Pequea Valley School District

Year Ended June 30, 2015

TROUT, EBERSOLE & GROFF LLP
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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2015

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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2015

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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, 2015, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the 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, 2015, 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.

Change in Accounting Principle

As described in Note 19 to financial statements, the School District changed its method of accounting for pensions as a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to that matter.

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, budgetary comparison information on page 59, the schedules of OPEB plan funding progress and employer contributions on pages 61 and 62, and pension liability and contributions schedules on pages 64 and 65 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 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

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 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 December 7, 2015, 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 describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Pequea Valley School District's** internal control over financial reporting and compliance.

Trout, Ebersole + Groff, LLP

December 7, 2015
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

The discussion and analysis of the **Pequea Valley School District's** financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015. 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 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 2014-2015 fiscal year were expected to increase by 4.0% from the previous year's expenditure budget with the anticipation of utilizing $970,068 of fund balance. At year end, actual expenditures were 2.83% lower than budgeted, and revenues were greater than budgeted by 3.27%. Other financing sources resulted in additional transfers from the general fund in the amount of $1,604,713. These transfers were for additional debt service payments and payments to the medical internal service fund. Overall, the general fund needed to utilize $296,321 of fund balance for the 2014-2015 fiscal year. An explanation of this difference is below.

The School District implemented a Qualified High Deductible Health Plan on January 1, 2015. As part of this new health plan, each employee set up a health savings account which the district funded the total deductible ($1,500 for employee coverage, $3,000 for family coverage) on January 2, 2015. It was determined by the Board that the funding of each employees health savings account would be done using the fund balance. Thus resulting in expenses (including other financing sources) exceeding revenue. Total local revenues exceeded budget by $1,222,591. Approximately $500,000 of that came from local real estate taxes while the remaining amount was due to increases in the earned income and the real estate transfer taxes. State revenue decreased by $244,726, which was due to a decrease in basic education funding and pupil transportation subsidy. The overall reduction in fund balance was less than anticipated due to the increase in revenues.

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.

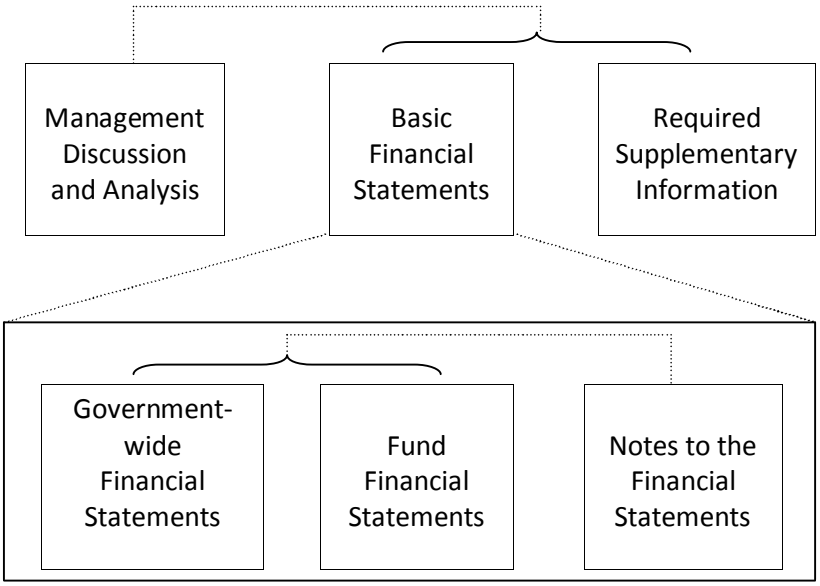
Using this Annual Report (Continued)

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 our 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.

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 liabilities. 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 liabilities, 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 we report 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 a third-party administrator 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 $1,701,461 as of June 30, 2015. The negative unrestricted net position is due implementation of GASB 68, *Accounting and Financial Reporting for Pensions*, which required recognition of an approximately $33.8 million net pension liability at June 30, 2015 and significant new footnote disclosures. A prior period adjustment was made to restate the beginning net position and is explained further in Note 19.

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

Table A-1
Fiscal Years Ended June 30, 2015 and 2014
Net Position

	2015			2014*		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	19,399,886	224,019	19,623,905	19,227,725	243,349	19,471,074
Capital Assets and Other Non-Current Assets	43,295,306	192,153	43,487,459	45,011,844	233,501	45,245,345
Total Assets	**62,695,192**	**416,172**	**63,111,364**	**64,239,569**	**476,850**	**64,716,419**
Deferred Outflows of Resources	**2,953,492**	**24,333**	**2,977,825**	**2,493,859**	**18,058**	**2,511,917**
Current and Other Liabilities	7,098,192	13,329	7,111,521	6,887,565	13,992	6,901,557
Long-Term Liabilities	53,445,278	356,046	53,801,324	58,793,782	382,022	59,175,804
Total Liabilities	**60,543,470**	**369,375**	**60,912,845**	**65,681,347**	**396,014**	**66,077,361**
Deferred Inflows of Resources	**3,438,324**	**36,559**	**3,474,883**	**-0-**	**-0-**	**-0-**
Net Position:						
Net Investment in Capital Assets	22,034,618	192,153	22,226,771	20,678,310	233,501	20,911,811
Unrestricted	(20,367,728)	(157,582)	(20,525,310)	(19,626,229)	(134,607)	(19,706,836)
Total Net Position	**1,666,890**	**34,571**	**1,701,461**	**1,052,081**	**98,894**	**1,150,975**

***** 2014 amount above have been adjusted to reflect the retroactive adoption of GASB 68 for comparative purposes only.

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 new requirement of the School District to report its proportionate share of the PSERS Net Liability as defined in GASB statement No. 68. Note 14 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, 2015 and 2014
Changes in Net Position

	2015			2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	189,319	261,900	451,219	154,348	284,534	438,882
Operating Grants and Contributions	5,430,893	465,933	5,896,826	5,270,305	492,719	5,763,024
Capital Grants and Contributions	314,339	-0-	314,339	318,277	-0-	318,277
General Revenues:						
Property Taxes	21,700,112	-0-	21,700,112	21,238,476	-0-	21,238,476
Other Taxes	2,476,109	-0-	2,476,109	2,479,912	-0-	2,479,912
Grants, Subsidies, and Contributions, Unrestricted	2,845,886	-0-	2,845,886	2,861,717	-0-	2,861,717
Other	47,263	560	47,823	60,569	401	60,970
Total Revenues	**33,003,921**	**728,393**	**33,732,314**	**32,383,604**	**777,654**	**33,161,258**
Expenses:						
Instructional Programs	19,103,614	-0-	19,103,614	17,191,488	-0-	17,191,488
Instructional Student Support	3,819,520	-0-	3,819,520	3,581,452	-0-	3,581,452
Administrative and Financial Support	2,919,645	-0-	2,919,645	2,497,871	-0-	2,497,871
Operation and Maintenance of Plant	3,302,271	-0-	3,302,271	2,659,929	-0-	2,659,929
Pupil Transportation	1,988,808	-0-	1,988,808	1,861,058	-0-	1,861,058
Student Activities	645,257	-0-	645,257	609,967	-0-	609,967
Community Services	35,363	-0-	35,363	34,546	-0-	34,546
Interest on Long-Term Debt	574,634	-0-	574,634	694,963	-0-	694,963
Food Services	-0-	792,716	792,716	-0-	854,358	854,358
Total Expenses	**32,389,112**	**792,716**	**33,181,828**	**29,131,274**	**854,358**	**29,985,632**
Increase (Decrease) in Net Position	**614,809**	**(64,323)**	**550,486**	**3,252,330**	**(76,704)**	**3,175,626**

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, operation and maintenance of plant, 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, 2015 and 2014
Governmental Activities

	2015		2014	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Instructional Programs	19,103,614	15,226,538	17,191,488	13,434,375
Instructional Student Support	3,819,520	3,536,175	3,581,452	3,321,925
Administrative and Financial Support	2,919,645	2,659,400	2,497,871	2,257,928
Operation and Maintenance of Plant	3,302,271	3,197,667	2,659,929	2,587,549
Pupil Transportation	1,988,808	1,003,961	1,861,058	850,572
Student Activities	645,257	559,318	609,967	549,127
Community Services	35,363	11,207	34,546	10,182
Interest on Long-Term Debt	574,634	260,295	694,963	376,686
Total Governmental Activities	**32,389,112**	**26,454,561**	**29,131,274**	**23,388,344**
Less: Unrestricted Grants, Subsidies		(2,845,886)		(2,861,717)
Total Needs from Local Taxes and Other Revenues		**23,608,675**		**20,526,627**

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, 2015 and 2014
Business-Type Activities

	2015		2014	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Food Services	792,716	64,883	854,358	77,105

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, 2015, the School District governmental funds reported a combined fund balance of $14,046,286 which is a decrease of $471,904 from the previous year. The primary reason for this decrease is explained below:

> The School District anticipated using fund balance to fund employees health savings accounts for the first three years of the new health plan. The Board wanted to use fund balance as this expenditure will not exist after the 2016-2017 school year.

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 59.

Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budgetary reserve category to specific expenditure areas.

The budgetary reserve includes amounts that will be funded by designated fund balance for planned opportunities of expenditures for improvements/enhancements to the School District operations. These amounts will only be appropriated into expenditure categories if the fiscal results of the prior year end with a positive addition to fund balance, which exceeds the total of these projected expenditures. The Board is using this method of budgeting to control tax increases while also protecting the integrity of the fund balance.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2015, the School District had $43,295,306 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deletions, and depreciation) of $1,684,672.

Table A-5
Governmental Activities
Capital Assets - net of Depreciation

	2015	2014
Land and Land Improvements	1,461,737	1,560,310
Buildings and Building Improvements	40,270,076	41,225,047
Furniture and Equipment	1,499,018	2,116,108
Vehicles	64,475	78,513
	43,295,306	**44,979,978**

Debt Administration

As of July 1, 2014, the School District had a total outstanding bond principal of $24,820,000. During the year, the School District made payments against principal in the amount of $9,750,000. Current year debt service activity resulted in an ending outstanding debt as of June 30, 2015, of $21,470,000.

Table A-6
Outstanding Debt

	2015	2014
Issue:		
Series of 2006	-0-	2,055,000
Series A of 2010 (series 2003, 2005, note 2003)	-0-	6,510,000
Series A of 2013	9,720,000	9,725,000
Series B of 2013	6,350,000	6,530,000
Series of 2015	5,400,000	-0-
	21,470,000	**24,820,000**

More detailed information about our long-term liabilities is included in Notes 10 and 11 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 12 and 13 of the financial statements, respectively.

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 2015-2016 budget, the School District increased expenditures by 3.1% from the previous year. The largest increase in expenditures ($539,707) was due to an increase in salaries. Benefits increased by 4.5% or $279,077 mainly due to the increase in the PSERS rate. The increase to benefits would have been more substantial, however the district moved to a Qualified High Deductible Health Plan (QHDHP) which decreased health insurance costs by 20%. Debt service is funded at the maximum needed level of $4,203,053; however for the 2015-2016 fiscal year only $4,013,356 is needed to cover the debt payments. The amount budgeted will not fully be used until 2018-2019. The additional amount budgeted dedicates and holds millage to be used for future capital projects.

Economic Factors and Next Year's Budgets and Rates (Continued)
Budgeted revenue for the 2015-2016 school year is 2.4% higher than the previous fiscal year and expects to use $582,250 of fund balance. The millage rate for 2015-2016 is 17.4735, which is equal to the previous year. Local revenue continues to provide the majority of funding for School District expenses as noted on page 10.

The comparison of revenue and expenditure categories is as follows:

Table A-7
Budgeted Revenues

	2015-2016	2014-2015
Local Sources	74.1%	74.0%
State Sources	22.1%	21.8%
Federal/Other Sources	3.8%	4.2%

Budgeted Expenditures

	2015-2016	2014-2015
Instruction	51.2%	51.4%
Support Services	32.8%	32.5%
Non-Instruction/Community	3.8%	2.3%
Fund Transfers/Debt	12.2%	13.8%

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, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 1,094,066	$ 69,482	$ 1,163,548
Investments	15,502,505	168,726	15,671,231
Taxes Receivable, net	908,432	-0-	908,432
Internal Balances	123,917	(123,917)	-0-
Due from Other Governments	1,481,987	60,617	1,542,604
Other Receivables	161,121	2,785	163,906
Prepaid Expenses	127,858	-0-	127,858
Inventories	-0-	46,326	46,326
Total Current Assets	**19,399,886**	**224,019**	**19,623,905**
Noncurrent Assets			
Land	616,644	-0-	616,644
Building and Building Improvements, net of Accumulated Depreciation	40,270,076	-0-	40,270,076
Site Improvements, net of Accumulated Depreciation	845,093	-0-	845,093
Furniture and Equipment, net of Accumulated Depreciation	1,499,018	192,153	1,691,171
Vehicles, net of Accumulated Depreciation	64,475	-0-	64,475
Total Noncurrent Assets	**43,295,306**	**192,153**	**43,487,459**
TOTAL ASSETS	**62,695,192**	**416,172**	**63,111,364**
DEFERRED OUTFLOWS OF RESOURCES			
Loss on Bond Refunding, net of Accumulated Amortization	664,972	-0-	664,972
Pension	2,288,520	24,333	2,312,853
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$ 2,953,492**	**$ 24,333**	**$ 2,977,825**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION
(Continued)
June 30, 2015

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	$ 339,251	$ 1,909	$ 341,160
Current Portion of Long-Term Debt	3,495,000	-0-	3,495,000
Accrued Salaries and Benefits	2,091,399	-0-	2,091,399
Compensated Absences			
Due Within One Year	120,666	-0-	120,666
Accrued Interest on Long-Term Debt	122,061	-0-	122,061
Payroll Deductions and Withholdings	82,644	-0-	82,644
Unearned Revenues	-0-	7,637	7,637
Due to Other Governments	657,142	3,783	660,925
Other Current Liabilities	190,029	-0-	190,029
Total Current Liabilities	**7,098,192**	**13,329**	**7,111,521**
Noncurrent Liabilities			
Bonds Payable,			
net of Unamortized Discount	18,430,660	-0-	18,430,660
Accrued Retirement Bonuses	616,375	-0-	616,375
Long-Term Portion of			
Compensated Absences	730,637	-0-	730,637
Net Pension Liability	33,485,467	356,046	33,841,513
Other Postemployment Benefit Liabilities	182,139	-0-	182,139
Total Noncurrent Liabilities	**53,445,278**	**356,046**	**53,801,324**
TOTAL LIABILITIES	**60,543,470**	**369,375**	**60,912,845**
DEFERRED INFLOWS OF RESOURCES - PENSION	**3,438,324**	**36,559**	**3,474,883**
NET POSITION			
Net Investment in Capital Assets	22,034,618	192,153	22,226,771
Unrestricted	(20,367,728)	(157,582)	(20,525,310)
TOTAL NET POSITION	**$ 1,666,890**	**$ 34,571**	**$ 1,701,461**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2015

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	$ 19,103,614	$ 164,210	$ 3,712,866	$ -0-	$ (15,226,538)	$ -0-	$ (15,226,538)
Instructional Student Support	3,819,520	-0-	283,345	-0-	(3,536,175)	-0-	(3,536,175)
Administrative and Financial Support Services	2,919,645	-0-	260,245	-0-	(2,659,400)	-0-	(2,659,400)
Operation and Maintenance of Plant Services	3,302,271	25,109	79,495	-0-	(3,197,667)	-0-	(3,197,667)
Pupil Transportation	1,988,808	-0-	984,847	-0-	(1,003,961)	-0-	(1,003,961)
Student Activities	645,257	-0-	85,939	-0-	(559,318)	-0-	(559,318)
Community Services	35,363	-0-	24,156	-0-	(11,207)	-0-	(11,207)
Interest on Long-Term Debt	574,634	-0-	-0-	314,339	(260,295)	-0-	(260,295)
Total Governmental Activities	**32,389,112**	**189,319**	**5,430,893**	**314,339**	**(26,454,561)**	**-0-**	**(26,454,561)**
Business-Type Activities:							
Food Services	**792,716**	**261,900**	**465,933**	**-0-**	**-0-**	**(64,883)**	**(64,883)**
Total Primary Government	**$ 33,181,828**	**$ 451,219**	**$ 5,896,826**	**$ 314,339**	**$ (26,454,561)**	**$ (64,883)**	**$ (26,519,444)**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2015

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					$ 21,700,112	$ -0-	$ 21,700,112
Public Utility Realty, Earned Income, Occupation and Other Taxes Levied for General Purposes					2,476,109	-0-	2,476,109
Unrestricted Grants and Subsidies					2,845,886	-0-	2,845,886
Unrestricted Investment Earnings					30,716	560	31,276
Gain on Fixed Asset Dispositions					16,547	-0-	16,547
Total General Revenues					**27,069,370**	**560**	**27,069,930**
CHANGES in NET POSITION					**614,809**	**(64,323)**	**550,486**
NET POSITION							
Beginning, as Originally Stated					35,282,161	462,858	35,745,019
Effect of Prior Period Adjustment (Note 19)					(34,230,080)	(363,964)	(34,594,044)
Beginning, Restated					**1,052,081**	**98,894**	**1,150,975**
Ending					**$ 1,666,890**	**$ 34,571**	**$ 1,701,461**

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	Major Funds			
	General Fund	Capital Project	Debt Service	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 1,094,066	$ -0-	$ -0-	$ 1,094,066
Investments	11,122,938	2,822,095	-0-	13,945,033
Taxes Receivable, net	908,432	-0-	-0-	908,432
Due from Other Funds	126,687	-0-	-0-	126,687
Due from Other Governments	1,383,409	-0-	-0-	1,383,409
Other Receivables	56,852	-0-	-0-	56,852
Prepaid Expenses	127,858	-0-	-0-	127,858
TOTAL ASSETS	**14,820,242**	**2,822,095**	**-0-**	**17,642,337**
LIABILITIES, DEFERRED INFLOWS of RESOURCES, and FUND BALANCES				
LIABILITIES				
Accounts Payable	339,251	-0-	-0-	339,251
Due to Other Funds	47,276	2,388	-0-	49,664
Accrued Salaries and Benefits	2,091,399	-0-	-0-	2,091,399
Payroll Deductions and Withholdings	82,644	-0-	-0-	82,644
Payable to Other Governments	657,142	-0-	-0-	657,142
Other Current Liabilities	30,662	-0-	-0-	30,662
TOTAL LIABILITIES	**3,248,374**	**2,388**	**-0-**	**3,250,762**
DEFERRED INFLOWS of RESOURCES				
Deferred Taxes	**345,289**	**-0-**	**-0-**	**345,289**
FUND BALANCES				
Nonspendable	127,858	-0-	-0-	127,858
Committed	8,200,000	-0-	-0-	8,200,000
Assigned	-0-	2,819,707	-0-	2,819,707
Unassigned	2,898,721	-0-	-0-	2,898,721
TOTAL FUND BALANCES	**11,226,579**	**2,819,707**	**-0-**	**14,046,286**
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES	**$ 14,820,242**	**$ 2,822,095**	**$ -0-**	**$ 17,642,337**

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET POSITION
June 30, 2015

Total Fund Balances - Governmental Funds	$ 14,046,286
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 $77,027,566 and the accumulated depreciation is $33,732,260.	43,295,306
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	1,647,846
Property taxes receivable are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	345,289
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities and related accounts at year end consist of:	
Bonds Payable	(21,470,000)
Net Pension Liability	(33,485,467)
Accrued Interest on Long-Term Debt	(122,061)
Loss on Bond Refunding	664,972
Bond Premium, net of Amortization	(455,660)
Accrued Retirement Bonuses	(616,375)
Compensated Absences	(851,303)
Other Postemployment Benefits	(182,139)
Deferred Inflows of Resources - Pension	(3,438,324)
Deferred Outflows of Resources - Pension	2,288,520
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	**$ 1,666,890**

See notes to financial statements.

Pequea Valley School District

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

Year Ended June 30, 2015

	Major Funds			
REVENUES	**General Fund**	**Capital Project**	**Debt Service**	**Total Governmental Funds**
Local Sources:				
Real Estate Taxes	$ 21,776,513	$ -0-	$ -0-	$ 21,776,513
Other Taxes	2,476,109	-0-	-0-	2,476,109
Investment Earnings	23,530	6,216	-0-	29,746
Other Revenue	636,787	-0-	-0-	636,787
Total Local Sources	24,912,939	6,216	-0-	24,919,155
State Sources	6,726,292	-0-	-0-	6,726,292
Federal Sources	1,417,358	-0-	-0-	1,417,358
Total Revenues	**33,056,589**	**6,216**	**-0-**	**33,062,805**
EXPENDITURES				
Instructional Services	16,247,357	162	-0-	16,247,519
Support Services	10,716,874	549,053	-0-	11,265,927
Noninstructional Services	665,840	61,244	-0-	727,084
Capital Outlay	-0-	571,340	-0-	571,340
Debt Service	-0-	-0-	3,750,103	3,750,103
Bond Issuance Costs	-0-	-0-	105,961	105,961
Total Expenditures	**27,630,071**	**1,181,799**	**3,856,064**	**32,667,934**
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	**5,426,518**	**(1,175,583)**	**(3,856,064)**	**394,871**
OTHER FINANCING SOURCES (USES)				
Capital Projects Transfer	(1,000,000)	1,000,000	-0-	-0-
Proceeds of Refunding Debt	-0-	-0-	6,400,000	6,400,000
Bond Premium on Refunding Bonds	-0-	-0-	324,561	324,561
Payment to Refunded Bond Escrow Agent	-0-	-0-	(6,618,600)	(6,618,600)
Proceeds from Sale of Capital Assets	27,264	-0-	-0-	27,264
Debt Service Fund Transfer	(3,750,103)	-0-	3,750,103	-0-
Internal Service Fund Transfer	(1,000,000)	-0-	-0-	(1,000,000)
Net Other Financing Sources (Uses)	**(5,722,839)**	**1,000,000**	**3,856,064**	**(866,775)**
NET CHANGES in FUND BALANCES	**(296,321)**	**(175,583)**	**-0-**	**(471,904)**
FUND BALANCES				
Beginning	11,522,900	2,995,290	-0-	14,518,190
Ending	**$ 11,226,579**	**$ 2,819,707**	**$ -0-**	**$ 14,046,286**

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, 2015

Net Changes in Fund Balances - Total Governmental Funds		$ (471,904)
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	(2,512,511)	
Capital Outlays	838,556	(1,673,955)
Proceeds from the sale of fixed assets are reported in the statement of net activities net of the remaining basis of the assets disposed. This amount represents the remaining basis of all disposed assets.		(10,717)
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.		(76,401)
The issuance of long-term debt 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 debt obligations and related items.		(6,740,888)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		9,750,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.		60,393
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.		$ (175,069)

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, 2015

In the statement of activities, certain operating expenses (e.g., supplemental pension obligations) 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.	$ (191,309)
The accrued postemployment benefit is recorded as a liability in the government-wide financial statements but not in the fund financial statements. This amount represents the change in the accrued postemployment benefit for the year.	3,379
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.	546,470
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.	(405,190)
CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES	**$ 614,809**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION -
PROPRIETARY FUNDS
June 30, 2015

	Major Fund	
	Enterprise Fund Food Service	Internal Service Fund
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 69,482	$ -0-
Investments	168,726	1,557,472
Due from Other Funds	-0-	46,833
Due from Other Governments	60,617	98,578
Inventories	46,326	-0-
Other Current Assets	2,785	104,330
Total Current Assets	**347,936**	**1,807,213**
Noncurrent Assets		
Machinery and Equipment, net of Accumulated Depreciation	**192,153**	**-0-**
TOTAL ASSETS	**540,089**	**1,807,213**
DEFERRED OUTFLOWS OF RESOURCES - PENSION	**24,333**	**-0-**
LIABILITIES		
Current Liabilities		
Accounts Payable	1,909	-0-
Due to Other Funds	123,917	-0-
Due to Other Governments	3,783	-0-
Other Current Liabilities	-0-	159,367
Unearned Revenues	7,637	-0-
TOTAL CURRENT LIABILITIES	**137,246**	**159,367**
Noncurrent Liabilities		
Net Pension Liability	**356,046**	**-0-**
TOTAL LIABILITIES	**493,292**	**159,367**
DEFERRED INFLOWS OF RESOURCES - PENSION	**36,559**	**-0-**
NET POSITION		
Net Investment in Capital Assets	192,153	-0-
Unrestricted	(157,582)	1,647,846
TOTAL NET POSITION	**$ 34,571**	**$ 1,647,846**

See notes to financial statements.

Pequea Valley School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
PROPRIETARY FUNDS
June 30, 2015

	Major Fund	
	Enterprise Fund Food Service	Internal Service Fund
OPERATING REVENUES		
Food Service Revenue	$ 261,900	$ -0-
Charges for Services	-0-	2,537,601
Total Operating Revenues	**261,900**	**2,537,601**
OPERATING EXPENSES		
Salaries	97,855	-0-
Employee Benefits	83,063	2,992,102
Purchased Professional and Technical Services	249,189	-0-
Other Purchased Services	13,967	-0-
Supplies	307,293	-0-
Depreciation	41,349	-0-
Total Operating Expenses	**792,716**	**2,992,102**
OPERATING LOSS	**(530,816)**	**(454,501)**
NONOPERATING REVENUES		
Investment Earnings	560	971
State Sources	38,472	-0-
Federal Sources	427,461	-0-
Net Nonoperating Revenues	**466,493**	**971**
LOSS BEFORE TRANSFERS	**(64,323)**	**(453,530)**
INTERFUND TRANSFERS	**-0-**	**1,000,000**
CHANGES in NET POSITION	**(64,323)**	**546,470**
NET POSITION		
Beginning, as Originally Stated	462,858	1,101,376
Effect of Prior Period Adjustment (Note 19)	(363,964)	-0-
Beginning, Restated	**98,894**	**1,101,376**
Ending	**$ 34,571**	**$ 1,647,846**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2015

	Major Fund	
	Enterprise Fund Food Service	Internal Service Fund
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	$ 262,519	$ 882,792
Cash Received from Assessments Made to Other Funds	-0-	1,654,809
Cash Payments to Employees for Services	(176,610)	-0-
Cash Payments to Suppliers for Goods and Services	(637,920)	(2,992,102)
Net Cash Used by Operating Activities	**(552,011)**	**(454,501)**
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
Transfer in from General Fund	-0-	1,000,000
State Sources	44,898	-0-
Federal Sources	497,189	-0-
Net Cash Provided by Noncapital Financing Activities	**542,087**	**1,000,000**
CASH FLOWS from INVESTING ACTIVITIES		
Investment Earnings	560	971
Purchase of Investments	(153,627)	(1,153,491)
Sale of Investments	-0-	607,021
Net Cash Used by Investing Activities	**(153,067)**	**(545,499)**
DECREASE in CASH and CASH EQUIVALENTS	**(162,991)**	**-0-**
CASH and CASH EQUIVALENTS		
Beginning of Year	232,473	-0-
End of Year	**$ 69,482**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
(Continued)
Year Ended June 30, 2015

	Major Fund	
	Enterprise Fund Food Service	Internal Service Fund
RECONCILIATION of OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES		
Operating Loss	**$ (530,816)**	**$ (454,501)**
ADJUSTMENTS to RECONCILE OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES		
Depreciation	41,349	-0-
Donated Commodities Used	37,510	-0-
Increase in Receivables	-0-	(46,387)
Decrease in Interfund Receivable	-0-	174,762
Increase in Inventory	(9,090)	-0-
Increase in Other Current Assets	(2,193)	(25,078)
Decrease in Accounts Payable	(1,386)	(103,297)
Decrease in Interfund Payable	(92,312)	-0-
Increase in Unearned Revenue	619	-0-
Pension - Related Changes Other than Periodic Pension Costs	4,308	-0-
Total Adjustments	**(21,195)**	**-0-**
Net Cash Used by Operating Activities	**$ (552,011)**	**$ (454,501)**
SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION		
NONCASH NONCAPITAL and RELATED FINANCING ACTIVITIES		
Receipt and Use of USDA Donated Commodities	37,510	-0-

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION -
FIDUCIARY FUNDS
June 30, 2015

	Private Purpose Trust	Agency Fund
ASSETS		
Cash and Cash Equivalents	$ -0-	$ 9,584
Investments	105,009	47,513
Due from Other Funds	-0-	443
TOTAL ASSETS	**105,009**	**57,540**
LIABILITIES		
Due to Other Funds	201	181
Other Current Liabilities	-0-	57,233
Interest Payable	-0-	126
TOTAL LIABILITIES	**201**	**57,540**
NET POSITION		
Restricted for Scholarships	**$ 104,808**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CHANGES in NET POSITION -
FIDUCIARY FUNDS
Year Ended June 30, 2015

	Private Purpose Trust
ADDITIONS	
Investment Earnings	**$ 10**
DEDUCTIONS	**-0-**
CHANGES in NET POSITION	**10**
NET POSITION	
Beginning	104,798
Ending	**$ 104,808**

See notes to financial statements.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Pequea Valley 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 1,800 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 Governmental Accounting Standards Board, *The Financial Reporting Entity*, and as amended in Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34,* 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, 2015, was approximately $629,548. 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. The School District entered into an operating lease with LCCTC and the Authority as more fully disclosed in Note 11. 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 No. 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, 2015. 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. **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, 2015, was approximately $393,000. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Lancaster County Tax Collection Bureau (Bureau)

The School District participates with 16 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 16 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made quarterly. The School District's portion of the operating expenditures for the year ended June 30, 2015, was $43,927. 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 $70,000. The pool reimburses monies to the School District for individual claims above $70,000 up to $200,000. The pool has commercial insurance for claims greater than $200,000. The School District contribution to the pool for the year ended June 30, 2015, was approximately $5,700 for administrative fees and $318,000 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, liabilities, 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Government-Wide Financial Statements (Continued)
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.

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.

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.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)
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.
>
> **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.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees, and interest on investments. Current property taxes measurable at June 30, 2015, which are not intended to finance fiscal 2015 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.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)
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, revenues 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
Investments are recorded at fair value.

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, 2015, 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.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fair value on the date donated. Historically, the School District generally capitalized assets with a cost of $5,000 or more as purchase and construction outlays occur. Effective August 8, 2013, the capitalization policy was revised and the capitalization threshold was decreased to 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 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.

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.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances
Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. As of June 30, 2015, 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.

Interfund Activity
Exchange transactions between governmental funds are eliminated on the government-wide statements.

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

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.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)
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 any of the unrestricted fund balance classifications could be used.

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 bonus accrual, allowance for uncollectible taxes, claims incurred but not reported, pension related items, and other postemployment benefits.

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 of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2015.

Current Year Changes in Accounting Principles
During the current year, the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. As a result of implementation of this standard in 2015, the School District reports an actuarial calculation of its proportionate share of net pension liability. Disclosures and required supplementary information related to the pension plan have been expanded to improve decision usefulness, support assessments of accountability, and create additional transparency. Since this statement was implemented retroactively, the beginning net position of the governmental activities, the business-type activities, and proprietary funds financial statements have been restated, as discussed in Note 19, to account for the cumulative effect.

Commensurate with implementation of GASB Statement No. 68, the School District adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. This statement amends GASB Statement No. 68 and requires that, at transition, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. As a result of implementation of this standard in 2015, the School District recognizes a deferred outflow of resources for its pension contribution made after the measurement date of the beginning net pension liability.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Year Changes in Accounting Principles (Continued)
During the current year, the School District adopted GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of governmental operations. 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 March 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The provisions of this statement are effective for the School District's June 30, 2016 financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and accountability. The provisions of this statement are effective for the School District's June 30, 2016 financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.* The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and accountability. The provisions of this statement are effective for the School District's June 30, 2017 financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* The objective of this statement is to improve accounting and financial reporting for state and local governments for OPEB. The provisions of this statement are effective for the School District's June 30, 2018 financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify the hierarchy of GAAP in the context of the current governmental financial reporting environment. The provisions of this statement are effective for the School District's June 30, 2016 financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. The provisions of this statement are effective for the School District's June 30, 2016 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.
>
> 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, 2015, $10,628,607 of the School District's bank balance of $12,593,607 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	10,628,607
	10,628,607

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	10,628,607
Insured Amount	1,965,000
Bank Balance	12,593,607
Outstanding Checks	(116,925)
Carrying Amount - Bank Balances	12,476,682
Petty Cash	1,450
Certificates of Deposit Classified as Investments on the Balance Sheet	(11,305,000)
Total Cash and Cash Equivalents Per Financial Statements	**1,173,132**

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

Cash and Cash Equivalents - Custodial Credit Risk (Continued)

Investments
As of June 30, 2015, the School District had the following investments:

Investments	Maturity	Fair Value
PA School District Liquid Asset Fund - Max Series		4,518,753
PA School District Liquid Asset Fund - Certificates of Deposit	0 - 12 Months	11,305,000
		15,823,753

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, 2015, the School District investments were rated as:

Investments	Standard & Poor's
PA School District Liquid Asset Fund - Max Series	AAAm

Concentration of Credit Risk
The School District places no limit on the amount they may invest in any one issuer. More than 5% of the School District's investments are in the following investments:

Governmental Activities:	
PA School District Liquid Asset Fund - Max Series	100%
Business-Type Activities and Food Service Fund:	
PA School District Liquid Asset Fund - Max Series	100%
General Fund:	
PA School District Liquid Asset Fund - Max Series	100%
Other Funds:	
PA School District Liquid Asset Fund - Max Series	100%

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 investment subject to custodial credit risk at June 30, 2015.

NOTE 3 - REAL ESTATE TAXES

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2015, was 17.47 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2015, 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, 2015, are as follows:

	Taxes Receivable	Estimated Uncollectable	Net Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	499,068	-0-	499,068	153,779	345,289
Realty Transfer Taxes	32,654	-0-	32,654	32,654	-0-
Earned Income Taxes	376,710	-0-	376,710	376,710	-0-
	908,432	**-0-**	**908,432**	**563,143**	**345,289**

NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2015, the following amounts are due from other governmental units:

Due From	General Fund	Enterprise Fund	Internal Service Fund	Total
Federal Grants	493,162	57,105	-0-	550,267
State Match for Lunch Program	-0-	3,512	-0-	3,512
State Retirement Subsidy	418,234	-0-	-0-	418,234
State Social Security Subsidy	40,870	-0-	-0-	40,870
State School Construction Reimbursement	151,186	-0-	-0-	151,186
Other State Subsidies	119,634	-0-	-0-	119,634
Local	160,323	-0-	98,578	258,901
	1,383,409	**60,617**	**98,578**	**1,542,604**

NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2015, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	126,687	47,276
Enterprise Fund - Food Service	-0-	123,917
Capital Reserve Fund	-0-	2,388
Internal Service Fund	46,833	-0-
Scholarship Fund	-0-	201
Student Activity Fund	443	181
	173,963	**173,963**

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 internal service fund and the student activities fund for outstanding current liabilities.

The enterprise fund - food service has an interfund payable owed to general fund for benefit payments.

The internal service fund as an interfund receivable that represents net amounts due from the general fund for outstanding current receivables.

The scholarship fund has an interfund payable to the general fund for a scholarship payment.

The student activity fund has an interfund payable to general fund for paying an invoice on behalf of the student activity fund.

The student activity fund has an interfund receivable that represents net amounts due from the general fund for outstanding current receivables.

Interfund transfers for the year ended June 30, 2015, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	5,750,103
Capital Reserve Fund	1,000,000	-0-
Debt Service Fund	3,750,103	-0-
Internal Service Fund	1,000,000	-0-
	5,750,103	**5,750,103**

Transfers are made from the general fund to the debt service funds to provide resources for the payment of principal and interest on general obligation bonds.

Transfers are made from the general fund to the capital reserve funds to provide resources for the payment of projects and acquisitions of assets.

NOTE 6 - INTERFUND ACCOUNTS (Continued)

Transfers are made from the general fund to the internal service fund to provide resources for payment of healthcare related expenses.

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2015, is as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Historical Cost:				
Capital Assets not Being Depreciated:				
Land	616,644	-0-	-0-	616,644
Total Cost	**616,644**	**-0-**	**-0-**	**616,644**
Capital Assets Being Depreciated:				
Site Improvements	2,751,977	-0-	-0-	2,751,977
Building and Building Improvements	65,914,635	740,152	-0-	66,654,787
Furniture and Equipment	6,841,668	98,404	(143,997)	6,796,075
Vehicles	208,083	-0-	-0-	208,083
Total Cost	**75,716,363**	**838,556**	**(143,997)**	**76,410,922**
Accumulated Depreciation:				
Site Improvements	1,808,311	98,573	-0-	1,906,884
Building and Building Improvements	24,689,588	1,695,123	-0-	26,384,711
Furniture and Equipment	4,725,560	704,777	(133,280)	5,297,057
Vehicles	129,570	14,038	-0-	143,608
Total Accumulated Depreciation	**31,353,029**	**2,512,511**	**(133,280)**	**33,732,260**
Net Capital Assets Being Depreciated	**44,363,334**	**(1,673,955)**	**(10,717)**	**42,678,662**
Net Capital Assets	**44,979,978**	**(1,673,955)**	**(10,717)**	**43,295,306**

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2015, is as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	800,197	-0-	-0-	800,197
Accumulated Depreciation:				
Equipment	566,696	41,348	-0-	608,044
Net Capital Assets	**233,501**	**(41,348)**	**-0-**	**192,153**

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	1,892,690
Instructional Student Support	348,795
Administration and Financial Support Services	168,799
Operation and Maintenance of Plant Services	102,227
	2,512,511

The School District entered into an agreement with The Factory Ministries to lease the Old Paradise Elementary for five years, effective July 1, 2012 through June 30, 2017. In lieu of monetary rent, the lessee agrees to provide in-kind rent in the form of maintaining the property in good condition and provide minor maintenance, renovations, and repairs as may be agreed upon by and between the parties.

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2015, the School District was liable for $2,091,399 of payroll, payable during July and August 2015, 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, 2015, and to retiring professional employees who are receiving a payout of their accumulated compensated absences and bonuses.

NOTE 9 - UNEARNED REVENUE

Unearned revenue in the food service fund consists of prepaid lunch sales of $7,637 as of June 30, 2015.

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 April 15, 2006, the School District issued General Obligation Bond Series of 2006 in the amount of $18,000,000. The proceeds were used to finance various capital projects and to pay costs and expenses of issuing the bonds. A portion of this bond was refunded with the issuance of General Obligation Bonds Series of 2013 A and B. The bond was paid in full during the year ended June 30, 2015.

In April 2010, the School District issued General Obligation Bond Series A of 2010 in the amount of $11,580,000. The proceeds of the Series A of 2010 were used to (1) currently refund outstanding General Obligation Bonds, Series of 2003, (2) currently refund a portion of outstanding General Obligation Bonds, Series of 2005, (3) currently refund outstanding General Obligation Notes, Series of 2003, and (4) pay the costs and expenses of issuing the bonds. The bond was paid in full during the year ended June 30, 2015.

On June 20, 2013, the School District issued General Obligation Bonds Series A of 2013 and Series B of 2013 in the amounts of $9,730,000 and $6,605,000, respectively. 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, 2015, was $9,720,000 due in various amounts through February 2021.

Proceeds of the Series B of 2013 Bonds were used to provide funds to advance refund a portion of the outstanding General Obligation Bonds, Series of 2006 and to pay the costs of issuing the bonds. The principal amount outstanding for Series B of 2013 as of June 30, 2015, was $6,350,000 due in various amounts through February 2018.

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, 2015, was $5,400,000 due in various amounts through May 2021. As a result of this refunding, reduced its total debt service requirement of the General Obligation Bonds, Series A of 2010 by $204,464 which resulted in an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of $206,750.

Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2015, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2015	Due Within One Year
Series A of 2013	2/01/2021	.45% - 4.00%	9,720,000	5,000
Series B of 2013	2/01/2018	.60% - 1.76%	6,350,000	2,330,000
Series of 2015	5/15/2021	1.00% - 4.00%	5,400,000	1,160,000

NOTE 10 - LONG-TERM DEBT (CONTINUED)

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

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
General Obligation Debt	24,820,000	6,400,000	9,750,000	21,470,000
Bond Premium	277,171	324,560	146,071	455,660
Loss on Bond Refunding	(795,503)	(57,376)	(187,907)	(664,972)
Accrued Retirement Bonuses	425,066	216,909	25,600	616,375
Estimated Liability for Compensated Absences	676,234	208,952	33,883	851,303
	25,402,968	**7,093,045**	**9,767,647**	**22,728,366**

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

	Interest	Principal	Total
2016	462,849	3,495,000	3,957,849
2017	417,523	3,710,000	4,127,523
2018	345,542	3,785,000	4,130,542
2019	231,500	3,910,000	4,141,500
2020	131,400	3,605,000	3,736,400
2021	59,300	2,965,000	3,024,300
	1,648,114	**21,470,000**	**23,118,114**

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 LEASE

On September 22, 2011, the Lancaster County Career and Technology Center Authority (Authority) authorized the issuance of Guaranteed Lease Revenue Bonds, Series 2011 to provide funds for renovations and additions to Brownstown, Mount Joy, and Willow Street campuses of the LCCTC, and for the payment and cost of issuing the bonds.

The LCCTC and the sixteen member schools have entered into a lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to fund the debt based on real estate market values as set forth in the LCCTC Organization Agreement. The final bond was issued in July 2014, totaling $23,890,000. The bonds were issued in three different series over the course of three years. The bonds are intended to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed $1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of $1,330,000.

NOTE 11 - OPERATING LEASE (Continued)

On June 29, 2012, the LCCTCA issued the first of three series, the Lancaster County Career and Technology Center General Obligation Bonds, Series of 2012, in the total amount of $9,995,000.

On September 20, 2013, the Lancaster County Career and Technology Center issued the second in a series of three Bond issues, Guaranteed Lease Revenue Bonds, Series 2013 in the amount of $9,995,000.

On July 9, 2014, the LCCTCA issued the third and final of three series, the Lancaster County Career and Technology Center General Obligation Bonds, Series of 2014, in the total amount of $3,900,000.

The School District's lease rental obligation for future minimum rental payments related to all three bond issues is as follows:

Fiscal Year Ended June 30,	Estimated Future Minimum Rental Payments
2016	55,508
2017	55,458
2018	61,624
2019	61,553
2020	61,537
2021 - 2025	308,011
2026 - 2030	307,849
2031 - 2035	307,985
2036 - 2037	123,024
	1,342,549

NOTE 12 - 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, 2015:

Accumulated Sick Days	703,449
Accumulated Vacation Days	105,302
Accumulated Personal Days	32,045
Employer Social Security and Medicare on Amounts Above	10,507
	851,303

NOTE 13 - ACCRUED RETIREMENT BONUSES

Upon voluntary retirement, a professional employee with 25 years or more of credited service with PSERS and at least 15 consecutive years employment with the School District will receive a retirement stipend of $300 per year of service, with a maximum of 30 years, if notice is given of their intent to retire by March 1 of the school year in which the retirement is effective. 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 $616,375 at June 30, 2015.

NOTE 14 - 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.

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% 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 four membership classes. Class T-C, Class T-D, Class T-E and Class T-F are available to plan members.

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

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%.

Employer Contributions
The School District's contractually required contribution rate for fiscal year ended June 30, 2015, was 20.50% 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 $2,302,230 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2015, the School District reported a liability of $33,841,513 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS's total pension liability as of June 30, 2013 to June 30, 2014. 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, 2014, the School District's proportion was 0.0855% percent, which was a decrease of .0032% percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension expense of $2,711,729. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

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

	Deferred Outflows Of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	-0-	-0-
Changes in Assumptions	-0-	-0-
Net Difference between Projected and Actual Investment Earnings	-0-	2,419,284
Change in Proportions	-0-	1,055,599
Difference between Employer Contributions and Proportionate Share of Total Contributions	10,623	-0-
Contributions Subsequent to the Measurement Date	2,302,230	-0-
	2,312,853	**3,474,883**

$2,302,230 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	(856,623)
2017	(856,623)
2018	(856,623)
2019	(856,623)
2020	(37,768)
	(**3,464,260)**

Actuarial Assumptions
The total pension liability as of June 30, 2014 was determined by rolling forward PSERS's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method - Entry age normal

Investment Rate of Return - 7.5 percent, including inflation at 3.0 percent

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

Salary Increases - Effective average of 5.5 percent, which reflects an allowance for inflation of 3.0 percent, real wage growth of 1.0 percent, and merit or seniority increases of 1.5 percent

Mortality Rates - Based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants, the RP- 2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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
Public Markets Global Equity	19%	5.0%
Private Markets (Equity)	21%	6.5%
Private Real Estate	13%	4.7%
Global Fixed Income	8%	2.0%
U.S. Long Treasuries	3%	1.4%
TIPS	12%	1.2%
High Yield Bonds	6%	1.7%
Cash	3%	0.9%
Absolute Return	10%	4.8%
Risk Parity	5%	3.9%
MLPs/Infastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	(9%)	1.1%
	100%	

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, 2014.

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate
The discount rate used to measure the total pension liability was 7.50%. 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'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 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School District's Proportionate Share of the Net Pension Liability	42,213,000	33,842,000	26,695,000

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.state.pa.us.

Payable to the Pension Plan
At June 30, 2015, the School District reported a payable of $589,694 for the outstanding amount of employer contributions to PSERS required for the year ended June 30, 2015. These amounts relate to the second quarter of 2015 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 - RISK MANAGEMENT

Hospitalization
The School District is participating 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 CoreSource, Inc., the plan administrator, upon receiving funds from the trust account, processes and pays the claims. The School District also contracts with Health America, a claims administrator, to process and pay claims. The School District is limited in liability for claims to $70,000 per individual and $3,785,252 in total per year.

A liability for claims incurred prior to June 30, 2015, and subsequently paid is recorded in the amount of $159,367 in other current liabilities in the internal service fund.

NOTE 15 - RISK MANAGEMENT (Continued)

Changes in the School District's claims liability amount in fiscal years 2015 and 2014 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2014 - 2015	262,664	2,992,102	3,095,399	159,367
2013 - 2014	449,684	2,898,737	3,085,757	262,664

Workers' Compensation
The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the Fund) which is a cooperative voluntary trust arrangement for 16 member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims and losses, and providing self-insurance and reinsurance thereof.

It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance.

As of June 30, 2015, 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, 2015, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 16 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES

Description
The School District follows the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In addition to the relevant disclosures within this note related to GASB Statement No. 45, the financial statements reflect a long-term liability of $182,139 for other postemployment benefits.

The School District maintains a single employer defined benefit plan to provide postemployment health care benefits to School District employees who have retired with 30 years of PSERS service or upon superannuation retirement. Such benefits are available to retiree dependents until the retired employee reaches Medicare age, provided the retired employee provides payment equal to the premium determined for the purpose of COBRA.

The plan does not issue stand-alone financial statements.

NOTE 16 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES (Continued)

Funding Policy
The School District has elected to finance postemployment benefits on a pay-as-you-go basis. The School District recognizes expenditures for postemployment group insurance when claims are filed with the plan administrator. These financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation
The School District's annual cost for other postemployment retirement benefits (OPEB) is calculated based on the annual required contribution (ARC) of the School District, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following illustrates the components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation:

Annual Required Contribution	221,165
Interest on OPEB Obligation	8,348
Adjustment to Annual Required Contribution	(18,147)
Annual OPEB Cost	**211,366**
Estimated Contributions Made	(214,745)
Estimated Decrease in Net OPEB Obligation	**(3,379)**
Net OPEB Obligation - Beginning of Year	185,518
Net OPEB Obligation - End of Year	**182,139**

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015, 2014, and 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation-End of Year
6/30/2015	211,366	102%	182,139
6/30/2014	332,731	99%	185,518
6/30/2013	332,235	103%	183,143

Funding Status and Funding Progress
As of July 1, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled $1,623,436, resulting in an unfunded actuarial accrued liability (UAAL) of $1,623,436. The covered payroll (annual payroll of active employees covered by the plan) equaled $10,298,022, and the ratio of the UAAL to the covered payroll equaled 15.76%.

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

NOTE 16 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES (Continued)

Funding Status and Funding Progress (Continued)
The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability for benefits. However, because the School District maintains no plan assets, information relative to plan asset required disclosure is not applicable.

Actuarial Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the School District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the School District and plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated July 1, 2014, the entry age normal cost method was used. Because the School District funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) legally held exclusively for paying the postemployment medical benefits. Actuarial assumptions included an interest rate of 4.5% per annum, medical inflation of 6.5% in 2014, decreasing by 0.5% per year to a rate of 5.5% in 2016, and gradually decreasing to 4.2% in 2089 and thereafter.

NOTE 17 - 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	127,858

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, 2015, 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.

Capital Project Fund - Assigned for Capital Outlays	2,819,707

NOTE 18 - 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.

NOTE 19 - CHANGE IN ACCOUNTING PRINCIPLE

As part of the implementation of GASB Statement Nos. 68 and 71, the School District restated the beginning net position of the governmental activities, the business-type activities and proprietary funds.

In prior years, the School District did not record a net pension liability. GASB Statement No. 68 as amended by GASB Statement No. 71 requires the School District to recognize a liability for its proportionate share of the PSERS net pension liability. Therefore, net position as of July 1, 2014 has been restated as follows:

	Governmental Activities	Business-Type Activities and Proprietary Funds
Net Position as Previously Reported at June 30, 2014:	**35,282,161**	**462,858**
Prior period adjustment:		
Net Pension Liability (Measurement Date as of June 30, 2013)	(35,928,436)	(382,022)
Deferred outflows:		
School District Contributions Made During Fiscal Year 2014	1,698,356	18,058
Total Prior Period Adjustment	**(34,230,080)**	**(363,964)**
Net Position as Restated, July 1, 2014	**1,052,081**	**98,894**

NOTE 20 - SUBSEQUENT EVENTS

On July 1, 2015, the School District entered into a capital lease arrangement for computer equipment, which requires four annual payments of $65,931 during the years ended June 30, 2016 through 2019. The nominal annual interest rate of the lease is 2.79%.

NOTE 20 - SUBSEQUENT EVENTS (Continued)

The lease is secured by the leased computer equipment. 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:

2016	65,931
2017	65,931
2018	65,931
2019	65,931
Minimum Lease Payments for all Capital Leases	263,724
Amounts Representing Interest	(10,544)
Present Value of Minimum Lease Payments	**253,180**

Pequea Valley School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
Year Ended June 30, 2015

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Local Sources:				
Real Estate Taxes	$ 21,283,242	$ 21,283,242	$ 21,776,513	$ 493,271
Other Taxes	1,850,506	1,850,506	2,476,109	625,603
Investment Earnings	20,000	20,000	23,530	3,530
Other Revenue	536,600	536,600	636,787	100,187
Total Local Sources	23,690,348	23,690,348	24,912,939	1,222,591
State Sources	6,971,018	6,971,018	6,726,292	(244,726)
Federal Sources	1,350,005	1,350,005	1,417,358	67,353
Total Revenues	**32,011,371**	**32,011,371**	**33,056,589**	**1,045,218**
EXPENDITURES				
Instructional Services:				
Regular Programs	12,277,173	12,277,173	11,343,270	933,903
Special Programs	3,660,589	3,660,589	3,549,982	110,607
Vocational Programs	905,840	905,840	1,037,068	(131,228)
Other Instructional Programs	120,908	120,908	317,037	(196,129)
Total Instructional Services	**16,964,510**	**16,964,510**	**16,247,357**	**717,153**
Support Services:				
Pupil Personnel Services	1,065,393	1,065,393	1,021,007	44,386
Instructional Staff Services	2,105,510	2,105,510	2,100,323	5,187
Administrative Services	1,523,774	1,523,774	1,676,544	(152,770)
Pupil Health	351,940	351,940	295,423	56,517
Business Services	614,486	614,486	572,954	41,532
Operation of Plant and Maintenance Services	2,626,812	2,626,812	2,838,638	(211,826)
Student Transportation Services	2,148,505	2,148,505	1,987,188	161,317
Central and Other Business Services	247,198	247,198	224,797	22,401
Other Support Services	25,500	25,500	-0-	25,500
Total Support Services	**10,709,118**	**10,709,118**	**10,716,874**	**(7,756)**
Noninstructional Services:				
Student Activities	737,561	737,561	630,477	107,084
Community Services	24,860	24,860	35,363	(10,503)
Total Noninstructional Services	**762,421**	**762,421**	**665,840**	**96,581**
Total Expenditures	**28,436,049**	**28,436,049**	**27,630,071**	**805,978**
EXCESS of REVENUES OVER EXPENDITURES	**3,575,322**	**3,575,322**	**5,426,518**	**1,851,196**
OTHER FINANCING SOURCES (USES)				
Debt Service Fund Transfer	0	-0-	(3,750,103)	(3,750,103)
Other Fund Transfers	(4,145,390)	(4,145,390)	(2,000,000)	2,145,390
Proceeds from Sale of Capital Assets	-0-	-0-	27,264	27,264
Budgetary Reserve	(400,000)	(400,000)	-0-	400,000
Net Other Financing Uses	**(4,545,390)**	**(4,545,390)**	**(5,722,839)**	**(1,177,449)**
NET CHANGES in FUND BALANCES	**$ (970,068)**	**$ (970,068)**	**$ (296,321)**	**$ 673,747**
FUND BALANCES				
Beginning			11,522,900	
Ending			**$ 11,226,579**	

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, management submits prior to May 31 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, 2015.

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 FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
POSTRETIREMENT HEALTH CARE BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] / c)
July 1, 2010	-0-	1,047,405	1,047,405	0.00%	10,253,558	10.22%
July 1, 2012	-0-	2,634,908	2,634,908	0.00%	9,753,157	27.02%
July 1, 2014	-0-	1,623,436	1,623,436	0.00%	10,298,022	15.76%

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EMPLOYER CONTRIBUTIONS -
OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
POSTRETIREMENT HEALTH CARE BENEFITS PLAN

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed
June 30, 2013	332,235	102.83%
June 30, 2014	332,731	99.29%
June 30, 2015	211,366	101.60%

See independent auditors' report.

Pequea Valley School District

NOTES to REQUIRED SUPPLEMENTARY INFORMATION -

The information presented on the required supplementary schedules on pages 61 and 62 was determined as part of the actuarial valuations at the dates indicated. Key factors used in the actuarial valuations are as follows:

Valuation Dates	**July 1, 2014**	**July 1, 2012**	**July 1, 2010**
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar Method	Level Dollar Method	Level Dollar Method
Amortization Period	14 Years	14 Years	30 Years
Discount Rate	4.5%	4.5%	4.5%
Mortality	Same as Rates in the PSERS Actuarial Valuation	Same as Rates in the PSERS Actuarial Valuation	Same as Rates in the PSERS Actuarial Valuation
Retirement	Retirement Rate Based on PSERS Plan Experience	Retirement Rate Based on PSERS Plan Experience	Retirement Rate Based on PSERS Plan Experience
Coverage Election	70%	70%	70%
Percent Married with Election of Spousal Coverage by Plan	50%	50%	50%
Per Capita Claims Cost:			
Female (Age 45 - 64)	$5,772 - $7,842	$7,871 - $10,693	$6,543 - $8,889
Male (Age 45 - 64)	$3,997 - $8,413	$5,450 - $11,472	$4,530 - $9,536
Demographic Information:			
Active Participants	169	174	205
Retired Participants	31	38	26
Total Participants	**200**	**212**	**231**
Health Care Cost Trend Rate	6.5% decreasing to 5.5% in 2016 and to 4.2% in 2089	7.5% decreasing to 5.5% in 2016 and to 4.2% in 2089	8.0% decreasing to 5.5% in 2014 and to 4.2% in 2099

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Accordingly, actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective, and, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of cost-sharing between the employer and plan members at the time of the valuations.

See independent auditors' report.

Pequea Valley School District

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

	Contractually Required Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
Defined Benefit Pension Plan:					
2006	$ 419,550	$ 419,550	$ -0-	$ 10,488,742	4.00%
2007	592,624	592,624	-0-	10,360,557	5.72%
2008	709,446	709,446	-0-	11,016,241	6.44%
2009	544,646	544,646	-0-	13,616,155	4.00%
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	11.50%
2014	1,716,414	1,716,414	-0-	10,915,904	16.00%
2015	$ 2,199,016	$ 2,199,016	$ -0-	$ 10,726,907	20.50%

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-Employee Payroll	School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee 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%

Note : This schedule is intended to show information for ten years.
Additional years will be displayed as they become available.
The data provided in the schedule is based on the measurements date, which is the beginning of the School District's fiscal year.

See independent auditors' report.

Changes of Benefit Terms:

None.

Changes of Assumptions:

None.

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

Year Ended June 30, 2015

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2014	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2015
U.S. Department of Agriculture									
Passed Through the Pennsylvania Department of Education:									
School Breakfast Program (Note 2)	I	10.553	N/A	07/01/14- 06/30/15	N/A	$ -0-	$ 61,281	$ 72,487	$ 11,206
School Breakfast Program (Note 2)	I	10.553	N/A	07/01/13- 06/30/14	N/A	32,366	32,366	-0-	-0-
National School Lunch Program (Note 2)	I	10.555	N/A	07/01/14- 06/30/15	N/A	-0-	271,565	317,464	45,899
National School Lunch Program (Note 2)	I	10.555	N/A	07/01/13- 06/30/14	N/A	131,874	131,874	-0-	-0-
Total Passed Through the Pennsylvania Department of Education						**164,240**	**497,086**	**389,951**	**57,105**
Passed Through the Pennsylvania Department of Agriculture:									
National School Lunch Program (Notes 2 and 3)	I	10.555	N/A	07/01/14- 06/30/15	N/A	**-0-**	**37,510**	**37,510**	**-0-**
Total U.S. Department of Agriculture						**164,240**	**534,596**	**427,461**	**57,105**
U.S. Department of Education									
Passed Through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies (Note 2)	I	84.010	013-150332	07/01/14 - 09/30/15	1,186,637	-0-	876,526	1,080,388	203,862
Title I Grants to Local Educational Agencies (Note 2 and Note 4)	I	84.010	013-140332	07/10/13 - 09/30/14	1,247,780	347,562	481,680	129,483	(4,635)
Rural and Low Income Schools	I	84.358	007-140332	10/31/13 - 09/30/14	31,812	2,502	18,557	16,055	-0-
Improving Teacher Quality State Grants	I	84.367	020-150332	07/01/14 - 09/30/15	154,739	-0-	144,426	154,739	10,313
Improving Teacher Quality State Grants (Note 4)	I	84.367	020-140332	07/10/13 - 09/30/14	156,918	18,722	24,141	5,088	(331)
Improving Teacher Quality State Grants	I	84.367	020-130332	08/13/12 - 09/30/13	170,758	48,305	48,305	-0-	-0-
Total Passed Through the Pennsylvania Department of Education						**$ 417,091**	**$ 1,593,635**	**$ 1,385,753**	**$ 209,209**

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2015

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2014	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2015
Passed Through Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States (Note 2)	I	84.027	062-150013	07/01/14 - 09/30/15	358,789	$ -0-	$ 81,863	$ 358,789	$ 276,926
Special Education - Grants to States (Note 2)	I	84.027	062-140013	07/01/13 - 09/30/14	354,606	274,638	274,638	-0-	-0-
Special Education - Preschool Grants (Note 2)	I	84.173	131-140013	07/01/14 - 06/30/15	2,061	-0-	-0-	2,061	2,061
Special Education - Preschool Grants (Note 2)	I	84.173	131-130013	07/01/13 - 06/30/14	1,225	1,225	1,225	-0-	-0-
Total Passed Through Lancaster-Lebanon Intermediate Unit #13						**275,863**	**357,726**	**360,850**	**278,987**
Total U.S. Department of Education						**692,954**	**1,951,361**	**1,746,603**	**488,196**
TOTAL EXPENDITURES of FEDERAL AWARDS						**$ 857,194**	**$ 2,485,957**	**$ 2,174,064**	**$ 545,301**

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, 2015

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 - CLUSTER IDENTIFICATION

Project Title	Federal CFDA Number	Cluster
School Breakfast Program	10.553	Child Nutrition Cluster
National School Lunch Program	10.555	Child Nutrition Cluster
Title I Grants to Local Educational Agencies	84.010	Title I, Part A Cluster
Special Education - Grants to States	84.027	Special Education Cluster
Special Education - Preschool Grants	84.173	Special Education Cluster

NOTE 3 - NATIONAL SCHOOL LUNCH PROGRAM - PASSED THROUGH the PENNSYLVANIA DEPARTMENT of AGRICULTURE

Per the compliance supplement, the School District has the option to combine the United States Department of Agriculture (USDA) inventory and the School District inventory. The School District has decided to combine the inventories. The revenue and expenditures shown are the amounts of inventory received by the School District.

NOTE 4 - RETURNED MONEY

For the grants on the preceding schedule which designate that this note applies, the amount listed in the last column on the schedule represents funds which were returned to the grantor agency during the year ended June 30, 2015.

NOTE 5 - 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 are 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, 2015, was $21,666 which is listed on the PDE Confirmation as program #044-007332.

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, 2015, 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 December 7, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2015-001 and #2015-002 to be material weaknesses.

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

December 7, 2015
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 OMB CIRCULAR A-133

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 Circular A-133 Compliance Supplement* that could have direct and material effect on each of **Pequea Valley School District's** major federal programs for the year ended June 30, 2015. **Pequea Valley School District's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of **Pequea Valley School District's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **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 each 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 each of its major federal programs for the year ended June 30, 2015.

Other Matters
The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item #2015-003. Our opinion on each major federal program is not modified with respect to this matter.

Pequea Valley School District's response to the noncompliance finding 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 compliance and, accordingly, we express no opinion on the response.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Trout, Ebersole + Groff, LLP

December 7, 2015
Lancaster, Pennsylvania

TROUT, EBERSOLE, & GROFF, LLP
Certified Public Accountants

Pequea Valley School District

SCHEDULE of FINDINGS and QUESTIONED COSTS

Year Ended June 30, 2015

A. Summary of Auditors' Results

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

2. Two material weaknesses relating to the audit of the financial statements are 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.* No significant deficiencies are reported.

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 programs are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.

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

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

7. The programs tested as major programs are: School Breakfast Program - CFDA # 10.553, National School Lunch Program - CFDA # 10.555, and Title I Grants to Local Educational Agencies - CFDA #84.010.

8. The threshold for distinguishing type A and B programs was $300,000.

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

B. Findings - Financial Statements Audit

Material Weaknesses

#2015-001 - Internal Control over Financial Reporting

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Statement of Condition: The School District has designated an individual responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The School District has 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 is 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.

Cause and Effect: It is not uncommon for entities to lack the expertise necessary to prepare the financial statements and the notes to the financial statements. The School District has evaluated the costs and benefits of developing this expertise, and determined that it is more beneficial to engage its independent auditors to provide this service.

School District's Response: At this time District's staff is unable to prepare the financial statements and the notes to the financial statements for the Pequea Valley School District, in conformity with the accounting principles generally accepted in the United States of America. The District is working toward staff being trained in order to properly prepare the financial statements.

#2015-002 - Year-End Close Process

Criteria: The trial balance should be provided to the auditors for the annual audit with substantially all adjusting entries made previously. The books should be closed and it is not uncommon for a limited number of adjusting and/or reclassifying entries to be provided to the auditors throughout the year-end audit.

Statement of Condition: The School District has 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 end of September. 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.

B. Findings - Financial Statements Audit (Continued)

Material Weaknesses (Continued)

Cause and Effect: The material audit adjustments that needed to be made were as follows:

- Recording of deferred inflows, deferred outflows, and net pension liability for the food service fund related to the adoption of GASB Statement No. 68
- Recording of donated food commodities in the food service fund
- Recording of current year activity in the other receivables and intergovernmental accounts receivable in the general fund
- Recording additional expenditures to the current year accounts payable in the general fund
- Adjusting the insurance payable account in the general fund
- Correcting the transfer of funds from the general fund in the capital reserve fund
- Adjusting accounts payable ending balance in the capital reserve fund
- Adjusting the incurred but not reported liability (other current liability) in the internal service fund
- Balancing of interfund activity in various funds

Additionally, the School District provided various adjusting entries during the audit related to account balances that should have been identified prior to the start of the audit. These entries primarily related to the recordation of receivable amounts in the general fund and the recordation of the internal service fund activity and capital assets, both of which were not consistently recorded throughout the fiscal year.

The School District has assumed responsibility for and evaluated the adequacy of the adjusting entries and has accepted responsibility for them.

Recommendation: The School District should reevaluate the year-end close process, especially as there has been turnover in the business office during the past year. The School District should focus on closing the fiscal year accounts, which includes recording as many accrual basis adjustments as possible, within 60 days of year end. Additionally, the School District should require a second level of management review for all year end adjusting entries that are posted to the system.

School District's Response: The School District experienced a transition of business office staff and will continue to improve on year end closeout procedures and will contact the auditors prior to the audit should any question arise.

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

Compliance Finding

#2015-003 - Title I Grants to Local Educational Agencies - CFDA #84.010 and Improving Teacher Quality State Grants - CFDA #84.367, Year Ended June 30, 2015

Note - Improving Teacher Quality State Grants was not a major program at June 30, 2015. However, because there was a finding related to this grant in the prior year, audit follow-up procedures were performed during the current year audit. The audit follow-up procedures detected an audit finding as detailed below.

Criteria: LEAs are required to file Reconciliation of Cash on Hand Quarterly Reports for any program for which they are receiving monthly payments. The quarterly reports are due on the 10th working day of January, April, July, and October. LEAs should begin filing quarterly reports the first quarter after payments begin.

Statement of Condition: The School District did not file in a timely manner the Reconciliation of Cash on Hand Quarterly Reports for the fourth quarter for Title I Grants to Local Educational Agencies - CFDA #84.010 and Improving Teacher Quality State Grants - CFDA #84.367 as required by the Pennsylvania Department of Education.

Cause and Effect: Due to a change of business office staff, the School District did not file the Reconciliation of Cash on Hand Quarterly Reports for the fourth quarter timely. By not filing the required reports timely, the School District is potentially risking a withholding of federal funds by the PDE until the reports are properly filed.

Recommendation**:** We recommend that the School District update any established procedures to ensure that the required reports are filed timely and accurately. We also recommend the School District maintain documentation of the report filing as well as back up documentation supporting the report filing.

School District Response**:** The School District had changes in the staff position at the district office which resulted in reports not being filed timely. Procedures are in place to ensure reports are being filed timely.

Pequea Valley School District

SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS

Year Ended June 30, 2015

Compliance Finding and Material Weaknesses

#2014-004 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2014

The School District did not distribute funds in proper rank order for the 2012-2013 Title I grant. The failure to distribute funds in rank order caused a misallocation of funds between Paradise Elementary School and Salisbury Elementary School of $596 per student. Paradise Elementary School serves 197 low-income students creating a net shortage of funds of $117,412. These funds were improperly spent in the Salisbury Elementary School instead of Paradise Elementary School.

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

Current Status: The School District distributed funds in proper rank order for the 2013-2014 Title I grant.

Compliance Finding and Significant Deficiency

#2014-005 - Title I Grants to Local Educational Agencies - CFDA #84.010 and Improving Teacher Quality State Grants - CFDA #84.367, Year Ended June 30, 2014

The School District failed to file the Reconciliation of Cash on Hand Quarterly Reports as required by the Pennsylvania Department of Education. The missing reports for Title I include the following:

- 12/13 grant (13-130332) Reconciliation of Cash on Hand Reports for the first and second quarters of 2013-2014
- 13/14 grant (13-140332) Reconciliation of Cash on Hand Reports for the second quarter of 2013-2014

The missing report for Improving Teacher Quality State Grant includes the following:

- 13/14 grant (020-140332) Reconciliation of Cash on Hand Quarterly Reports for the second quarter of 2013-2014

Recommendation: We recommended that the School District update any established procedures to ensure that the required reports are filed timely and accurately. We also recommended the School District maintain documentation of the report filing as well as back up documentation supporting the report filing.

Current Status: As noted in #2015-003 in the Schedule of Findings and Questioned Costs, the School District failed to file required Reconciliation of Cash on Hand Quarterly Reports during the fourth quarter on a timely basis.

P.O. Box 130, Kinzers, PA 17535
PHONE 717/768-5530 FAX 717/768-7176
www.pequeavalley.org

Corrective Action Plan
December 7, 2015

United States Department of Education (oversight agency for this audit)

Pequea Valley School District respectfully submits the following corrective action plan for the year ended June 30, 2015.

Name and address of independent public accounting firm:

Trout, Ebersole & Groff, LLP
Certified Public Accountants
1705 Oregon Pike
Lancaster, PA 17601

Audit Period: July 1, 2014 through June 30, 2015

The findings from the June 30, 2015, schedule of findings and questions costs are discussed below. The findings are numbered consistent with the numbers assigned in the schedule.

Findings - Financial Statement Audit

Material Weaknesses

#2015-001 - Internal Control over Financial Reporting

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Statement of Condition: The School District has designated an individual responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The School District has 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 is 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.

Cause and Effect: It is not uncommon for entities to lack the expertise necessary to prepare the financial statements and the notes to the financial statements. The School District has evaluated the costs and benefits of developing this expertise, and determined that it is more beneficial to engage its independent auditors to provide this service.

School District's Response: At this time District's staff is unable to prepare the financial statements and the notes to the financial statements for the Pequea valley School District, in conformity with the accounting principles generally accepted in the United States of America. The District is working toward staff being trained in order to properly prepare the financial statements.

#2015-002 – Year-End Close Process

Criteria: The trial balance should be provided to the auditors for the annual audit with substantially all adjusting entries made previously. The books should be closed and it is not uncommon for a limited number of adjusting and/or reclassifying entries to be provided to the auditors throughout the year-end audit.

Statement of Condition: The School District has 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 end of September. 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.

Cause and Effect: The material audit adjustments that needed to be made were as follows:

- Recording of deferred inflows, deferred outflows, and net pension liability for the food service fund related to the adoption of GASB Statement No. 68
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- Recording additional expenditures to the current year accounts payable in the general fund
- Adjusting the insurance payable account in the general fund
- Correcting the transfer of funds from the general fund in the capital reserve fund
- Adjusting accounts payable ending balance in the capital reserve fund
- Adjusting the incurred but not reported liability (other current liability) in the internal service fund
- Balancing of interfund activity in various funds

Additionally, the School District provided various adjusting entries during the audit related to account balances that should have been identified prior to the start of the audit. These entries primarily related to the recordation of receivable amounts in the general fund and the recordation of the internal service fund activity and capital assets, both of which were not consistently recorded throughout the fiscal year.

The School District has assumed responsibility for and evaluated the adequacy of the adjusting entries and has accepted responsibility for them.

Recommendation: The School District should reevaluate the year-end close process, especially as there has been turnover in the business office during the past year. The School District should focus on closing the fiscal year accounts, which includes recording as many accrual basis adjustments as possible, within 60 days of year end. Additionally, the School District should require a second level of management review for all year end adjusting entries that are posted to the system.

School District's Response: The School District expirenced a transition of business office staff and will continue to improve on year end closeout procedures and will contact the auditors prior to the audit should any questions arise.

Findings and Questioned Costs - Major Federal Awards Programs Audit

Compliance Finding

#2015-003 - Title I Grants to Local Educational Agencies - CFDA #84.010 and Improving Teacher Quality State Grants - CFDA #84.367, Year Ended June 30, 2015

Note - Improving Teacher Quality State Grants was not a major program at June 30, 2015. However, because there was a finding related to this grant in the prior year, audit follow-up procedures were performed during the current year audit. The audit follow-up procedures detected an audit finding as detailed below.

Criteria: LEAs are required to file Reconciliation of Cash on Hand Quarterly Reports for any program for which they are receiving monthly payments. The quarterly reports are due on the 10th working day of January, April, July, and October. LEAs should begin filing quarterly reports the first quarter after payments begin.

Statement of Condition: The School District did not file in a timely manner the Reconciliation of Cash on Hand Quarterly Reports for the fourth quarter for Title I Grants to Local Educational Agencies - CFDA #84.010 and Improving Teacher Quality State Grants - CFDA #84.367 as required by the Pennsylvania Department of Education.

Cause and Effect: Due to a change of business office staff, the School District did not file the Reconciliation of Cash on Hand Quarterly Reports for the fourth quarter timely. By not filing the required reports timely, the School District is potentially risking a withholding of federal funds by the PDE until the reports are properly filed.

Recommendation: We recommend that the School District update any established procedures to ensure that the required reports are filed timely and accurately. We also recommend the School District maintain documentation of the report filing as well as back up documentation supporting the report filing.

School District Response: The School District had changes in the staff position at the district office which resulted in reports not being filed timely. Procedures are in place to ensure reports are being filed timely.

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
Business Administrator
Pequea Valley School District