaudited)

<u>Employer</u>	<u>2006</u>			<u>2000</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
Naval Weapons Station/ Cheatham Annex	2,443	1	12.43%	2,800	1	19.14%
York County School Division	1,849	2	9.41%	1,622	2	11.09%
Wal-Mart	1,020	3	5.19%	-		
York County Government	899	4	4.57%	729	3	4.98%
Water Country	809	5	4.12%	603	4	4.12%
Sentara Williamsburg Regional Medical Center	800	6	4.07%	-		
U.S. Coast Guard Station	787	7	4.00%	-		
Great Wolf Lodge	400	8	2.04%	-		
Fairfield Resorts	326	9	1.66%	-		
K-Mart	<u>235</u>	10	<u>1.20%</u>	423	5	2.89%
BP Amoco				219	6	1.50%
Foodlion				213	7	1.46%
Cybernetics				150	8	1.03%
Virginia Power				108	9	0.74%
C.A. Barrs				<u>90</u>	10	<u>0.62%</u>
Total	<u>9,568</u>		<u>48.68%</u>	<u>6,957</u>		<u>47.57%</u>

(1) Data not available prior to 2000.

Source: County Office of Economic Development.

The York County School Division
Full-time Equivalent Division Employees by Type
Last Ten Fiscal Years
(unaudited)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Athletic Directors	4.00	4.00	-	-	-	-	-	-	-	-
Board Members	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Bus Drivers	136.00	130.00	128.00	129.00	126.00	124.00	120.00	125.00	119.00	107.00
Bus Driver Assistants	25.00	21.00	21.00	21.00	21.00	21.00	20.00	0.00	0.00	0.00
Cafeteria Monitors	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	0.00
Chief Financial Officer	1.00	1.00	1.00	1.00	1.00	-	-	-	-	-
Clerical	73.25	65.25	66.25	71.75	70.50	72.50	73.50	70.00	68.50	68.50
Clerk of the Board	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Clinic Aides	1.00	2.00	2.00	2.00	3.00	3.00	3.00	6.00	7.00	10.00
Crossing Guards	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	-	-
Custodians	100.50	85.75	85.75	85.75	85.75	85.75	85.75	85.75	80.75	80.75
Directors	9.25	9.25	8.75	9.25	8.25	10.25	9.25	7.00	7.00	8.00
Food Service Personnel	63.75	95.00	95.00	95.00	95.00	95.00	95.00	95.00	95.00	95.00
Guidance Counselors	34.00	33.50	33.00	33.00	33.00	33.00	32.00	33.00	33.00	34.00
Instructors	11.00	10.00	10.00	10.00	10.00	8.00	7.00	7.00	7.00	7.00
Librarians	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Mechanics	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Nurses	17.00	16.00	16.00	16.00	15.00	15.00	15.00	12.00	11.00	8.00
Occupational Therapists	4.00	3.00	3.00	2.00	2.00	2.00	2.00	2.00	2.00	1.00
Para-Educators	263.00	259.00	245.00	218.00	213.00	196.00	190.25	169.00	151.00	152.50
Physical Therapists	2.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Principals	19.00	20.00	20.00	20.00	20.00	20.00	20.00	19.00	19.00	19.00
Principals (Assistants)	23.00	23.00	22.00	20.00	20.00	20.00	19.50	20.50	18.50	18.00
Psychologists	10.00	10.00	10.00	10.00	9.00	7.00	7.00	6.00	6.00	6.00
Superintendent	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Superintendent (Assistant)	2.00	1.00	2.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00
Teachers	839.50	818.25	800.00	773.00	769.00	746.00	742.50	706.75	686.00	678.75
Technical	112.50	99.25	94.50	84.50	69.25	59.25	54.75	43.75	41.25	37.00
Trades	24.00	23.00	23.00	25.00	25.00	24.00	24.00	24.00	21.00	21.00
Total Full Time Equivalents	<u>1,813.25</u>	<u>1,768.75</u>	<u>1,725.75</u>	<u>1,666.75</u>	<u>1,636.25</u>	<u>1,582.25</u>	<u>1,561.00</u>	<u>1,473.25</u>	<u>1,411.00</u>	<u>1,386.50</u>

Source: York County School Division

The York County School Division
Operating Statistics
Last Ten Fiscal Years
(unaudited)

Fiscal Year	Enrollment	Operating Expenditures	Cost per Pupil	Percentage Change	Teaching Staff	Pupil/Teacher Ratio	Percentage Change	(1) Percentage of Students Receiving Free or Reduced Meals
2006	12,797	\$ 103,877,688	\$ 8,117	5.9%	891.58	14.4	0.3%	14.15%
2005	12,442	95,355,488	7,664	10.6%	869.82	14.3	-1.5%	13.49%
2004	12,363	85,675,590	6,930	5.9%	850.97	14.5	-1.8%	13.26%
2003	12,184	79,744,280	6,545	4.4%	823.79	14.8	1.0%	14.25%
2002	12,010	75,278,680	6,268	-0.4%	819.94	14.6	-0.6%	14.35%
2001	11,750	73,954,500	6,294	5.7%	797.04	14.7	0.3%	N/A
2000	11,654	69,376,262	5,953	-0.1%	792.54	14.7	-2.6%	N/A
1999	11,434	68,123,772	5,958	7.9%	757.74	15.1	-0.3%	N/A
1998	11,159	61,608,839	5,521	7.7%	737.02	15.1	1.7%	N/A
1997	10,884	55,813,152	5,128	1.3%	730.75	14.9	-0.4%	N/A

(1) Data not available prior to 2002.

Source: York County School Division

The York County School Division
School Building Information
Last Ten Years
(unaudited)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
<u>School</u>										
Elementary										
Bethel Manor Elementary										
Square feet	79,800	79,800	79,800	79,800	79,800	53,800	53,800	53,800	53,800	53,800
Capacity	700	700	700	700	700	430	430	430	430	430
Enrollment	598	625	595	534	520	577	614	594	566	488
Coventry Elementary										
Square feet	74,800	74,800	74,800	74,800	74,800	74,800	74,800	74,800	74,800	74,800
Capacity	708	708	708	708	708	708	708	708	708	708
Enrollment	669	644	681	686	676	738	698	668	663	569
Dare Elementary										
Square feet	52,100	52,100	52,100	52,100	52,100	52,100	52,100	52,100	52,100	52,100
Capacity	427	427	427	427	427	427	427	427	427	427
Enrollment	442	391	374	414	381	377	398	411	397	513
Grafton Bethel Elementary										
Square feet	57,800	57,800	57,800	57,800	57,800	57,800	57,800	57,800	57,800	57,800
Capacity	703	703	703	703	703	703	703	703	703	703
Enrollment	614	634	650	626	620	605	670	670	666	545
Magruder Elementary										
Square feet	70,400	70,400	70,400	70,400	70,400	70,400	70,400	62,400	62,400	62,400
Capacity	653	653	653	653	653	653	653	461	461	461
Enrollment	570	525	527	512	531	554	547	582	561	537
Mt. Vernon Elementary										
Square feet	57,600	57,600	57,600	57,600	57,600	57,600	57,600	57,600	57,600	57,600
Capacity	542	542	542	542	542	542	542	542	542	542
Enrollment	537	496	495	581	589	521	544	553	519	534
Seaford Elementary										
Square feet	52,700	52,700	52,700	52,700	52,700	41,700	41,700	41,700	41,700	41,700
Capacity	506	506	506	506	506	506	506	506	506	506
Enrollment	517	496	492	489	472	495	457	455	438	410

The York County School Division
School Building Information
Last Ten Years
(unaudited)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Tabb Elementary										
Square feet	67,000	67,000	67,000	67,000	67,000	67,000	67,000	67,000	67,000	67,000
Capacity	627	627	627	627	627	627	627	627	627	627
Enrollment	578	619	619	616	645	649	614	620	647	695
Waller Mill Elementary										
Square feet	33,800	33,800	33,800	33,800	33,800	33,800	33,800	33,800	33,800	33,800
Capacity	297	297	297	297	297	297	297	297	297	297
Enrollment	307	288	289	287	257	199	211	213	220	259
Yorktown Elementary										
Square feet	54,200	54,200	54,200	54,200	54,200	54,200	54,200	54,200	54,200	54,200
Capacity	494	494	494	494	494	494	494	494	494	494
Enrollment	497	507	493	431	396	387	383	410	402	439
Middle										
Grafton Middle										
Square feet	143,000	143,000	143,000	143,000	143,000	143,000	143,000	143,000	143,000	143,000
Capacity	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Enrollment	945	981	966	947	915	985	1,000	1,003	998	991
Queens Lake Middle										
Square feet	57,100	57,100	57,100	48,100	48,100	48,100	48,100	48,100	48,100	48,100
Capacity	681	681	681	490	490	490	490	490	490	490
Enrollment	519	484	486	493	510	476	457	445	473	441
Tabb Middle										
Square feet	98,000	98,000	98,000	98,000	98,000	98,000	65,000	65,000	65,000	65,000
Capacity	1,080	1,080	1,080	1,080	1,080	1,080	650	650	650	650
Enrollment	1,014	936	994	987	964	847	822	773	797	761
Yorktown Middle										
Square feet	65,600	65,600	65,600	65,600	65,600	65,600	65,600	65,600	65,600	65,600
Capacity	629	629	629	629	629	629	629	629	629	629
Enrollment	699	667	666	630	607	576	593	582	557	561

The York County School Division
School Building Information
Last Ten Years
(unaudited)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
High										
Bruton High										
Square feet	155,200	155,200	155,200	155,200	151,700	151,700	151,700	151,700	151,700	151,700
Capacity	1,039	1,039	1,039	1,039	1,039	1,039	1,039	1,039	1,039	1,039
Enrollment	739	703	661	621	585	567	548	548	546	568
Grafton High										
Square feet	143,000	143,000	143,000	143,000	143,000	143,000	143,000	143,000	143,000	143,000
Capacity	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Enrollment	1,280	1,264	1,253	1,208	1,241	1,214	1,218	1,191	1,125	838
Tabb High										
Square feet	152,400	152,400	152,400	152,400	152,400	152,400	152,400	152,400	152,400	152,400
Capacity	1,290	1,290	1,290	1,290	1,290	1,290	1,290	1,290	1,290	1,290
Enrollment	1,293	1,305	1,216	1,175	1,122	1,100	1,028	954	872	984
York High										
Square feet	190,000	190,000	190,000	190,000	190,000	190,000	190,000	190,000	190,000	190,000
Capacity	1,214	1,214	1,214	1,214	1,214	1,214	1,214	1,214	1,214	1,214
Enrollment	974	957	960	922	866	849	797	727	724	798
York River Acacemy										
Square feet	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800	3,800
Capacity	40	40	40	40	40	40	40	40	40	40
Enrollment	37	39	42	48	45	43	43	38	34	40

Source: York County School Division

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COMPLIANCE SECTION



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

Members of the School Board
York County School Division

We have audited the basic financial statements of the York County School Division, a component unit of the County of York, Virginia, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the York County School Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the York County School Division's basic 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 York County School Division, management, 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.

Cherry, Bekant & Holland, L.L.P.

Richmond, Virginia
October 20, 2006



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
COMMONWEALTH OF VIRGINIA'S LAWS, REGULATIONS,
CONTRACTS AND GRANTS**

Members of the School Board
York County School Division

We have audited the basic financial statements of the York County School Division, a component unit of the County of York, Virginia, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006.

We conducted our audit 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 *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the York County School Division's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions, and accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

<u>Code of Virginia</u>		<u>State Agency Requirements</u>
Budget and Appropriation Laws	Retirement	Education
Cash and Investments	Procurement	
Conflicts of Interest	Unclaimed Property	

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph.

This report is intended solely for the information of the York County School Division, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
October 20, 2006

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