Pequea Valley School District

Year Ended June 30, 2019

TROUT, EBERSOLE & GROFF LLP
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SERVICE | ANSWERS | TRUST

Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2019

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Financial Statements with Supplementary Information

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INDEPENDENT AUDITORS' REPORT

To the Board Officers and Members
Pequea Valley School District
Lancaster County, Pennsylvania

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Pequea Valley School District** (the School District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

Auditors' Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Pequea Valley School District** as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 14, the budgetary comparison information on pages 64 and 65, the other postemployment benefits (OPEB) health care benefits plan information on pages 66 through 70, and the pension information on pages 71 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Pequea Valley School District's** basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2019, on our consideration of **Pequea Valley School District's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to soley 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 **Pequea Valley School District's** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Pequea Valley School District's** internal control over financial reporting and compliance.

Trout, Ebersole & Groff, LLP

November 18, 2019
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

The discussion and analysis of the **Pequea Valley School District's** (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements and the financial statements as a whole to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Overall expenditures in the general fund for the 2018-2019 fiscal year were expected to increase by 1.71% from the previous year's expenditure and financing uses budget based on the original budget. At year end, actual expenditures and uses were 5.45% higher than budgeted, and revenues were greater than budgeted by 2.72%. Revenues exceeded expenses in the amount of $1,080,475 for the 2018-2019 fiscal year. There were other transfers out of the general fund in the amount of $2,004,203 of which $2,000,000 was to the capital projects fund. This resulted in a net decrease in fund balance of $1,027,396.

Based on final budgeted amounts, instructional services expenses were lower than budgeted by $54,069 or less than 1.00% and support services were lower than budgeted by $250,686 or 2.10%. The reason for both instructional and support expenses being lower than budgeted was due primarily to a decrease in personnel and services needed in these areas. Both of these variances were not anticipated at the time of budget.

Based on final budgeted amounts, total revenues were $1,057,058 higher than budgeted. Local revenue was $847,242 or 3.07% higher than budgeted. Real estate and other taxes attributed to $360,898 of this increase with interest on investments accounting for $362,449 of the increase and other revenue accounting for $123,895 of the increase. State revenue was $191,020 more than budgeted and federal revenue was $18,796 more than budgeted.

Using this Annual Report

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so that the reader can understand **Pequea Valley School District** as a financial whole.

The first two statements are government-wide financial statements - the statement of net position and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

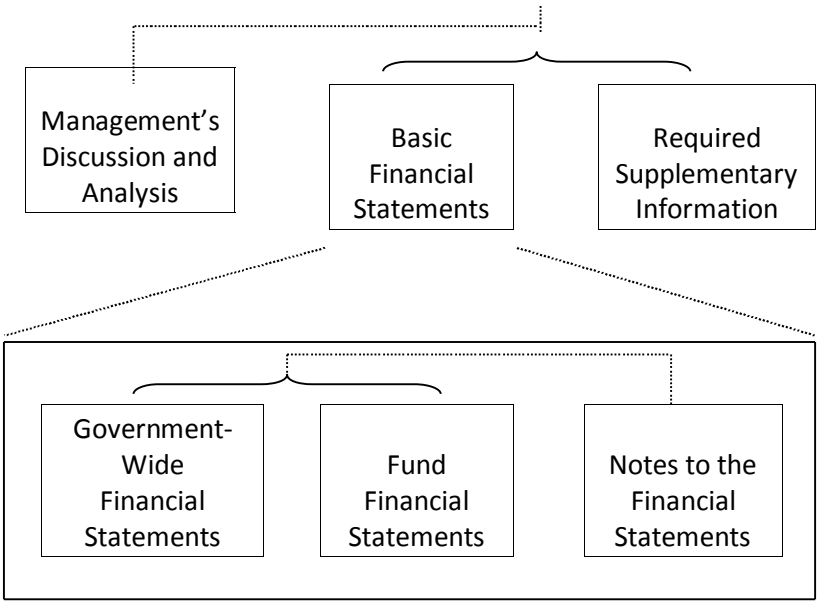
The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. The governmental funds statements tell how general School District services were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities that the School District operates like a business. For this School District, this is the food service fund. Fiduciary fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Using this Annual Report (Continued)

Figure A-1 shows how the required parts of the financial report are arranged and relate to one another.

Figure A-1
Required Components of Pequea Valley School District's Financial Report



Using this Annual Report (Continued)

Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of Pequea Valley School District's
Government-Wide and Fund Financial Statements

		Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except fiduciary funds)	The activities of the School District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the School District operates similar to private business - food service and internal services funds	Instances in which the School District is the trustee or agent for someone else's resources - scholarship and activity funds
Required financial statements	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flow	Statement of Net Position and Statement of Changes in Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
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 payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Overview of Financial Statements

Government-Wide Statements
The government-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and deferred outflows, and liabilities and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School District's net position and how it has changed. Net position, the difference between the School District's assets and deferred outflows, and liabilities and deferred inflows, is one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net position is an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the School District, the reader needs to consider additional non-financial factors, such as changes in the School District's property tax base and the performance of the students.

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

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

Fund Financial Statements
The School District's fund financial statements, which begin on page 19, provide detailed information about the most significant funds - not the School District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds - Most of the School District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.

Overview of Financial Statements (Continued)

Fund Financial Statements (Continued)

Proprietary funds - These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District charges customers for services it provides, whether to outside customers or to other units in the School District, these services are generally reported in proprietary funds. The food service fund is the School District's proprietary fund and is the same as the business-type activities reported in the government-wide statements, but provides more detail and additional information, such as cash flow.

The School District's other proprietary fund is the internal service fund. This fund is used to facilitate the payments of actual claims incurred by the School District's self-funded medical and dental plans. The School District contracts with third-party administrators to process all claims and notify the School District on a weekly basis of the dollar amount of claims that are to be paid.

Fiduciary funds - The School District is the trustee, or fiduciary, for some scholarship funds and student activity funds. All of the School District's fiduciary activities are reported in separate statements of net position and changes in net position - fiduciary funds. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations.

Financial Analysis of the School District as a Whole

The School District's total net position was $4,218,339 as of June 30, 2019. The negative unrestricted net position is due to GASB 68, *Accounting and Financial Reporting for Pensions*, which requires recognition of an approximately $44.6 million net pension liability at June 30, 2019, and significant footnote disclosure found in Note 15.

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

Table A-1
Fiscal Years Ended June 30, 2019 and 2018
Net Position

	2019			2018		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	19,338,311	244,586	19,582,897	18,789,686	165,707	18,955,393
Capital Assets and Other Noncurrent Assets	38,108,162	86,373	38,194,535	39,614,303	105,567	39,719,870
Total Assets	**57,446,473**	**330,959**	**57,777,432**	**58,403,989**	**271,274**	**58,675,263**
Deferred Outflows of Resources	**8,922,766**	**93,200**	**9,015,966**	**9,489,310**	**99,800**	**9,589,110**
Current and Other Liabilities	8,061,886	7,593	8,069,479	8,438,368	9,341	8,447,709
Long-Term Liabilities	53,138,580	511,000	53,649,580	56,668,158	510,000	57,178,158
Total Liabilities	**61,200,466**	**518,593**	**61,719,059**	**65,106,526**	**519,341**	**65,625,867**
Deferred Inflows of Resources	**847,000**	**9,000**	**856,000**	**740,000**	**8,000**	**748,000**
Net Position:						
Net Investment in Capital Assets	31,444,089	86,373	31,530,462	28,860,975	105,567	28,966,542
Unrestricted	(27,122,316)	(189,807)	(27,312,123)	(26,814,202)	(261,834)	(27,076,036)
Total Net Position	**4,321,773**	**(103,434)**	**4,218,339**	**2,046,773**	**(156,267)**	**1,890,506**

Most of the School District's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is a combination of designated and undesignated amounts. The deferred inflows and outflows of resources are discussed in Note 1 to the financial statements. The negative unrestricted net position is due to the requirement of the School District to report its proportionate share of the PSERS net pension liability as defined in GASB statement No. 68. Note 15 of these financial statements further explains the defined benefit pension plan.

The results of this year's operations as a whole are reported in the statement of activities on pages 17 and 18. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues.

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

The two largest general revenues are the local real estate taxes assessed to community taxpayers and basic education subsidy provided by the State of Pennsylvania.

Table A-2 takes the information from the statement of activities and rearranges it slightly so that you can see the total revenues for the year.

Table A-2
Fiscal Years Ended June 30, 2019 and 2018
Changes in Net Position

	2019			2018		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	170,693	248,261	418,954	246,492	210,794	457,286
Operating Grants and Contributions	6,898,434	519,500	7,417,934	6,699,508	558,369	7,257,877
Capital Grants and Contributions	272,434	-0-	272,434	342,152	-0-	342,152
General Revenues:						
Property Taxes	24,429,892	-0-	24,429,892	23,822,900	-0-	23,822,900
Other Taxes	2,919,523	-0-	2,919,523	2,697,752	-0-	2,697,752
Grants, Subsidies, and Contributions, Unrestricted	3,205,998	-0-	3,205,998	3,167,718	-0-	3,167,718
Other	567,384	18,757	586,141	(103,038)	11,777	(91,261)
Total Revenues	**38,464,358**	**786,518**	**39,250,876**	**36,873,484**	**780,940**	**37,654,424**
Expenses:						
Instructional Programs	22,555,640	-0-	22,555,640	21,567,353	-0-	21,567,353
Instructional Student Support	3,577,257	-0-	3,577,257	3,700,896	-0-	3,700,896
Administrative and Financial Support Services	3,292,838	-0-	3,292,838	3,521,679	-0-	3,521,679
Operation and Maintenance of Plant Services	3,154,621	-0-	3,154,621	2,784,248	-0-	2,784,248
Pupil Transportation	2,538,310	-0-	2,538,310	2,401,543	-0-	2,401,543
Student Activities	804,949	-0-	804,949	678,167	-0-	678,167
Community Services	34,082	-0-	34,082	33,774	-0-	33,774
Interest on Long-Term Debt	231,661	-0-	231,661	347,814	-0-	347,814
Food Services	-0-	733,685	733,685	-0-	747,580	747,580
Total Expenses	**36,189,358**	**733,685**	**36,923,043**	**35,035,474**	**747,580**	**35,783,054**
Increase in Net Position	**2,275,000**	**52,833**	**2,327,833**	**1,838,010**	**33,360**	**1,871,370**

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

Table A-3 shows the School District's eight largest functions - instructional programs, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, student activities, community services, and interest on long-term debt, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants and subsidies to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Fiscal Years Ended June 30, 2019 and 2018
Governmental Activities

	2019		2018	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Instructional Programs	22,555,640	17,739,556	21,567,353	16,966,177
Instructional Student Support	3,577,257	3,214,153	3,700,896	3,361,186
Administrative and Financial Support Services	3,292,838	2,913,952	3,521,679	3,138,306
Operation and Maintenance of Plant Services	3,154,621	2,996,033	2,784,248	2,428,914
Pupil Transportation	2,538,310	1,318,989	2,401,543	1,242,967
Student Activities	804,949	692,773	678,167	592,158
Community Services	34,082	13,114	33,774	11,952
Interest on Long-Term Debt	231,661	(40,773)	347,814	5,662
Total Governmental Activities	**36,189,358**	**28,847,797**	**35,035,474**	**27,747,322**
Unrestricted Grants, Subsidies		**(3,205,998)**		**(3,167,718)**
Total Needs from Local Taxes and Other Revenues		**25,641,799**		**24,579,604**

Table A-4 reflects the activities of the food service program, the only business-type activity of the School District.

Table A-4
Fiscal Years Ended June 30, 2019 and 2018
Business-Type Activities

	2019		2018	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Food Services	733,685	(34,076)	747,580	(21,583)

Financial Analysis of the School District as a Whole (Continued)
The increase in the net cost of services is primarily related to a decrease in the cost of meals served and an increase in charges for services due to new programs in which Food Service meals are served. The statement of revenues, expenses, and changes in net position for this proprietary fund will further detail the actual results of operations.

The School District Funds
As of June 30, 2019, the School District's governmental funds reported a combined fund balance of $13,959,885 which is an increase of $437,653 from the previous year. The primary reason for this increase is due to revenues exceeding expenditures by $383,955. When you take into account fund transfers and the sale of assets, the net change in fund balance is an increase of $437,653.

The capital project fund balance increased by $1,465,049 primarily due to a planned transfer of $2,000,000 from the General Fund.

The School District's debt service fund facilitated the payment of debt service of $4,141,500 and carries no fund balance.

General Fund Budget
During the fiscal year, the Board of School Directors (Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. A schedule, showing the School District's original and final budget amounts compared with amounts actually paid and received, is provided on page 63.

Transfers between specific categories of expenditures and financing uses occur during the year.

Debt Administration and Capital Assets

Debt Administration
As of July 1, 2018, the School District had a total outstanding bond principal of $10,480,000. During the year, the School District made payments against principal in the amount of $3,910,000. Current year debt service activity resulted in an ending outstanding debt as of June 30, 2019, of $6,570,000.

Table A-5
Outstanding Debt

	2019	2018
Issue:		
Series A of 2013	5,850,000	8,665,000
Series of 2015	720,000	1,815,000
	6,570,000	**10,480,000**

More detailed information about our long-term liabilities is included in Notes 10, 11, and 12 to the financial statements. Accrued vacation pay and sick leave and accrued retirement bonuses for specific employees of the School District are detailed in Notes 13 and 14 of the financial statements, respectively.

Debt Administration and Capital Assets (Continued)

Capital Assets

As of June 30, 2019, the School District had $38,108,162 invested in a broad range of capital assets, including land, buildings, furniture, and equipment for governmental activities. This amount represents a net decrease (including additions, deletions, and depreciation) of $1,506,141.

Table A-6
Governmental Activities
Capital Assets - net of Depreciation

	2019	2018
Land and Site Improvements	1,621,289	1,717,731
Building and Building Improvements	34,366,291	35,786,367
Furniture and Equipment	2,041,661	1,624,153
Vehicles	54,935	69,698
Construction in Process	23,986	416,354
	38,108,162	**39,614,303**

Economic Factors and Next Year's Budgets and Rates

The School District's general obligation bond rating is a Moody's and Standard & Poor's AA. The AA rating is based upon the additional security for bonds provided by the Commonwealth of Pennsylvania Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default. Standard & Poor's cited that the AA rating reflects the School District's stable tax base, very strong financial position with conservative budgeting practices, and low debt burden on market value basis with limited capital needs.

The School District does not expect a significant growth in student population. Despite a good amount of available land, current zoning ordinances discourage residential development. Increases in assessed values have been relatively low in recent years, primarily as a result of properties which qualify for preferential assessment under the Clean and Green Act. The wage tax shows a steady annual increase that generally reflects increases at or slightly above the CPI, an indication that employment opportunities are available for residents of our School District.

In the 2019-2020 budget, the School District increased expenditures and financing uses by 3.71% from the original budget in the previous year. The majority of the increase was in salaries and associated benefits. Debt service is funded at the maximum needed level of $4,203,053. Debt service has begun to fall off, and the School District plans to utilize the excess funds in debt service in future years to fund the capital projects fund.

Budgeted revenue for the 2019-2020 school year is 3.22% higher than the original budget in the previous fiscal year. The millage increase for the 2019-2020 fiscal year was 1.64% well under the allowable 2.3% act 1 index. Local revenue continues to provide the majority of funding for School District expenses as noted on page 11.

Economic Factors and Next Year's Budgets and Rates (Continued)

The comparison of revenue and expenditure categories is as follows:

Table A-7
Budgeted Revenues

	2019-2020	2018-2019
Local Sources	73.8%	73.8%
State Sources	23.0%	22.7%
Federal/Other Sources	3.2%	3.5%

Budgeted Expenditures

	2019-2020	2018-2019
Instruction	54.7%	54.1%
Support Services	32.7%	32.9%
Non-Instruction/Community	1.7%	1.7%
Fund Transfers/Debt	10.9%	11.3%

Contacting the School District Business Administrator

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact John A. Bowden, Chief of Finance and Operations, **Pequea Valley School District**, 166 S. New Holland Road, P.O. Box 130, Kinzers, PA 17535.

Pequea Valley School District

STATEMENT of NET POSITION

June 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 1,857,983	$ 468,663	$ 2,326,646
Investments	14,339,182	68,665	14,407,847
Taxes Receivable, net	924,475	-0-	924,475
Internal Balances	382,536	(382,536)	-0-
Due from Other Governments	1,741,890	62,509	1,804,399
Other Receivables	85,394	4,196	89,590
Prepaid Expenses	6,851	-0-	6,851
Inventories	-0-	23,089	23,089
Total Current Assets	**19,338,311**	**244,586**	**19,582,897**
Capital Assets			
Non-Depreciable	632,657	-0-	632,657
Depreciable, net	37,475,505	86,373	37,561,878
Total Capital Assets	**38,108,162**	**86,373**	**38,194,535**
TOTAL ASSETS	**57,446,473**	**330,959**	**57,777,432**
DEFERRED OUTFLOWS of RESOURCES			
Loss on Bond Refunding, net of Accumulated Amortization	74,766	-0-	74,766
Pension	7,619,000	81,200	7,700,200
Other Postemployment Benefits	1,229,000	12,000	1,241,000
TOTAL DEFERRED OUTFLOWS of RESOURCES	**$ 8,922,766**	**$ 93,200**	**$ 9,015,966**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION
(Continued)
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	$ 190,728	$ -0-	$ 190,728
Current Portion of Long-Term Debt	3,605,000	-0-	3,605,000
Accrued Salaries and Benefits	2,692,103	412	2,692,515
Compensated Absences Due Within One Year	143,559	-0-	143,559
Accrued Interest on Long-Term Debt	49,721	-0-	49,721
Payroll Deductions and Withholdings	127,794	-0-	127,794
Unearned Revenues	91,115	7,181	98,296
Due to Other Governments	791,371	-0-	791,371
Other Current Liabilities	370,495	-0-	370,495
Total Current Liabilities	**8,061,886**	**7,593**	**8,069,479**
Noncurrent Liabilities			
Long-Term Portion of Bonds Payable, net of Unamortized Premium	3,004,300	-0-	3,004,300
Long-Term Portion of Capital Lease	129,539	-0-	129,539
Accrued Retirement Bonuses	779,398	-0-	779,398
Long-Term Portion of Compensated Absences	853,343	-0-	853,343
Net Pension Liability	44,176,000	469,000	44,645,000
Net Other Postemployment Benefits (OPEB) Liability	4,196,000	42,000	4,238,000
Total Noncurrent Liabilities	**53,138,580**	**511,000**	**53,649,580**
TOTAL LIABILITIES	**61,200,466**	**518,593**	**61,719,059**
DEFERRED INFLOWS of RESOURCES			
Pension	774,000	8,000	782,000
Other Postemployment Benefits	73,000	1,000	74,000
TOTAL DEFERRED INFLOWS of RESOURCES	**847,000**	**9,000**	**856,000**
NET POSITION			
Net Investment in Capital Assets	31,444,089	86,373	31,530,462
Unrestricted (Deficit)	(27,122,316)	(189,807)	(27,312,123)
TOTAL NET POSITION	**$ 4,321,773**	**$(103,434)**	**$ 4,218,339**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	$ 22,555,640	$ 79,839	$ 4,736,245	$ -0-	$ (17,739,556)	$ -0-	$ (17,739,556)
Instructional Student Support	3,577,257	-0-	363,104	-0-	(3,214,153)	-0-	(3,214,153)
Administrative and Financial Support Services	3,292,838	-0-	378,886	-0-	(2,913,952)	-0-	(2,913,952)
Operation and Maintenance of Plant Services	3,154,621	53,835	104,753	-0-	(2,996,033)	-0-	(2,996,033)
Pupil Transportation	2,538,310	-0-	1,219,321	-0-	(1,318,989)	-0-	(1,318,989)
Student Activities	804,949	34,472	77,704	-0-	(692,773)	-0-	(692,773)
Community Services	34,082	2,547	18,421	-0-	(13,114)	-0-	(13,114)
Interest on Long-Term Debt	231,661	-0-	-0-	272,434	40,773	-0-	40,773
Total Governmental Activities	**36,189,358**	**170,693**	**6,898,434**	**272,434**	**(28,847,797)**	**-0-**	**(28,847,797)**
Business-Type Activities:							
Food Services	**733,685**	**248,261**	**519,500**	**-0-**	**-0-**	**34,076**	**34,076**
Total Primary Government	**$ 36,923,043**	**$ 418,954**	**$ 7,417,934**	**$ 272,434**	**$ (28,847,797)**	**$ 34,076**	**$ (28,813,721)**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Position: Governmental Activities	Net Revenue (Expense) and Changes in Net Position: Business-Type Activities	Net Revenue (Expense) and Changes in Net Position: Total
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					$ 24,429,892	$ -0-	$ 24,429,892
Public Utility Realty, Earned Income, and Other Taxes Levied for General Purposes					2,919,523	-0-	2,919,523
Unrestricted Grants and Subsidies					3,205,998	-0-	3,205,998
Unrestricted Investment Earnings					514,005	14,554	528,559
Gain on Asset Dispositions					57,582	-0-	57,582
Transfers In (Out)					(4,203)	4,203	-0-
Total General Revenues					**31,122,797**	**18,757**	**31,141,554**
CHANGES in NET POSITION					**2,275,000**	**52,833**	**2,327,833**
NET POSITION							
Beginning					2,046,773	(156,267)	1,890,506
Ending					**$ 4,321,773**	**$ (103,434)**	**$ 4,218,339**

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2019

	Major Funds			
	General Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 1,857,983	$ -0-	$ -0-	$ 1,857,983
Investments	11,527,835	2,394,815	-0-	13,922,650
Taxes Receivable, net	924,475	-0-	-0-	924,475
Due from Other Funds	384,259	5,648	-0-	389,907
Due from Other Governments	1,516,387	-0-	-0-	1,516,387
Other Receivables	84,557	-0-	-0-	84,557
Prepaid Expenses	78,906	-0-	-0-	78,906
TOTAL ASSETS	**16,374,402**	**2,400,463**	**-0-**	**18,774,865**
LIABILITIES, DEFERRED INFLOWS of RESOURCES, and FUND BALANCES				
LIABILITIES				
Accounts Payable	186,589	4,139	-0-	190,728
Due to Other Funds	532,348	-0-	-0-	532,348
Accrued Salaries and Benefits	2,692,103	-0-	-0-	2,692,103
Payroll Deductions and Withholdings	127,794	-0-	-0-	127,794
Payable to Other Governments	791,371	-0-	-0-	791,371
Other Current Liabilities	70,712	-0-	-0-	70,712
Unearned Revenue	91,115	-0-	-0-	91,115
TOTAL LIABILITIES	**4,492,032**	**4,139**	**-0-**	**4,496,171**
DEFERRED INFLOWS of RESOURCES				
Deferred Taxes	**318,809**	**-0-**	**-0-**	**318,809**
FUND BALANCES				
Nonspendable	78,906	-0-	-0-	78,906
Committed	8,200,000	-0-	-0-	8,200,000
Assigned	-0-	2,396,324	-0-	2,396,324
Unassigned	3,284,655	-0-	-0-	3,284,655
TOTAL FUND BALANCES	**11,563,561**	**2,396,324**	**-0-**	**13,959,885**
TOTAL LIABILITIES, DEFERRED INFLOWS of RESOURCES, and FUND BALANCES	**$ 16,374,402**	**$ 2,400,463**	**$ -0-**	**$ 18,774,865**

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET POSITION
June 30, 2019

Total Fund Balances - Governmental Funds	$ 13,959,885
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is $77,103,267 and the accumulated depreciation is $38,995,105.	38,108,162
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	868,066
Property taxes and certain other receivables are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	318,809
The prepaid expense related to the capital lease payment is reported as an asset in the funds. This prepayment was a reduction of the current portion of the capital lease in the statement of net position.	(72,055)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities and related accounts at year end consist of:	
Accrued Interest on Long-Term Debt	(49,721)
Capital Lease	(129,539)
Bonds Payable	(6,570,000)
Bond Premium, net of Amortization	(39,300)
Net Pension Liability	(44,176,000)
Accrued Retirement Bonuses	(779,398)
Compensated Absences	(996,902)
Net Other Postemployment Benefit (OPEB) Liability	(4,196,000)
Deferred outflows of resources - loss on bond refundings, pension, and OPEB are not due and payable in the current period and, therefore, are not reported in the funds.	8,922,766
Deferred inflows of resources - pension and OPEB are not due and collectable in the current period and, therefore, are not reported in the funds.	(847,000)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	**$ 4,321,773**

See notes to financial statements.

Pequea Valley School District

STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2019

	Major Funds			
	General Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Local Sources:				
Real Estate Taxes	$ 24,434,675	$ -0-	$ -0-	$ 24,434,675
Other Taxes	2,919,523	-0-	-0-	2,919,523
Investment Earnings	462,449	35,119	-0-	497,568
Other Revenue	592,495	-0-	-0-	592,495
Total Local Sources	28,409,142	35,119	-0-	28,444,261
State Sources	8,686,447	-0-	-0-	8,686,447
Federal Sources	1,273,617	-0-	-0-	1,273,617
Total Revenues	**38,369,206**	**35,119**	**-0-**	**38,404,325**
EXPENDITURES				
Instructional Services	20,454,122	-0-	-0-	20,454,122
Support Services	11,899,299	285,089	-0-	12,184,388
Noninstructional Services	819,559	-0-	-0-	819,559
Capital Outlay	-0-	284,981	-0-	284,981
Debt Service	135,820	-0-	4,141,500	4,277,320
Total Expenditures	**33,308,800**	**570,070**	**4,141,500**	**38,020,370**
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	**5,060,406**	**(534,951)**	**(4,141,500)**	**383,955**
OTHER FINANCING SOURCES (USES)				
Transfer In (Out)	(2,004,203)	2,000,000	-0-	(4,203)
Proceeds from Sale of Capital Assets	57,582	-0-	-0-	57,582
Debt Service Fund Transfer	(4,141,500)	-0-	4,141,500	-0-
Refund of Prior Year Expenditures	319	-0-	-0-	319
Net Other Financing Sources (Uses)	**(6,087,802)**	**2,000,000**	**4,141,500**	**53,698**
NET CHANGES in FUND BALANCES	**(1,027,396)**	**1,465,049**	**-0-**	**437,653**
FUND BALANCES				
Beginning	12,590,957	931,275	-0-	13,522,232
Ending	**$ 11,563,561**	**$ 2,396,324**	**$ -0-**	**$ 13,959,885**

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES to the STATEMENT of ACTIVITIES

Year Ended June 30, 2019

Net Changes in Fund Balances - Total Governmental Funds		$ 437,653
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation exceeds capital outlays in the period is as follows:		
Depreciation Expense	(2,089,939)	
Capital Outlays	583,798	(1,506,141)
Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered available revenues in the governmental funds. Deferred tax revenues decreased by this amount this year.		(4,783)
An intergovernmental receivable will not be collected for several months after the School District's fiscal year ends, and is not considered available revenue in the governmental funds. The receivable decreased by this amount this year.		(5,000)
The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items.		(18,078)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		3,910,000
Repayment of the capital lease payment is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		$ 125,278

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES to the STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2019

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.	$ 28,459
In the statement of activities, certain operating expenses (e.g., compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.	(17,283)
In the statement of activities, certain operating expenses (e.g., accrued retirement bonuses) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.	(60,575)
In the statement of activities, deferred inflows of resources - OPEB, deferred outflows of resources - OPEB, and OPEB expense are recognized in conjunction with net OPEB liability. Whereas in the governmental funds, OPEB expense is recorded when required contributions are payable. This amount represents the current OPEB obligation expense over amounts payable.	(107,000)
The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net expense of the internal service funds is allocated among the governmental activities.	91,470
In the statement of activities, deferred inflows of resources - pension, deferred outflows of resources - pension, and pension expense are recognized in conjunction with net pension liability. Whereas in the governmental funds, pension expense is recorded when required contributions are payable. This amount represents the current pension obligation expense.	(599,000)
CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES	**$ 2,275,000**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION -
PROPRIETARY FUNDS
June 30, 2019

	Major Fund	
	Enterprise Fund Food Service Fund	Internal Service Fund
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 468,663	$ -0-
Investments	68,665	416,532
Due from Other Funds	-0-	525,814
Due from Other Governments	62,509	225,503
Other Receivables	4,196	-0-
Inventories	23,089	-0-
Total Current Assets	**627,122**	**1,167,849**
Noncurrent Assets		
Depreciable Capital Assets, net of Accumulated Depreciation	**86,373**	**-0-**
TOTAL ASSETS	**713,495**	**1,167,849**
DEFERRED OUTFLOWS of RESOURCES		
Pension	81,200	-0-
Other Postemployment Benefits	12,000	-0-
TOTAL DEFERRED OUTFLOWS of RESOURCES	**93,200**	**-0-**
LIABILITIES		
Current Liabilities		
Accrued Salaries and Benefits	412	-0-
Due to Other Funds	382,536	-0-
Other Current Liabilities	-0-	299,783
Unearned Revenues	7,181	-0-
Total Current Liabilities	**390,129**	**299,783**
Noncurrent Liabilities		
Net Pension Liability	469,000	-0-
Net Other Postemployment Benefits (OPEB) Liability	42,000	-0-
Total Noncurrent Liabilities	**511,000**	**-0-**
TOTAL LIABILITIES	**901,129**	**299,783**
DEFERRED INFLOWS of RESOURCES		
Pension	8,000	-0-
Other Postemployment Benefits	1,000	-0-
TOTAL DEFERRED INFLOWS of RESOURCES	**9,000**	**-0-**
NET POSITION		
Net Investment in Capital Assets	86,373	-0-
Unrestricted (Deficit)	(189,807)	868,066
TOTAL NET POSITION	**$ (103,434)**	**$ 868,066**

See notes to financial statements.

Pequea Valley School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
PROPRIETARY FUNDS
Year Ended June 30, 2019

	Major Fund	
	Enterprise Fund Food Service Fund	Internal Service Fund
OPERATING REVENUES		
Food Service Revenue	$ 248,261	$ -0-
Charges for Services	-0-	3,279,770
Total Operating Revenues	**248,261**	**3,279,770**
OPERATING EXPENSES		
Salaries	109,381	-0-
Employee Benefits	107,079	3,204,737
Purchased Professional and Technical Services	207,458	-0-
Other Purchased Services	8,109	-0-
Supplies	282,464	-0-
Depreciation	19,194	-0-
Total Operating Expenses	**733,685**	**3,204,737**
OPERATING REVENUE (LOSS)	**(485,424)**	**75,033**
NONOPERATING REVENUES		
Investment Earnings	14,554	16,437
State Sources	46,074	-0-
Federal Sources	473,426	-0-
Net Nonoperating Revenues	**534,054**	**16,437**
Income Before Other Financing Sources	**48,630**	**91,470**
OTHER FINANCING SOURCES		
Transfer In	**4,203**	**-0-**
CHANGES in NET POSITION	**52,833**	**91,470**
NET POSITION		
Beginning	(156,267)	776,596
Ending	**$ (103,434)**	**$ 868,066**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2019

	Major Fund	
	Enterprise Fund Food Service Fund	Internal Service Fund
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	$ 242,431	$ 503,611
Cash Received from Assessments Made to Other Funds	-0-	2,753,956
Cash Payments to Employees for Services	(199,075)	-0-
Cash Payments to Suppliers for Goods and Services	(451,638)	(3,901,271)
Net Cash Used by Operating Activities	**(408,282)**	**(643,704)**
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
State Sources	46,416	-0-
Federal Sources	445,418	-0-
Net Cash Provided by Noncapital Financing Activities	**491,834**	**-0-**
CASH FLOWS from INVESTING ACTIVITIES		
Investment Earnings	14,554	16,437
Sale of Investments	500,000	643,704
Purchase of Investments	(473,262)	(16,437)
Net Cash Provided by Investing Activities	**41,292**	**643,704**
INCREASE in CASH and CASH EQUIVALENTS	**124,844**	**-0-**
CASH and CASH EQUIVALENTS		
Beginning of Year	343,819	-0-
End of Year	**$ 468,663**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
(Continued)
Year Ended June 30, 2019

	Major Fund Enterprise Fund Food Service Fund	Internal Service Fund
RECONCILIATION of OPERATING REVENUE (LOSS) to NET CASH PROVIDED (USED) by OPERATING ACTIVITIES		
Operating Revenue (Loss)	**$ (485,424)**	**$ 75,033**
ADJUSTMENTS to RECONCILE OPERATING REVENUE (LOSS) to NET CASH USED by OPERATING ACTIVITIES		
Depreciation	19,194	-0-
Use of USDA Commodities	34,858	-0-
Delinquent Student Account Adjustment	4,203	-0-
Increase in Interfund Receivable	-0-	(525,814)
Decrease in Inventory	7,463	-0-
Increase in Other Current Assets	(4,196)	(134,234)
Increase (Decrease) in Accounts Payable	(131)	105,973
Increase in Accrued Salaries and Benefits	17	-0-
Increase (Decrease) in Interfund Payable	8,768	(164,662)
Decrease in Unearned Revenue	(1,634)	-0-
Pension - Related Changes Other than Periodic Pension Costs	6,600	-0-
OPEB - Related Changes Other than Periodic OPEB Costs	2,000	-0-
Total Adjustments	**77,142**	**(718,737)**
Net Cash Used by Operating Activities	**$ (408,282)**	**$ (643,704)**
SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION		
NONCASH NONCAPITAL and RELATED FINANCING ACTIVITIES		
Receipt of USDA Donated Commodities	34,858	-0-

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION -
FIDUCIARY FUNDS
June 30, 2019

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	$ -0-	$ 27,984
Other Receivables	-0-	3,276
Investments	108,071	21,833
Due from Other Funds	-0-	886
TOTAL ASSETS	**108,071**	**53,979**
LIABILITIES		
Accounts Payable	-0-	2,485
Due to Other Funds	-0-	1,723
Other Current Liabilities	-0-	47,321
Interest Payable	-0-	2,450
TOTAL LIABILITIES	**-0-**	**53,979**
NET POSITION		
Restricted for Scholarships	**$ 108,071**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CHANGES in NET POSITION -
FIDUCIARY FUNDS
Year Ended June 30, 2019

	Private Purpose Trust Fund
ADDITIONS	
Investment Earnings	**$ 2,150**
DEDUCTIONS	**400**
CHANGES in NET POSITION	**1,750**
NET POSITION	
Beginning	106,321
Ending	**$ 108,071**

See notes to financial statements.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Pequea Valley School District, (the School District) located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Leacock, Paradise, and Salisbury Townships. These include regular, advanced academic, vocational education programs, and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of two elementary schools, one middle school, and one high school, serving approximately 1,500 students.

The accounting policies of **Pequea Valley School District** conform with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity
Consistent with guidance contained in Statement No. 14 of the GASB, *The Financial Reporting Entity*, as amended, the criteria used by the School District to evaluate the possible inclusion of related entities (authorities, boards, councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

1. Organizations that make up its legal entity.

2. Legally separate organizations if School District officials appoint a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the School District as defined below.

   Impose its Will - If the School District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

   Financial Benefit or Burden - If the School District (1) is entitled to the organization's resources, or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.

3. Organizations which are fiscally dependent on the School District and have a financial benefit or burden as defined above. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the School District.

Based on the foregoing criteria, no additional entities are included in the accompanying general purpose financial statements.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

Lancaster County Career and Technology Center
The School District is one of 16 member school districts of the Lancaster County Career and Technology Centers (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the area Career and Technology Center Board for Lancaster County, which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2019, was approximately $470,000. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Career and Technology Center Authority
The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. In 1995, the Authority entered into an additional agreement with the same parties to provide funding for the upgrading and modernization of the LCCTC facilities. In 1998, the Authority entered into an additional agreement with the member school districts and the Authority Board to advance refund the Authority's 1995 bonds. The School District has an ongoing financial responsibility to the Authority for a portion of the debt obligation relating to these improvements as more fully described in Note 11. The School District's lease payment to the Authority for the year ended June 30, 2019, was $58,453, which has been reported in the School District's general fund. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority
The School District is a member of the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended, by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit 13. The Authority is not reported as part of the School District's reporting entity. The School District did not have any financial transactions with the Authority during the year ended June 30, 2019. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Lancaster-Lebanon Intermediate Unit (LLIU)
The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' boards of directors. **Pequea Valley School District** is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Lancaster-Lebanon Intermediate Unit (LLIU) (Continued)
Pequea Valley School District contracts with the LLIU for special education services for School District students. The amount paid for these services for the year ended June 30, 2019, was approximately $581,000. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau)
The School District participates with 17 other school districts and the municipalities represented by those school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee and 17 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made monthly. The School District's portion of the operating expenditures for the year ended June 30, 2019, were approximately $43,000. Complete financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

Lancaster-Lebanon Public Schools Employees' Healthcare Consortium (EHCC)
The School District participates with 14 other school districts in a self-insured stop-loss pool. The School District is self-insured for claims up to $100,000. The pool reimburses monies to the School District for individual claims above $100,000 up to $300,000. The pool has commercial insurance for claims greater than $300,000. The School District net contribution to the pool for the year ended June 30, 2019, was approximately $7,400 for administrative fees and approximately $255,000 for excess loss insurance coverage.

Basis of Presentation - Fund Accounting
The accounts of the School District 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 comprising each fund's assets, deferred outflow of resources, liabilities, deferred inflow of resources, fund equity, revenues, and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Basis of Presentation - Financial Statements

Government-Wide Financial Statements
The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

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

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

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

Fund Financial Statements
Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

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

Fiduciary funds are reported using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position.

The School District reports the following major governmental funds:

> **General Fund** - The general fund is the principal operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.
>
> **Capital Project Fund** - This fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This fund includes the capital reserve fund and any bond construction funds held by the School District.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

Debt Service Fund - This fund is used to account for the accumulation of resources for and the payment of general long-term debt principal and interest, and for the payment of future variable interest debt payments.

The School District reports the following proprietary funds:

Food Service Fund - This fund accounts for the revenues, food purchases, and other costs and expenses of providing meals to students during the school year. This fund is a major fund.

Internal Service Fund - This fund is used to account for hospitalization costs which are services provided to the School District employees as benefits.

The School District accounts for assets held by the School District in a trustee capacity in a private purpose trust fund. This fund accounts for the receipts and disbursement of monies contributed to the School District for scholarships and memorials.

The agency fund is used to account for assets held by the School District as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund includes the student activities fund.

Basis of Accounting
Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary, and fiduciary fund financial statements measure and report all assets, liabilities, deferred inflows and outflows of resources, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service, compensated absence payments, and other postemployment benefits, which are recognized when due.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)
Under the modified accrual basis of accounting, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees, and interest on investments. Current property taxes measurable at June 30, 2019, which are not intended to finance fiscal 2019 operations, have been recorded as deferred inflows of resources. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenues at year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds, and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the School District's food service fund are charges to students and staff for food. Operating expenses include the costs to provide food. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When amounts are available in multiple fund balance classifications, it is the School District's policy to use funds in the following order: restricted, committed, assigned, and unassigned.

Cash and Cash Equivalents
Cash and cash equivalents include amounts in demand and interest-bearing bank deposits. They are carried at cost plus accrued interest, which approximates fair value.

Investments
The School District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments with remaining maturities at the time of purchase of one year or less are stated at amortized cost which approximates fair value. The securities of 2a7-like investment pools are valued at amortized cost, which approximates fair value of the pool.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes Receivable and Deferred Inflows of Tax Revenues
The portion of delinquent real estate taxes receivable that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other taxes receivable is recorded as deferred inflows of resources. All taxes receivable are considered to be fully collectible (Note 4).

Inventories
Inventories in the food service fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2019, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as unearned revenue until used. The School District combines School District and federal commodities inventories.

Capital Assets and Depreciation
The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at acquisition value on the date donated. The School District's capitalization threshold is individual assets with a cost of $4,000 or more. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting current replacement cost back to the estimated year of acquisition. Estimated useful lives, in years, for depreciable assets are generally as follows:

Building and Building Improvements	20 - 40 Years
Site Improvements	20 Years
Furniture and Equipment	5 - 12 Years
Vehicles	5 - 10 Years

Long-Term Obligations
In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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

Compensated Absences and Retirement Bonuses
The School District accrues unused vacation and sick leave as a liability. Upon termination or retirement, the employee will be paid for these accumulated unused absences in accordance with School District policy. The School District also accrues retirement bonuses to be paid out at retirement in accordance with School District policy.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences and Retirement Bonuses (Continued)
For governmental funds, that portion of unpaid compensated absences and retirement bonuses that are expected to be paid using expendable, available resources are reported as expenditures in the fund from which the individual earning the leave or bonus is paid, and a corresponding liability reflected.

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

Encumbrances
Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. As of June 30, 2019, the School District had no encumbrances.

Pension Plan
Substantially all full-time and qualifying part-time employees of the School District participate in a cost-sharing multiple-employer defined benefit pension plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB)
Single-Employer Defined Benefit OPEB Plan
The School District sponsors a single-employer defined benefit OPEB plan. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. The single-employer OPEB plan is unfunded.

Cost-Sharing Multiple-Employer Defined Benefit Plan
The School District participates in the PSERS Health Insurance Premium Assistance Program. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the PSERS and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Interfund Activity
Exchange transactions between governmental funds are eliminated on the government-wide statements. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Activity (Continued)
Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Classification
Fund balance for the governmental funds can be classified in five different categories: nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact.

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the School Board. Commitments may be changed only by the School District taking the same formal action that imposed the constraint originally.

Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the School Board, Superintendent, or Chief of Finance and Operations.

In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are available for any purpose.

The School District considers restricted amounts to have been spent when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The School District considers committed and assigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in committed, assigned, and unassigned fund balance classifications could be used. In the case of a deficit, committed and assigned funds would be used before unassigned funds. If there is no deficit, the School District typically uses unassigned funds before committed or assigned funds.

Estimates
The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates used in preparation of these financial statements include depreciation, compensated absences, retirement bonuses accrual, claims incurred but not reported, pension related items, and other postemployment benefits.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Extraordinary and Special Items
Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2019.

Current Year Changes in Accounting Principles
During the current year, the School District adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

During the current year, the School District adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

Pending Changes in Accounting Principles
In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this statement are effective for the School District's June 30, 2020 financial statements.

In June 2017, GASB issued Statement No. 87, *Leases.* The primary objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability, and consistency of information about the leasing activities of governments. The provisions of this statement are effective for the School District's June 30, 2021 financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period incurred, and not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The provisions of this statement are effective for the School District's June 30, 2021 financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. The objectives of this statement are to improve consistency in the measurement and comparability of the financial statement presentation of majority equity interests in legally separate organizations and to improve the relevance of financial statement information for certain component units. The provisions of this statement are effective for the School District's June 30, 2020 financial statements.

The effects of implementation of these standards have not yet been determined.

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

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

> Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
>
> Certain high-quality bank and corporate debt instruments.
>
> Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

The deposit and investment policy of the School District adheres to state statutes. There were no deposit or investment transactions during the year that were significant violations of either the state statutes or the policy of the School District.

Cash and Cash Equivalents - Custodial Credit Risk
Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk although the public school code requires that all deposits of the School District which are not insured are collateralized by the depository institution. As of June 30, 2019, $2,202,885 of the School District's bank balance of $2,452,885 was exposed to custodial credit risk as:

Uninsured and Uncollateralized	-0-
Collateralized with Securities Held by the Pledging Financial Institution	-0-
Uninsured and Collateral Held by the Pledging Bank's Trust Department not in the School District's Name	2,202,885
	2,202,885

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	2,202,885
Insured Amount	250,000
Bank Balance	2,452,885
Outstanding Checks	(99,705)
Carrying Amount - Bank Balances	2,353,180
Petty Cash	1,450
Total Cash and Cash Equivalents per Financial Statements	**2,354,630**

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Investments
Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At June 30, 2019, the School District did not hold any investments classified in the fair value hierarchy.

At June 30, 2019, the School District holds the following investments recorded at cost or amortized cost:

Pennsylvania School District Liquid Asset Fund (PSDLAF)	
Collateralized Flex CD Pool	450,000
PSDLAF MAX Series	14,087,751
	14,537,751

The PSDLAF Collateralized Flex CD Pool positions maturities do not exceed one year. The PSDLAF MAX Series balances are liquid.

The PSDLAF Collateralized Flex CD Pool is an external short-term fixed income investment pool. The School District carries fixed income investments at cost when the maturity of the underlying collateralized or FDIC insured certificate of deposit investments is one year or less.

The PSDLAF MAX Series is a 2a7-like pool. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. The School District has no regulatory oversight for the pool, which is governed by the board of trustees and is administered by PMA Financial Network, Inc. The pool is audited annually by CliftonLarsonAllen, LLP, an independently elected public official.

Restrictions on Qualified Investment Pool Withdrawals
The School District has an investment in a qualified investment pool with PSDLAF. Except for direct deposits from the Commonwealth, investments in the PSDLAF MAX Series are subject to a 14-day minimum holding period, and to penalty for early withdrawal. This requirement has been waived by the trust since inception.

Interest Rate Risk
The School District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk
The School District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2019, the School District investments were rated as:

Investments	Standard & Poor's
PSDLAF MAX Series	AAAm
PSDLAF Collateralized Flex CD Pool	Unrated

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Concentration of Credit Risk
The School District places no limit on the amount they may invest in any one issuer. At June 30, 2019, the School District does not have any concentration of credit risk in its investments.

Custodial Credit Risk
For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The School District has no investments which are subject to custodial credit risk at June 30, 2019.

NOTE 3 - REAL ESTATE TAXES

Based upon assessments provided by the County, the School District contracts with the Lancaster County Tax Collection Bureau for billing and collection of property taxes. The School District tax rate for the year ended June 30, 2019, was 14.68 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2019, follows:

July 1	- Levy Date
July 1 - August 31	- 2% Discount Period
September 1 - October 31	- Face Payment Period
November 1 - December 31	- 10% Penalty Period
January 1	- Lien Date (Lancaster County Tax Claim Bureau)

NOTE 4 - TAXES RECEIVABLE and DEFERRED TAXES

The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. All taxes are determined to be collectible. A portion of the receivable amount which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements.

The balances at June 30, 2019, are as follows:

	Taxes Receivable	Estimated Uncollectable	Net Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	444,221	-0-	444,221	125,412	318,809
Realty Transfer Taxes	52,120	-0-	52,120	52,120	-0-
Earned Income Taxes	428,134	-0-	428,134	428,134	-0-
	924,475	**-0-**	**924,475**	**605,666**	**318,809**

NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2019, the following amounts are due from other governmental units:

Due From	General Fund	Enterprise Fund	Internal Service Fund	Total
Federal Grants	135,071	59,296	-0-	194,367
State Match for Lunch Program	-0-	3,213	-0-	3,213
State Retirement Subsidy	790,336	-0-	-0-	790,336
State Social Security Subsidy	188,021	-0-	-0-	188,021
State Grants	25,000	-0-	-0-	25,000
Other State Subsidies	243,753	-0-	-0-	243,753
Intermediate Unit	52,010	-0-	-0-	52,010
Local	82,196	-0-	225,503	307,699
	1,516,387	**62,509**	**225,503**	**1,804,399**

NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2019, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	384,259	532,348
Capital Project Fund	5,648	-0-
Enterprise Fund - Food Service	-0-	382,536
Internal Service Fund	525,814	-0-
Student Activity Fund	886	1,723
	916,607	**916,607**

The general fund has interfund receivables that represent other fund expenses that were paid for by the general fund. The general fund has an interfund payable that represents net amounts owed to the student activities fund, capital project fund, and internal service fund for outstanding current liabilities. The capital project fund has an interfund receivable from the general fund for outstanding liabilities paid by the capital project fund. The enterprise fund has an interfund payable that represents amounts owed to the general fund for benefit payments. The internal service fund has an interfund receivable due from the general fund for outstanding liabilities paid by the internal service fund. The student activity fund has an interfund receivable that represents net amounts due from the general fund for outstanding liabilities paid by the student activity fund. The student activity fund has an interfund payable that represents net amounts due to the general fund for outstanding liabilities paid by the general fund.

NOTE 6 - INTERFUND ACCOUNTS (Continued)

Interfund transfers for the year ended June 30, 2019, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	6,145,703
Capital Project Fund	2,000,000	-0-
Food Service Fund	4,203	-0-
Debt Service Fund	4,141,500	-0-
	6,145,703	**6,145,703**

Transfers are made from the general fund to the debt service fund to provide resources for the payment of principal and interest on general obligation bonds. Transfers are made from the general fund to the capital project fund for future capital projects. Transfers are made from the general fund to the food service fund to reimburse the food service fund for outstanding bad debts on student accounts.

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2019, is as follows:

	Balance July 01, 2018	Additions	Deletions	Balance June 30, 2019
Historical Cost:				
Capital Assets not Being Depreciated:				
Land	608,671	-0-	-0-	608,671
Construction in Progress	416,354	23,986	(416,354)	23,986
Total Cost	**1,025,025**	**23,986**	**(416,354)**	**632,657**
Capital Assets Being Depreciated:				
Site Improvements	2,313,242	-0-	-0-	2,313,242
Building and Building Improvements	66,045,900	320,561	-0-	66,366,461
Furniture and Equipment	7,158,526	655,605	(291,138)	7,522,993
Vehicles	267,914	-0-	-0-	267,914
Total Cost	**75,785,582**	**976,166**	**(291,138)**	**76,470,610**

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

	Balance July 01, 2018	Additions	Deletions	Balance June 30, 2019
Accumulated Depreciation:				
Site Improvements	1,204,182	96,442	-0-	1,300,624
Building and Building Improvements	30,259,533	1,740,637	-0-	32,000,170
Furniture and Equipment	5,534,373	238,097	(291,138)	5,481,332
Vehicles	198,216	14,763	-0-	212,979
Total Accumulated Depreciation	**37,196,304**	**2,089,939**	**(291,138)**	**38,995,105**
Net Capital Assets Being Depreciated	**38,589,278**	**(1,113,773)**	**-0-**	**37,475,505**
Net Capital Assets	**39,614,303**	**(1,089,787)**	**(416,354)**	**38,108,162**

Capital asset activity for business-type activities for the year ended June 30, 2019, is as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	794,632	-0-	-0-	794,632
Accumulated Depreciation:				
Equipment	689,065	19,194	-0-	708,259
Net Capital Assets	**105,567**	**(19,194)**	**-0-**	**86,373**

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	1,608,353
Instructional Student Support	146,391
Administration and Financial Support Services	75,929
Operation and Maintenance of Plant Services	258,219
Noninstructional Services	1,047
	2,089,939

No interest was capitalized at June 30, 2019. Interest expense of $231,661 was incurred and reported as interest on long-term debt on the statement of activities as of June 30, 2019.

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2019, the School District was liable for $1,035,845 of payroll, payable during July and August 2019, to those employees who have a ten-month contract but are paid over a twelve-month period, to non-salaried employees who performed services through June 30, 2019, and to retiring professional employees who are receiving a payout of their accumulated compensated absences and bonuses. The accrual further includes amounts payable to PSERS in the amount of $1,235,888 as well as other accrued benefit liabilities.

NOTE 9 - UNEARNED REVENUE

Unearned revenue in the general fund consists of miscellaneous funding received, but not yet expended, of $91,115 as of June 30, 2019.

Unearned revenue in the food service fund consists of prepaid lunch sales of $7,181 as of June 30, 2019.

NOTE 10 - LONG-TERM DEBT

General Obligation Debt
The School District issues general obligation debt to provide funds for major capital improvements. These bonds and notes are direct obligations and pledge the full faith and credit of the School District.

On June 20, 2013, the School District issued General Obligation Bonds Series A of 2013 in the amount of $9,730,000. Proceeds of the Series A of 2013 Bonds were used to provide funds to (1) advance refund a portion of the outstanding General Obligation Bonds, Series of 2006, (2) advance refund the outstanding General Obligation Bonds, Series B of 2010, and (3) pay the cost of issuing the bonds. The principal amount outstanding for Series A of 2013 as of June 30, 2019, was $5,850,000 due in various amounts through February 2021.

On March 17, 2015, the School District issued General Obligation Bonds Series of 2015 in the amount of $6,400,000. The proceeds were used to (1) currently refund outstanding General Obligation Bonds, Series A of 2010 and (2) pay the costs and expenses of issuing the bonds. The principal amount outstanding for Series of 2015 as of June 30, 2019, was $720,000 due in various amounts through May 2021.

Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2019, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2019	Due Within One Year
Series A of 2013	2/01/2021	.45% - 4.00%	5,850,000	3,255,000
Series of 2015	5/15/2021	1.00% - 4.00%	720,000	350,000

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)
Long-term obligation activity can be summarized as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019
General Obligation Debt	10,480,000	-0-	3,910,000	6,570,000
Bond Premium	101,766	-0-	62,466	39,300
Loss on Bond Refunding	(155,310)	-0-	(80,544)	(74,766)
Capital Lease Obligations	326,872	-0-	197,333	129,539
Accrued Retirement Bonuses	718,823	80,975	20,400	779,398
Estimated Liability for Compensated Absences	979,619	20,283	3,000	996,902
	12,451,770	**101,258**	**4,112,655**	**8,440,373**

Aggregate annual debt service requirements to maturity for the above governmental debt obligations are as follows:

	Interest	Principal	Total
2020	131,400	3,605,000	3,736,400
2021	59,300	2,965,000	3,024,300
	190,700	**6,570,000**	**6,760,700**

The School District pays the long-term obligations of the governmental activities from the general fund, except for debt service. Debt service payments are paid from the debt service fund which is, however, funded by transfers from the general fund.

NOTE 11 - OPERATING LEASES

The School District leases equipment under operating leases ending December 2020 and September 2023. Total lease rental expense for the operating leases reflected in the accompanying financial statements is $109,075 during the year ended June 30, 2019. The lease is secured by the leased computer equipment. Minimum future rental payments under the operating lease in excess of one year as of June 30, 2019, are as follows:

2020	124,973
2021	110,181
2022	95,388
2023	15,898
	346,440

NOTE 11 - OPERATING LEASES (Continued)

On June 29, 2012, Lancaster County Career and Technology Center Authority issued Guaranteed Lease Revenue Bonds, Series of 2012, totaling $9,995,000. On February 2017, LCCTC refinanced Guaranteed Lease Revenue Bonds, Series of 2013, and issued Guaranteed Lease Revenue Bonds, Series of 2017, totaling $9,380,000. The LCCTC issued Guaranteed Lease Revenue Bonds, Series of 2014, totaling $3,900,000 on July 9, 2014, which was the final of the three series. These bonds were issued for the purpose of providing funds for renovations and additions and various other ongoing and proposed capital projects on LCCTC facilities. The School District, along with the other member districts, has covenanted to pay lease rentals in amounts sufficient to service this debt, in proportions based on real estate market values.

The School District's estimated lease rental obligations for future minimum rental payments related to the issued debt are as follows:

Fiscal Year Ended June 30,	Estimated Future Minimum Rental Payments
2020	58,446
2021	58,397
2022	58,320
2023	58,402
2024	58,247
2025 - 2029	292,324
2030 - 2034	292,107
2035 - 2037	174,929
	1,051,172

NOTE 12 - CAPITAL LEASE OBLIGATION

During May 2018, the School District entered into a capital lease agreement to lease computer equipment, which requires four annual payments of $69,890 beginning July 1, 2018. The nominal interest rate of the lease is 1.88%. The lease is secured by the leased computer equipment.

The book value of the leased hardware and software is $271,484 with accumulated depreciation of $33,935 for the year ended June 30, 2019. The current portion due is included in prepaid expenses in the balance sheet - governmental funds. The School District prepaid the 2020 principal payment during the year ended June 30, 2019.

The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2019:

2021	67,725
2022	69,890
Amount Representing Interest	(8,076)
Present Value of Minimum Lease Payments	**129,539**

NOTE 12 - CAPITAL LEASE OBLIGATION (Continued)

Current Maturities	-0-
Long-Term Portion	129,539

NOTE 13 - COMPENSATED ABSENCES

A summary of the amount recorded as a liability in the governmental activities for compensated absences is as follows as of June 30, 2019:

Accumulated Sick Days	853,343
Accumulated Vacation Days	100,364
Accumulated Personal Days	32,993
Employer Social Security and Medicare, when Applicable	10,202
	996,902

NOTE 14 - ACCRUED RETIREMENT BONUSES

Upon voluntary retirement, an administrative, supervisory, or non-supervisory employee with 25 years or more of credited service with PSERS and at least 10 consecutive years employment with the School District will receive a retirement stipend of $600 per year of service, with a maximum of 35 years, if notice is given of their intent to retire by March 1 of the school year in which the retirement is effective. An employee covered under the Collective Bargaining Agreement will receive a retirement stipend of $400 per year of service under the same requirements as noted previously. Upon retirement, amounts due to the retiree are deposited into an individual 403(b) plan. The amount recorded as a liability in the governmental activities for this supplemental retirement benefit was $779,398 at June 30, 2019.

NOTE 15 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description
The School District contributes to a governmental cost-sharing multi-employer defined benefit pension plan administered by PSERS. PSERS provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

Benefits Provided
PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service: or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions
The contribution policy is set by the Code and requires contributions by active members, participating employers, and the Commonwealth of Pennsylvania. Plan members may belong to one of four membership classes. Class T-C, Class T-D, Class T-E, and Class T-F are available to plan members.

Member Contributions
Active members who joined the plan before July 22, 1983, are required to contribute 5.25% of their compensation if they are in Class T-C or 6.50% for Class T-D. Members who joined on or after July 22, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25% for Class T-C or 7.50% for Class T-D. Members who joined the plan after June 30, 2001 and before July 1, 2011, are automatically in Class T-D and are required to contribute 7.50%.

Members who joined the plan after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 , who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

Employer Contributions

The School District's contractually required contribution rate for fiscal year ended June 30, 2019, was 32.60% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School District were $4,326,000 for the year ended June 30, 2019.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the School District reported a liability of $44,645,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2017, to June 30, 2018. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the School District's proportion was .0930%, which was an increase of .0006% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School District recognized pension expense of $4,931,600. At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	359,000	691,000
Changes in Assumptions	832,000	-0-
Net Difference between Projected and Actual Investment Earnings	219,000	-0-
Change in Proportions	1,837,600	64,000
Difference between Employer Contributions and Proportionate Share of Total Contributions	126,600	27,000
Contributions Subsequent to the Measurement Date	4,326,000	-0-
	7,700,200	**782,000**

$4,326,000 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as an increase in pension expense as follows:

Year Ended June 30:	
2020	1,598,200
2021	1,209,200
2022	(41,800)
2023	(173,400)
	2,592,200

Actuarial Assumptions

The total pension liability as of June 30, 2018, was determined by rolling forward PSERS's total pension liability as of the June 30, 2017 to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Long Term Expected Rate of Return: 7.25%, includes inflation at 2.75%
Actuarial Cost Method: Entry Age Normal, Level Percent of Pay
Salary Growth: Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases
Mortality Rates: RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale

There were no changes in assumptions used in measurement of the total pension liability beginning June 30, 2018. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0%	5.2%
Fixed Income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute Return	10.0%	3.5%
Risk Parity	10.0%	3.9%

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Infrastructure/MLPs	8.0%	5.2%
Real Estate	10.0%	4.2%
Alternative Investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	(20.0%)	0.9%
	100.0%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate.

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School District's Proportionate Share of the Net Pension Liability	55,340,000	44,645,000	35,601,000

Pension Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS' website at www.psers.pa.gov.

Payable to the Pension Plan

At June 30, 2019, the School District reported a payable of $1,235,888 for the outstanding amount of employer contributions to PSERS required for the year ended June 30, 2019. These amounts relate to the second quarter of 2019 and are payable to PSERS within five business days of the School District receiving its related retirement subsidy from the Commonwealth of Pennsylvania.

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

Pension Reform
Pursuant to Commonwealth Act 2017-5, members hired on or after July 1, 2019, will be required to choose one of three new retirement plan design options for retirement benefits. The current defined benefit plan will no longer be available to new members hired on or after July 1, 2019. The new plan design options include two hybrid plans consisting of defined benefit and defined contribution components. The third option is a stand-alone defined contribution plan.

PSERS school employers will be charged interest at the assumed rate of return, currently 7.25%, for delinquent payments to PSERS rather than 6.00%.

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

General Information about the OPEB Plan

Plan Description
The School District maintains a single-employer defined benefit OPEB plan to provide postemployment health care benefits. The Board of School Directors is authorized to establish and amend the financing requirements and benefits, subject to collective bargaining for certain classes of employees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue stand-alone financial statements.

Benefits Provided
The plan provides medical and prescription drug coverage to employees who retire from active service and qualify for pension benefits, and their spouse and eligible dependents. Retirees are eligible for benefits until age 65 upon paying 100% of the premium; spouse and dependents are eligible for benefits until age 65, and may continue coverage for no more than three years after the retiree's death upon paying the COBRA-equivalent premium.

Employees Covered by Benefit Terms
At July 1, 2018, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	17
Inactive Employees Entitled to but not yet Receiving Benefits	-0-
Active Employees	184
	201

Total OPEB Liability
The School District's total OPEB liability of $2,299,000 was measured as of July 1, 2018, and was determined by an actuarial valuation as of July 1, 2018.

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate: 2.98%, Based on S&P Municipal Bond 20-Year High Grade Rate Index
Long Term Expected Rate of Return: N/A, the Plan is Unfunded
Actuarial Cost Method: Entry Age Normal, Level Percent of Pay
Healthcare Cost Trend: 6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
Retirees' Share of Benefit-Related Costs: 100.0% of Premium
Mortality Rates: RP-2014 Mortality Tables (Male and Female) adjusted for mortality improvement

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period ended July 1, 2018.

Changes in the Total OPEB Liability

Balance, June 30, 2018	**1,251,000**
Changes for the Year	
Service Cost	91,000
Interest	40,000
Changes of Benefit Terms	-0-
Differences Between Expected and Actual Experience	1,000,000
Changes of Assumptions	1,000
Benefit Payments	(84,000)
Net Changes	**1,048,000**
Balance, June 30, 2019	**2,299,000**

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the School District for the single-employer plan, as well as what the School District's total OPEB liability for the single-employer plan would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

Total OPEB Liability	
2.13% Discount Rate (1.0% Decrease)	2,116,000
3.13% Discount Rate (Current Rate)	2,299,000
4.14% Discount Rate (1.0% Increase)	2,494,000

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates
The following presents the total OPEB liability of the School District's single-employer plan, as well as what the School District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

	Total OPEB Liability
4.5% (1% Decrease)	2,659,000
5.5% (Current Rate)	2,299,000
6.5% (1% Increase)	2,001,000

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program
The Pennsylvania Public School Employees' Retirement System (System) provides Premium Assistance which is a governmental cost-sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP). As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria
Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

Benefits Provided
Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

Contributions
The School District's contractually required contribution rate for the fiscal year ended June 30, 2019, was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the School District were $109,000 for the year ended June 30, 2019.

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

OPEB Liabilities and OPEB Expense

At June 30, 2019, the School District reported a liability of $1,939,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2017 to June 30, 2018. The School District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the School District's proportion was 0.0930%, which was an increase of 0.0006% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School District recognized OPEB expense of $103,000 related to this plan.

Actuarial Assumptions

The total OPEB liability as of June 30, 2018, was determined by rolling forward the System's total OPEB Liability as of June 30, 2017 to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial Cost Method: Entry age normal, level percent of pay
- Investment Return: 2.98%, based on the 20-year S&P municipal bond rate
- Salary Growth: Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases
- Premium Assistance reimbursement is capped at $1,200 per year
- Assumed Healthcare Cost Trends: Applied to retirees with less than $1,200 in Premium Assistance per year
- Mortality Rates: RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale
- Participation Rate:
  - Eligible retirees will elect to participate pre-age 65 at 50%
  - Eligible retirees will elect to participate post-age 65 at 70%

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016, determined the employer contribution rate for fiscal year 2018
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date
- Asset valuation method: Market Value
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

Actuarial Assumptions (Continued)

Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the System's Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

OPEB - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.90%	0.03%
US Core Fixed Income	92.80%	1.20%
Non-US Developed Fixed	1.30%	0.40%
	100.00%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

Discount Rate

The discount rate used to measure the total OPEB liability was 2.98%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.98% which represents the S&P 20-year municipal bond rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net OPEB liability, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

	Net OPEB Liability
1.98% Discount Rate (1.0% Decrease)	2,205,000
2.98% Discount Rate (Current Rate)	1,939,000
3.98% Discount Rate (1.0% Increase)	1,718,000

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the School District's proportionate share of the net OPEB liability, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

	Net OPEB Liability
1% Decrease	1,939,000
Current Rate	1,939,000
1% Increase	1,939,000

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued PSERS comprehensive annual financial report, available at http://www.psers.pa.gov.

AGGREGATE OPEB INFORMATION

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the School District recognized OPEB expense of $306,000. At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Contributions and Benefit Payments After the Measurement Date	199,000	-0-
Difference Between Expected and Actual Experience	941,000	-0-
Changes of Assumptions	32,000	74,000
Changes in Proportion	69,000	-0-
	1,241,000	**74,000**

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

AGGREGATE OPEB INFORMATION (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

$199,000 reported as deferred outflows of resources related to OPEB resulting from the School District's benefit payments after the measurement date of the single-employer plan and contributions after the measurement date of the cost-sharing multiple-employer plan will be recognized as a reduction in the total or net OPEB liability, respectively, in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as an increase (decrease) in OPEB expense as follows:

Fiscal Year Ended June 30:	
2020	78,000
2021	78,000
2022	78,000
2023	78,000
2024	78,000
Thereafter	578,000
	968,000

NOTE 17 - RISK MANAGEMENT

Hospitalization

The School District participates in the insurance consortium with the Lancaster-Lebanon Intermediate Unit (the LLIU) to provide for the medical care for eligible employees and their dependents. The School District remits funds to the LLIU. The LLIU deposits the funds into the School District trust account to be held for the benefits described above, and Aetna, the plan administrator, upon receiving funds from the trust account, processes and pays the claims. The School District is limited in liability for claims to $100,000 per individual and $4,200,250 in total per year.

A liability for claims incurred prior to June 30, 2019, and subsequently paid is recorded in the amount of $299,783 in other current liabilities in the internal service fund.

Changes in the School District's claims liability amount in fiscal years 2019 and 2018 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2018 - 2019	193,810	3,279,770	3,173,797	299,783
2017 - 2018	301,264	2,910,942	3,018,396	193,810

NOTE 17 - RISK MANAGEMENT (Continued)

Workers' Compensation
The School District participates in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the Fund) which is a cooperative voluntary trust arrangement for 16 member school districts, the Lancaster-Lebanon Intermediate Unit, and the Lancaster County Academy. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims and losses, and providing self-insurance and reinsurance thereof. It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2019, the School District is not aware of any additional assessments relating to the Fund.

Other Risks
The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2019, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 18 - FUND BALANCE CLASSIFICATIONS

Nonspendable fund balance represents fund balances that are not in a spendable form or are required to be maintained intact.

General Fund - Nonspendable Prepaid Expenses	78,906

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority.

At June 30, 2019, the School District has included the following as committed fund balances:

General Fund - Committed to Offset Future Retirement Contributions	5,300,000
General Fund - Committed for Future Health Care Increases	2,900,000
	8,200,000

Assigned fund balance comprises amounts intended to be used by the government for specific purposes determined by the governing body or by an official or a body to which the governing body delegates the authority. At June 30, 2019, the School District has included the following as assigned fund balance:

Capital Project Fund - Assigned for Capital Outlays	2,396,324

NOTE 19 - CONTINGENCIES and COMMITMENTS

Grant Programs

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

Legal Matters

The School District is involved in claims and legal actions arising in the ordinary course of business. The outcome of these matters cannot be determined at this time.

Transportation Contract

The School District has entered into an agreement for the transportation of school pupils. The agreement is for the period of July 1, 2016 through June 30, 2026. The contractor provides all equipment and labor necessary. The cost for the transportation services will be determined based on rate schedules included in the contract which are subject to annual CPI increases based on the transportation cost index adjustment determined by the Department of Education, but not less than 3.0% for the duration of the contract. The transportation services expense related to this contract was approximately $2,400,000 for the year ended June 30, 2019.

Maintenance Agreement

The School District has entered into an agreement for the maintenance of the schools buildings. The agreement is for the period of August 16, 2017 through August 16, 2022. The contractor will provide cleaning services to the School District's buildings. Estimated monthly costs are $29,500. The maintenance services expense related to this contract was approximately $355,000 for the year ended June 30, 2019.

NOTE 20 - TAX ABATEMENTS

The Pennsylvania General Assembly enacted the Keystone Opportunity Zone (KOZ) Act Program authorizing certain exemptions, abatements, credits, and deductions from certain state and local taxes within the state in order to promote economic development and job creation. The School District entered into property tax abatement with a local business under the KOZ Program that commenced on January 1, 2014, and will conclude on December 31, 2023, and an additional abatement that commenced on January 1, 2019, and will conclude on December 31, 2028. The property tax abatements are equal to 100% of the real property tax on the assessed value of property within the Keystone Opportunity Expansion Zone. The abatement is available only as long as the initial qualified business obtains annual renewal of its certification as a qualified business from the Pennsylvania Department of Community and Economic Development, and is not transferable.

If the initial qualified business relocates within the first five years, the qualified business shall refund to the School District the real estate tax from which it was exempted based on percentages set forth in the Act, unless waived pursuant to the Act. During the terms of this agreement, the local business will make an annual payment in lieu of real estate taxes, which increases annually by the increase in tax levy mills for the fiscal year.

For the year ended June 30, 2019, the School District abated approximately $138,000 of property taxes under this agreement.

NOTE 21 - SUBSEQUENT EVENTS

In July 2019, the School District sold a piece of land with the original cost of approximately $11,000 for approximately $155,000.

In October 2019, the School District entered into a new collective bargaining agreement for the period July 1, 2020 through June 30, 2025.

Pequea Valley School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
Year Ended June 30, 2019

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Local Sources:				
Real Estate Taxes	$ 24,270,300	$ 24,270,300	$ 24,434,675	$ 164,375
Other Taxes	2,723,000	2,723,000	2,919,523	196,523
Investment Earnings	100,000	100,000	462,449	362,449
Other Revenue	468,600	468,600	592,495	123,895
Total Local Sources	27,561,900	27,561,900	28,409,142	847,242
State Sources	8,495,427	8,495,427	8,686,447	191,020
Federal Sources	1,296,056	1,254,821	1,273,617	18,796
Total Revenues	**37,353,383**	**37,312,148**	**38,369,206**	**1,057,058**
EXPENDITURES				
Instructional Services:				
Regular Programs	14,468,518	14,473,713	14,448,837	24,876
Special Programs	4,456,404	4,831,404	4,892,872	(61,468)
Vocational Programs	930,535	770,535	766,762	3,773
Other Instructional Programs	371,661	432,539	345,651	86,888
Total Instructional Services	**20,227,118**	**20,508,191**	**20,454,122**	**54,069**
Support Services:				
Pupil Personnel Services	1,701,019	1,461,998	1,409,099	52,899
Instructional Staff Services	1,847,709	1,862,162	1,695,561	166,601
Administrative Services	2,431,988	2,172,488	2,169,489	2,999
Pupil Health	408,287	408,287	417,420	(9,133)
Business Services	633,865	646,865	653,946	(7,081)
Operation of Plant and Maintenance Services	2,523,314	2,691,314	2,691,890	(576)
Student Transportation Services	2,435,633	2,565,633	2,535,786	29,847
Central and Other Business Services	276,527	313,238	303,547	9,691
Other Support Services	28,000	28,000	22,561	5,439
Total Support Services	**12,286,342**	**12,149,985**	**11,899,299**	**250,686**
Noninstructional Services:				
Student Activities	615,571	640,091	785,477	(145,386)
Community Services	28,950	33,950	34,082	(132)
Total Noninstructional Services	**644,521**	**674,041**	**819,559**	**(145,518)**
Debt Service:				
Capital Lease Principal and Interest	**-0-**	**-0-**	**135,820**	**(135,820)**
Total Expenditures	**33,157,981**	**33,332,217**	**33,308,800**	**23,417**
EXCESS of REVENUES OVER EXPENDITURES	**4,195,402**	**3,979,931**	**5,060,406**	**1,080,475**
OTHER FINANCING SOURCES (USES)				
Debt Service Fund Transfer	(4,203,053)	(4,203,053)	(4,141,500)	61,553
Other Fund Transfers	-0-	-0-	(2,004,203)	(2,004,203)
Proceeds from Sale of Capital Assets	-0-	-0-	57,582	57,582
Refund of Prior Year Expenditures	-0-	-0-	319	319
Net Other Financing Uses	**(4,203,053)**	**(4,203,053)**	**(6,087,802)**	**(1,884,749)**
NET CHANGES in FUND BALANCES	**$ (7,651)**	**$ (223,122)**	**(1,027,396)**	**$ (804,274)**
FUND BALANCES				
Beginning			12,590,957	
Ending			**$ 11,563,561**	

See independent auditors' report.

Pequea Valley School District follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. The Pennsylvania Department of Education (PDE) issues a schedule of actions for school districts for the development of the annual budget under Act 1. One deadline is the action to resolve to keep any tax increase in the real estate tax millage rate below the index announced by the PDE. Prior to that deadline, management submits to the School Board, for consideration, a draft operating budget projection or other information to review, for the fiscal year commencing the following July 1. The School Board determines if it will approve a resolution to keep any tax increase below the index.

2. If the School Board adopts the resolution, prior to May 31, management submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.

3. A public hearing is conducted to obtain taxpayer comments.

4. If the School Board does not adopt the resolution, management prepares and submits a proposed operating budget for the fiscal year commencing the following July 1 in accordance to the deadlines established by PDE under Act 1. These deadlines will vary with the setting of the spring municipal election date each year.

5. In either case, prior to June 30, the budget is legally enacted through adoption of a resolution.

6. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the School Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.

7. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.

8. Unused appropriations lapse at the end of each fiscal year; however, the School District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount. There were no outstanding encumbrances for the year ended June 30, 2019.

9. The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.

10. Where applicable, unbudgeted federal and state revenues and expenditures have been added to the original budgeted revenues and expenditures.

Pequea Valley School District

SCHEDULE of CHANGES in TOTAL OPEB LIABILITY and RELATED RATIOS -
SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN
Last 10 Fiscal Years

	2019	2018
Total OPEB Liability		
Service Cost	$ 91,000	$ 90,000
Interest	40,000	33,000
Change of Benefit Terms	-0-	-0-
Differences Between Expected and Actual Experience	1,000,000	-0-
Change of Assumptions	1,000	2,000
Benefit Payments	(84,000)	(221,000)
Net Change in Total OPEB Liability	**1,048,000**	**(96,000)**
Total OPEB Liability - Beginning	1,251,000	1,347,000
Total OPEB Liability - Ending	**$ 2,299,000**	**$ 1,251,000**
Covered Payroll	12,797,939	10,000,537
Total OPEB Liability as a Percentage of Covered Payroll	17.96%	12.51%

Note: Information is not available prior to 2018.

See independent auditors' report.

Funding:

No assets are accumulated in a trust that meet the criteria included in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* to pay related benefits.

Changes of Assumptions:

Measurement period ending June 30, 2018:

Discount rate was reduced from 3.13% to 2.98%.

The marriage assumption was lowered from 70% to 50%.

Measurement period ending June 30, 2017:

Discount rate was increased from 2.49% to 3.13%.

Assumptions for salary, mortality, withdrawal, and retirement were updated based on new PSERS assumptions.

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EMPLOYER CONTRIBUTIONS -
PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN
Last 10 Fiscal Years

Fiscal Year Ended June 30	Contractually Required Contributions	Contributions from Employer	Contributions Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2015	99,000	99,000	-0-	10,967,393	0.90%
2016	97,000	97,000	-0-	11,480,587	0.84%
2017	102,000	102,000	-0-	12,291,107	0.83%
2018	104,000	104,000	-0-	12,520,972	0.83%
2019	109,000	109,000	-0-	13,141,137	0.83%

Note: Information is not available prior to 2015.

See independent auditors' report.

Changes of Assumptions:

Measurement period ending June 30, 2017:

Discount rate was decreased from 3.13% to 2.98%.

Measurement period ending June 30, 2016:

Discount rate was increased from 2.71% to 3.13%.

Salary growth changes from an effective average of 5.50% to 5.00%

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Pequea Valley School District

SCHEDULE of the SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET OPEB LIABILITY -
PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN
Last 10 Fiscal Years

Fiscal Year Ended June 30	School District's Proportion of the Net OPEB Liability	School District's Proportionate Share of the Net OPEB Liability	School District's Covered-Employee Payroll	School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2016	0.0886%	1,908,000	11,480,587	16.62%	5.47%
2017	0.0924%	1,883,000	12,305,469	15.30%	5.73%
2018	0.0930%	1,939,000	12,520,972	15.49%	5.56%

Note: Information is not available prior to 2016.

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EMPLOYER CONTRIBUTIONS -
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
Last 10 Fiscal Years

	Contractually Required Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
Defined Benefit Pension Plan:					
2010	469,011	469,011	-0-	11,725,272	4.00%
2011	584,567	584,567	-0-	11,691,348	5.00%
2012	957,237	957,237	-0-	11,965,457	8.00%
2013	1,341,437	1,341,437	-0-	11,377,079	11.79%
2014	1,716,414	1,716,414	-0-	10,915,904	16.00%
2015	2,199,016	2,199,016	-0-	10,967,393	20.50%
2016	2,818,386	2,818,386	-0-	11,480,587	25.00%
2017	3,675,000	3,675,000	-0-	12,291,107	29.20%
2018	3,974,000	3,974,000	-0-	12,520,972	31.74%
2019	4,326,000	4,326,000	-0-	13,141,137	32.60%

See independent auditors' report.

Pequea Valley School District

SCHEDULE of SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET PENSION LIABILITY -
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
Last 10 Fiscal Years

For the Fiscal Year Ended June 30	School District's Proportion of the Net Pension Liability (Asset)	School District's Proportionate Share of the Net Pension Liability (Asset)	School District's Covered Payroll	School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0855%	33,842,000	10,915,904	310.02%	57.24%
2015	0.0852%	36,905,000	10,967,393	336.50%	54.36%
2016	0.0886%	43,907,000	11,480,587	382.45%	50.14%
2017	0.0924%	45,635,000	12,291,107	371.28%	51.84%
2018	0.0930%	44,645,000	12,520,972	356.56%	54.00%

Note: Information is no available prior to 2014.

See independent auditors' report.

Changes of Benefit Terms:

Measurement period ending June 30, 2017:

Beginning June 12, 2017, with the passage of Act 5, Class T-E & T-F members are now permitted to elect a lump sum payment of member contributions upon retirement.

Changes of Assumptions:

Measurement period ending June 30, 2016:

Investment rate of return was adjusted from 7.50% to 7.25%.

Inflation assumption was decreased from 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50% to 5.00%.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

Year Ended June 30, 2019

Federal Grantor	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2018	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2019	Passed Through to Subrecipients
Child Nutrition Cluster												
U.S. Department of Agriculture	Pennsylvania Department of Education	School Breakfast Program	I	10.553	N/A	07/01/18 - 06/30/19	N/A	$ -0-	$ 82,617	$ 96,479	$ 13,862	$ -0-
U.S. Department of Agriculture	Pennsylvania Department of Education	School Breakfast Program	I	10.553	N/A	07/01/17 - 06/30/18	N/A	14,497	14,497	-0-	-0-	-0-
			Total	**10.553**				**14,497**	**97,114**	**96,479**	**13,862**	**-0-**
U.S. Department of Agriculture	Pennsylvania Department of Education	National School Lunch Program	I	10.555	N/A	07/01/18 - 06/30/19	N/A	-0-	296,656	342,090	45,434	-0-
U.S. Department of Agriculture	Pennsylvania Department of Education	National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	N/A	51,649	51,649	-0-	-0-	-0-
U.S. Department of Agriculture	Department of Agriculture	National School Lunch Program (Note 2)	I	10.555	N/A	07/01/18 - 06/30/19	N/A	-0- A)	34,858 B)	34,858 C)	-0- D)	-0-
			Total	**10.555**				**51,649**	**383,163**	**376,948**	**45,434**	**-0-**
			Total Child Nutrition Cluster					**66,146**	**480,277**	**473,427**	**59,296**	**-0-**
Special Education Cluster												
U.S. Department of Agriculture	Lancaster-Lebanon Intermediate Unit #13	Special Education Grants to States	I	84.027	062-180013	07/01/18 - 09/30/19	376,063	-0-	376,063	376,063	-0-	-0-
U.S. Department of Agriculture	Lancaster-Lebanon Intermediate Unit #13	Special Education Preschool Grants	I	84.173	131-170013	07/01/18 - 06/30/19	2,864	-0-	2,864	2,864	-0-	-0-
			Total Special Education Cluster					**-0-**	**378,927**	**378,927**	**-0-**	**-0-**
U.S. Department of Agriculture	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies	I	84.010	013-190332	07/18/18 - 09/30/19	992,582	-0-	787,430	916,065	128,635	-0-
U.S. Department of Agriculture	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies (Note 6)	I	84.010	013-180332	07/01/17 - 09/30/18	851,417	15,736	-0-	2,755	18,491	-0-
			Total	**84.010**				**15,736**	**787,430**	**918,820**	**147,126**	**-0-**
U.S. Department of Agriculture	Pennsylvania Department of Education	Supporting Effective Instruction State Grants (Note 7)	I	84.367	020-190332	07/18/18 - 09/30/19	173,717	-0-	177,901	151,034	(26,867)	-0-
U.S. Department of Agriculture	Pennsylvania Department of Education	Supporting Effective Instruction State Grants (Note 5)	I	84.367	020-180332	07/01/17 - 09/30/18	159,016	(25,015)	-0-	24,253	(762)	-0-
			Total	**84.367**				**$ (25,015)**	**$ 177,901**	**$ 175,287**	**$ (27,629)**	**$ -0-**

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2019

Federal Grantor	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2018	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2019	Passed Through to Subrecipients
U.S. Department of Education	Pennsylvania Department of Education	Student Support and Academic Enrichment Program	I	84.424	144-190332	07/01/18 - 09/30/19	61,514	$ -0-	$ 32,807	$ 34,405	$ 1,598	$ -0-
U.S. Department of Education	Pennsylvania Department of Education	Student Support and Academic Enrichment Program (Note 6)	I	84.424	144-180332	07/01/17 - 09/30/18	19,233	(5,669)	12,822	-0-	(18,491)	-0-
			Total	**84.424**				**(5,669)**	**45,629**	**34,405**	**(16,893)**	**-0-**
Medicaid Cluster												
U.S. Department of Health and Human Services	Pennsylvania Department of Public Welfare	Medical Assistance Program	I	93.778	N/A	07/01/18 - 09/30/19	N/A	-0-	3,654	8,493	4,839	-0-
U.S. Department of Health and Human Services	Pennsylvania Department of Public Welfare	Medical Assistance Program	I	93.778	N/A	07/01/17 - 09/30/18	N/A	4,984	4,984	-0-	-0-	-0-
			Total Medicaid Cluster					**4,984**	**8,638**	**8,493**	**4,839**	**-0-**
			TOTAL EXPENDITURES of FEDERAL AWARDS					**$ 56,182**	**$ 1,878,802**	**$ 1,989,359**	**$ 166,739**	**$ -0-**

Legend

I = Indirect funding

CFDA = Catalog of Federal Domestic Assistance

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2019

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

NOTE 2 - NATIONAL SCHOOL LUNCH PROGRAM - PASSED THROUGH the PENNSYLVANIA DEPARTMENT of AGRICULTURE

A) Beginning inventory at July 1.
B) Total amount of commodities received from the Department of Agriculture.
C) Total amount of commodities used.
D) Ending inventory at June 30.

NOTE 3 - DE MINIMIS INDIRECT COST RATE

The School District did not elect to use the 10% de minimis indirect cost rate.

NOTE 4 - ACCESS

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements a federal monies but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the schedule of expenditures of federal awards, ACCESS reimbursements are not included on the schedule. The amount of ACCESS funding received for the year ended June 30, 2019, was $136,612 listed on the PDE confirmation as program #044-007332.

NOTE 5 - RETURN of FUNDS

The amount listed in the ending accrued (deferred) revenue column represents funds which were returned to the grantor agency during the year ended June 30, 2018, but were reflected on the PDE confirm during the year ended June 30, 2019.

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2019

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS (Continued)

NOTE 6 - TRANSFERABILITY

As allowed by federal regulations, the School District expended funds from Student Support and Academic Enrichment Program (84.424) funds under pass-through grantor number 144-180332 for activities of the Title I Grants to Local Educational Agencies (84.010) under pass-through grantor number 013-170332. The following chart shows the reconciliation of these transfers over the life cycle of the grants:

	Receipts	Expenditures in #013-170332	Expenditures in #144-180332	Total Expenditures
6.30.18 SEFA - #144-180332	6,411	18,491	742	19,233
6.30.19 SEFA - #144-180332	12,822	-0-	-0-	-0-
Totals	19,233	18,491	742	19,233
6.30.18 SEFA - #013-170332	851,417	848,662	-0-	848,662
6.30.19 SEFA - #013-170332	-0-	2,755	-0-	2,755
Totals	851,417	851,417	-0-	851,417

The amounts for these grants shown as accrued (deferred) revenue at June 30, 2019, net to zero as they have been fully spent and received as of June 30, 2019.

NOTE 7 - RETURN of FUNDS

The School District returned funds of $4,184 to the grantor agency subsequent to the year ended June 30, 2019, due to an overpayment received.

See independent auditors' report.

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*

To the Board Officers and Members
Pequea Valley School District
Lancaster County, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Pequea Valley School District**, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise **Pequea Valley School District's** basic financial statements and have issued our report thereon dated November 18, 2019.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as item #2019-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Pequea Valley School District's Response to Findings

Pequea Valley School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Pequea Valley School District's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Trout, Ebersole & Groff, LLP

November 18, 2019
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT on COMPLIANCE for EACH MAJOR PROGRAM and on INTERNAL CONTROL over COMPLIANCE REQUIRED by the UNIFORM GUIDANCE

To the Board Officers and Members
Pequea Valley School District
Lancaster County, Pennsylvania

Report on Compliance for Each Major Federal Program
We have audited **Pequea Valley School District's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on **Pequea Valley School District's** major federal program for the year ended June 30, 2019. **Pequea Valley School District's** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for **Pequea Valley School District's** major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Pequea Valley School District's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program
In our opinion, **Pequea Valley School District** has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of **Pequea Valley School District** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Pequea Valley School District's** internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Pequea Valley School District's** internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Trout, Ebersole & Groff, LLP

November 18, 2019
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Pequea Valley School District

SCHEDULE of FINDINGS and QUESTIONED COSTS

Year Ended June 30, 2019

A. Summary of Auditors' Results

1. The independent auditors' report expresses unmodified opinions on the financial statements of **Pequea Valley School District.**

2. One material weakness relating to the audit of the financial statements is reported in the 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.*

3. No instances of noncompliance material to the financial statements of **Pequea Valley School District** were disclosed during the audit.

4. No significant deficiencies or material weaknesses relating to the audit of the major federal program are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.

5. The independent auditors' report on compliance for the major federal award program for **Pequea Valley School District** expresses an unmodified opinion.

6. Audit findings relative to the major federal award program for **Pequea Valley School District** are reported in part C of this schedule.

7. The program tested as a major program is: Title I Grants to Local Educational Agencies - CFDA #84.010.

8. The threshold for distinguishing type A and B programs was $750,000.

9. **Pequea Valley School District** was not determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

Material Weakness

#2019-001 - Retainage Payable

Criteria: The capital projects fund utilizes the modified accrual basis of accounting, which prescribes that expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Statement of Condition: We identified that retainage payable from the previous year was not reversed in the current year as the project was completed. An adjusting journal entry was proposed to and accepted by management to reverse retainage payable of $33,882 to reflect the appropriate balances at year end.

Cause and Effect: If not for the adjustment proposed by the auditors, liabilities would have been overstated by an amount that is material to the capital projects fund.

Identification of Repeat Finding: No

Recommendation: The School District should review retainage payable in the capital projects fund at year end to determine the appropriate balance based on any open construction contracts.

Management Response: The School District will continue to improve on year end closeout procedures and closely review capital projects with retainage from prior year to make appropriate entries. Personnel will contact auditors prior to audit should any questions arise.

C. Findings and Questioned Costs - Major Federal Programs Audit

None

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Pequea Valley School District

SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2019

Compliance Finding

#2018-003 - Title I Grants to Local Educational Agencies for the Year Ended June 30, 2018

Condition: The School District did not distribute funds in proper rank order for the 2016/2017 Title I grant. The failure to distribute funds in rank order caused a misallocation of funds between Paradise Elementary School and Salisbury Elementary.

Recommendation: We recommended that the School District periodically monitor the distribution of federal funds to ensure the LEA is serving its eligible schools in proper rank order.

Current Status: The School District correctly spent per pupil amounts for the year ended June 30, 2019.

Material Weaknesses

#2018-001, #2017-001, #2016-001 and #2015-001 - Internal Control over Financial Reporting for the Years Ended June 30, 2018, 2017, 2016, and 2015

Condition: The School District had designated an individual responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The School District had assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the School District's designee was not experienced in preparing all of the required financial statements and notes to the financial statements for the School District in conformity with accounting principles generally accepted in the United States of America.

Recommendation: The School District needs to annually evaluate having someone on staff with the ability to draft the financial statements of the School District. The evaluation should consider the cost and benefits associated with having this expertise on staff.

Current Status: The School District corrected their processes and they are able to prepare the financial statements and notes to the financial statements in conformity with the accounting principles generally accepted in the United States of America.

#2018-002, #2017-002 - Year-End Close Process for the Year Ended June 30, 2018 and 2017

Condition: During our audit, we noted that certain elements related to the year-end closing process required adjustments. These adjustments included the following items: adjustments for fixed asset additions and deletions; additional accrual of accounts payable in the capital reserve fund; entry to correct beginning fund balance in the food service fund; entry to correct beginning fund balance in the scholarship fund.

Recommendation: The School District should adjust their year-end close process to ensure all accounts payable are accrued, beginning fund balances agree to prior year ending fund balances, and that all fixed asset additions and deletions are identified.

Current Status: The School District has corrected their year-end close processes and this is no longer an issue for the year ended June 30, 2019.

#2016-002 and #2015-002 - Year-End Close Process for the Years Ended June 30, 2016 and 2015

Condition: The School District had designated an employee responsible to oversee the adjusting cash to accrual journal entries as a part of the year-end close process. Once all adjusting journal entries were made within the accounting software (CSIU), the trial balance was provided to the auditors for the annual audit at the beginning of October. There were material, recurring adjusting entries identified by the auditors that needed to be made for the financial statements to be prepared in conformity with generally accepted accounting principles.

Recommendation: The trial balance should have been provided to the auditors for the annual audit with substantially all adjusting entries made previously, therefore we recommended the School District train someone with the knowledge to make correct adjusting journal entries.

Other Comment: For material weakness findings #2018-002 and #2017-002 there were still issues related to the year-end close process as previously indicated, but the factors changed from the #2016-002 and #2015-002 material weaknesses.

Current Status: The School District has corrected their year-end close processes and this is no longer an issue for the year ended June 30, 2019.

#2016-003 - Capital Assets for the Year Ended June 30, 2016

Condition: The School District had not updated the capital asset records for all assets placed in service throughout the 2016 fiscal year prior to the start of the year-end audit. Upon receipt of the capital asset reports, we identified the following:

- Beginning balances at July 1, 2015, per the capital asset software did not agree to ending balances at June 30, 2015, as disclosed in prior year's financial statements.
- Fixed asset additions per the capital asset software did not include all capital asset additions identified during the current year audit.

Recommendation: We recommended that the School District be recording capital asset additions on a regular basis throughout the fiscal year. We also recommended the School District, on an annual basis, should perform a second level review of ending capital asset balances as well as review the asset valuation report in the upcoming year and compare the capital asset software balances to identify and delete assets no longer in service or in possession of the School District.

Other Comment: For material weakness findings #2018-002 and #2017-002 there were still issues related to the recording of fixed assets, but these findings indicate additional issues as well in comparison from the #2016-003 material weakness.

Current Status: The School District correctly recorded capital assets and this is no longer an issue for the year ended June 30, 2019.

PEQUEA VALLEY School District

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Corrective Action Plan
November 18, 2019

Pequea Valley School District respectfully submits the following corrective action plan for the year ending June 30, 2019.

Oversight Agency for Audit: U.S. Department of Education

Name and address of independent public accounting firm: Trout, Ebersole & Groff, LLP, 1705 Oregon Pike, Lancaster, Pennsylvania 17601-4200

Audit Period: July 1, 2018 through June 30, 2019.

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2019 is discussed below. The findings are numbered consistently with the number assigned in the schedule:

Findings - Financial Statements Audit

Material Weakness

#2019-001 – Retainage Payable

Criteria: The capital projects fund utilizes the modified accrual basis of accounting, which prescribes that expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Statement of Condition: We identified that retainage payable from the previous year was not reversed in the current year as the project was completed. An adjusting journal entry was proposed to and accepted by management to reverse retainage payable of $33,882 to reflect the appropriate balances at year end.

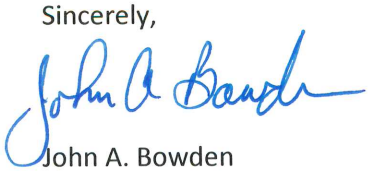
Cause and Effect: If not for the adjustment proposed by the auditors, liabilities would have been overstated by an amount that is material to the capital projects fund.

Recommendation: The School District should review retainage payable in the capital projects fund at year end to determine the appropriate balance based on any open construction contracts.

Management Response: The School District will continue to improve on year end closeout procedures and closely review capital projects with retainage from prior year to make appropriate entries. Personnel will contact auditors prior to audit should any questions arise.

If the United States Department of Education has questions regarding this plan, please call John A. Bowden at 717-768-5530.

Sincerely,



John A. Bowden
Chief of Finance and Operations
Pequea Valley School District