Pequea Valley School District

Year Ended June 30, 2014

TROUT, EBERSOLE & GROFF LLP
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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2014

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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2014

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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**, Pennsylvania (the School District) as of and for the year ended June 30, 2014, 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 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 14, budgetary comparison information on page 53, and the other postemployment benefits (OPEB) health care benefits plan information on pages 55 and 56 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, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis 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 November 20, 2014, on our consideration of **Pequea Valley School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Pequea Valley School District's** internal control over financial reporting and compliance.

Trout, Ebersole + Groff, LLP

November 20, 2014
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, 2014. 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 2013-2014 fiscal year were expected to increase by 4.0% from the previous year's expenditure budget with the anticipation of utilizing $644,132 of fund balance. At year end, actual expenditures were 4.5% lower than budgeted, and revenues also increased over budget by 3.7%, resulting in not needing to utilize fund balance and a surplus of $2,563,952. An explanation of this difference is below.

School District instructional expenditures were 5.2% or $855,325 lower and support expenditures were 3.7% or $379,772 lower than budgeted. Additionally, the School District budgeted debt service at the maximum amount needed to cover all debt in any given year in order to preserve millage for the debt. This resulted in $404,929 of planned surplus for the year ended June 30, 2014.

School District revenues in the general fund for the 2013-2014 school year were $1,143,774 greater than budgeted. State revenue decreased by $189,966 from what was budgeted, however local revenue increased by $1,329,995. $575,363 of the increase was due to increase in real estate taxes and $729,406 was due to the increase in other taxes.

The School District assigned and then transferred $1,000,000 of the general fund balance to the Capital Reserve fund and assigned $1,600,000 for future health care increases.

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.

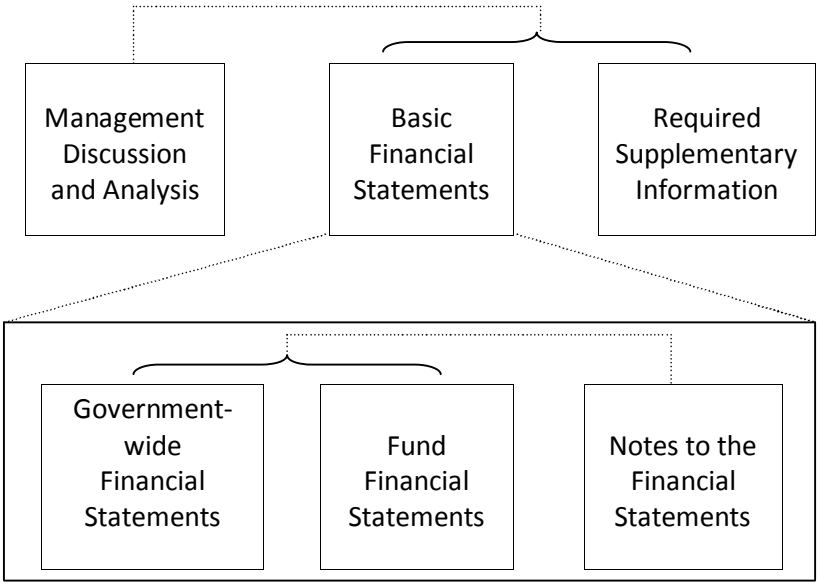
Using this Annual Report (Continued)

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 $35,745,019 as of June 30, 2014.

Table A-1
Fiscal Years Ended June 30, 2014 and 2013
Net Position

	2014			2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	19,227,725	243,349	19,471,074	17,094,220	273,572	17,367,792
Capital Assets	45,011,844	233,501	45,245,345	47,340,826	276,886	47,617,712
Total Assets	**64,239,569**	**476,850**	**64,716,419**	**64,435,046**	**550,458**	**64,985,504**
Deferred Outflows of Resources	**795,503**	**-0-**	**795,503**	**909,255**	**-0-**	**909,255**
Current and Other Liabilities	6,887,565	13,992	6,901,557	7,172,935	10,896	7,183,831
Long-Term Liabilities	22,865,346	-0-	22,865,346	26,435,512	-0-	26,435,512
Total Liabilities	**29,752,911**	**13,992**	**29,766,903**	**33,608,447**	**10,896**	**33,619,343**
Net Position:						
Invested in Capital Assets, net of Related Debt	20,678,310	233,501	20,911,811	19,822,493	276,886	20,099,379
Unrestricted	14,603,851	229,357	14,833,208	11,913,361	262,676	12,176,037
Total Net Position	**35,282,161**	**462,858**	**35,745,019**	**31,735,854**	**539,562**	**32,275,416**

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 outflows of resources is discussed in Note 1 to the financial statements.

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. 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.

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

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, 2014 and 2013
Changes in Net Position

	2014			2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	154,348	284,534	438,882	120,303	328,087	448,390
Operating Grants and Contributions	5,270,305	492,719	5,763,024	5,112,668	429,848	5,542,516
Capital Grants and Contributions	318,277	-0-	318,277	354,303	-0-	354,303
General Revenues:						
Property Taxes	21,238,476	-0-	21,238,476	20,365,050	-0-	20,365,050
Other Taxes	2,479,912	-0-	2,479,912	2,393,594	-0-	2,393,594
Grants, Subsidies, and Contributions, Unrestricted	2,861,717	-0-	2,861,717	2,825,520	-0-	2,825,520
Other	60,569	401	60,970	98,808	445	99,253
Total Revenues	**32,383,604**	**777,654**	**33,161,258**	**31,270,246**	**758,380**	**32,028,626**
Expenses:						
Instructional Programs	17,191,488	-0-	17,191,488	17,276,950	-0-	17,276,950
Instructional Student Support	3,581,452	-0-	3,581,452	2,795,400	-0-	2,795,400
Administrative and Financial Support	2,497,871	-0-	2,497,871	2,791,194	-0-	2,791,194
Operation and Maintenance of Plant	2,659,929	-0-	2,659,929	2,378,202	-0-	2,378,202
Pupil Transportation	1,861,058	-0-	1,861,058	1,853,985	-0-	1,853,985
Student Activities	609,967	-0-	609,967	651,434	-0-	651,434
Community Services	34,546	-0-	34,546	28,965	-0-	28,965
Interest on Long-Term Debt	694,963	-0-	694,963	1,189,319	-0-	1,189,319
Food Services	-0-	854,358	854,358	-0-	817,685	817,685
Total Expenses	**29,131,274**	**854,358**	**29,985,632**	**28,965,449**	**817,685**	**29,783,134**
Increase (Decrease) in Net Position	**3,252,330**	**(76,704)**	**3,175,626**	**2,304,797**	**(59,305)**	**2,245,492**

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, 2014 and 2013
Governmental Activities

	2014		2013	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Instructional Programs	17,191,488	13,434,375	17,276,950	13,666,452
Instructional Student Support	3,581,452	3,321,925	2,795,400	2,599,371
Administrative and Financial Support	2,497,871	2,257,928	2,791,194	2,511,104
Operation and Maintenance of Plant	2,659,929	2,587,549	2,378,202	2,310,692
Pupil Transportation	1,861,058	850,572	1,853,985	863,456
Student Activities	609,967	549,127	651,434	587,368
Community Services	34,546	10,182	28,965	4,716
Interest on Long-Term Debt	694,963	376,686	1,189,319	835,016
Total Governmental Activities	**29,131,274**	**23,388,344**	**28,965,449**	**23,378,175**
Less: Unrestricted Grants, Subsidies		(2,861,717)		(2,825,520)
Total Needs from Local Taxes and Other Revenues		**20,526,627**		**20,552,655**

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, 2014 and 2013
Business-Type Activities

	2014		2013	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Food Services	854,358	77,105	817,685	59,750

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, 2014, the School District governmental funds reported a combined fund balance of $14,518,190 which is an increase of $2,329,347 from the previous year. The primary reasons for this increase are explained below:

> The School District anticipated using a portion of fund balance to balance the 2013-2014 budget. Revenues exceeded expenses in the general fund by $2,563,952, and additionally the capital reserve fund decreased by $234,605. $5,300,000 is committed to use for increased retirement costs and $1,300,000 is committed for future health care increases with an additional $1,600,000 assigned for future health care increases and $1,000,000 assigned for capital reserve. $2,322,900 is unassigned and will be utilized for unanticipated expenses.

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 53.

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, 2014, the School District had $44,979,978 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 $2,284,127.

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

	2014	2013
Land and Land Improvements	1,560,310	1,660,833
Buildings and Building Improvements	41,225,047	42,901,664
Furniture and Equipment	2,116,108	2,639,534
Vehicles	78,513	62,074
	44,979,978	**47,264,105**

Debt Administration

As of July 1, 2013, the School District had a total outstanding bond principal of $27,945,000. During the year, the School District made payments against principal in the amount of $3,125,000. Current year debt service activity resulted in an ending outstanding debt as of June 30, 2014, of $24,820,000.

Table A-6
Outstanding Debt

	2014	2013
Issue:		
Series of 2006	2,055,000	4,025,000
Series A of 2010 (series 2003, 2005, note 2003)	6,510,000	7,585,000
Series A of 2013	9,725,000	9,730,000
Series B of 2013	6,530,000	6,605,000
	24,820,000	**27,945,000**

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 2014-2015 budget, the School District increased expenditures by 3.4% from the previous year. The largest increase in expenditures (11.3% or $635,858) was due to an increase in benefits which includes a 21.4% increase in PSERS rate and an increase in health care expenses. Tuition to other agencies increased by 8.8% or $335,495 which includes expenditures to charter schools and special education services. Debt service is funded at the maximum needed level of $4,228,782; however for the 2014-2015 fiscal year only $4,040,620 is need 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. Additionally, after the budget had been approved and the 2014-2015 fiscal year had begun, an agreement was reached with the teachers association to approve a five year teacher's contract which takes effect July 1, 2015. However, some provisions of the contract will go into effect January 1, 2015, one being a change in the health care plan which now incorporates a qualified high deductible health plan. It is anticipated the School District will see a significant savings in the present fiscal year due to the change in health plans.

Economic Factors and Next Year's Budgets and Rates (Continued)
Budgeted revenue for the 2014-2015 school year is 2.4% higher than the previous fiscal year and expects to use $970,068 of fund balance. The millage rate for 2014-2015 is 17.4735, which is 0.50% higher than 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

	2014-2015	2013-2014
Local Sources	74.0%	73.1%
State Sources	21.8%	20.0%
Federal/Other Sources	4.2%	6.9%

Budgeted Expenditures

	2014-2015	2013-2014
Instruction	51.4%	51.4%
Support Services	32.5%	32.4%
Non-Instruction/Community	2.3%	2.0%
Fund Transfers/Debt	13.8%	14.2%

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, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 1,259,019	$ 232,473	$ 1,491,492
Investments	14,730,068	15,099	14,745,167
Taxes Receivable, net	1,220,577	-0-	1,220,577
Internal Balances	216,229	(216,229)	-0-
Due from Other Governments	1,679,725	174,178	1,853,903
Other Receivables	122,107	592	122,699
Inventories	-0-	37,236	37,236
Total Current Assets	**19,227,725**	**243,349**	**19,471,074**
Noncurrent Assets			
Land	616,644	-0-	616,644
Building and Building Improvements, net of Accumulated Depreciation	41,225,047	-0-	41,225,047
Site Improvements, net of Accumulated Depreciation	943,666	-0-	943,666
Furniture and Equipment, net of Accumulated Depreciation	2,116,108	233,501	2,349,609
Vehicles, net of Accumulated Depreciation	78,513	-0-	78,513
Deferred Bond Insurance Costs, net of Accumulated Amortization	31,866	-0-	31,866
Total Noncurrent Assets	**45,011,844**	**233,501**	**45,245,345**
TOTAL ASSETS	**64,239,569**	**476,850**	**64,716,419**
DEFERRED OUTFLOWS OF RESOURCES			
Loss on Bond Refunding, net of Accumulated Amortization	**$ 795,503**	**$ -0-**	**$ 795,503**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION
(Continued)
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	$ 339,313	$ 3,294	$ 342,607
Current Portion of Long-Term Debt	3,360,000	-0-	3,360,000
Accrued Salaries and Benefits	2,343,319	-0-	2,343,319
Compensated Absences			
Due Within One Year	158,643	-0-	158,643
Accrued Interest on Long-Term Debt	182,454	-0-	182,454
Payroll Deductions and Withholdings	91,877	-0-	91,877
Unearned Revenues	-0-	7,018	7,018
Due to Other Governments	139,494	3,680	143,174
Other Current Liabilities	272,465	-0-	272,465
Total Current Liabilities	**6,887,565**	**13,992**	**6,901,557**
Noncurrent Liabilities			
Bonds Payable,			
net of Unamortized Discount	21,737,171	-0-	21,737,171
Accrued Retirement Bonuses	425,066	-0-	425,066
Long-Term Portion of			
Compensated Absences	517,591	-0-	517,591
Other Postemployment Benefit Liabilities	185,518	-0-	185,518
Total Noncurrent Liabilities	**22,865,346**	**-0-**	**22,865,346**
TOTAL LIABILITIES	**29,752,911**	**13,992**	**29,766,903**
NET POSITION			
Invested in Capital Assets,			
net of Related Debt	20,678,310	233,501	20,911,811
Unrestricted	14,603,851	229,357	14,833,208
TOTAL NET POSITION	**$ 35,282,161**	**$ 462,858**	**$ 35,745,019**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2014

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
Governmental Activities:							
Instruction	$ 17,191,488	$ 123,681	$ 3,633,432	$ -0-	$ (13,434,375)	$ -0-	$ (13,434,375)
Instructional Student Support	3,581,452	-0-	259,527	-0-	(3,321,925)	-0-	(3,321,925)
Administrative and Financial Support Services	2,497,871	24,620	215,323	-0-	(2,257,928)	-0-	(2,257,928)
Operation and Maintenance of Plant Services	2,659,929	6,047	66,333	-0-	(2,587,549)	-0-	(2,587,549)
Pupil Transportation	1,861,058	-0-	1,010,486	-0-	(850,572)	-0-	(850,572)
Student Activities	609,967	-0-	60,840	-0-	(549,127)	-0-	(549,127)
Community Services	34,546	-0-	24,364	-0-	(10,182)	-0-	(10,182)
Interest on Long-Term Debt	694,963	-0-	-0-	318,277	(376,686)	-0-	(376,686)
Total Governmental Activities	**29,131,274**	**154,348**	**5,270,305**	**318,277**	**(23,388,344)**	**-0-**	**(23,388,344)**
Business-Type Activities:							
Food Services	**854,358**	**284,534**	**492,719**	**-0-**	**-0-**	**(77,105)**	**(77,105)**
Total Primary Government	**$ 29,985,632**	**$ 438,882**	**$ 5,763,024**	**$ 318,277**	**$ (23,388,344)**	**$ (77,105)**	**$ (23,465,449)**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2014

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					$ 21,238,476	$ -0-	$ 21,238,476
Public Utility Realty, Earned Income,							
Occupation and other Taxes							
Levied for General Purposes					2,479,912	-0-	2,479,912
Unrestricted Grants and Subsidies					2,861,717	-0-	2,861,717
Unrestricted Investment Earnings					29,511	401	29,912
Gain on Fixed Asset Dispositions					31,058	-0-	31,058
Total General Revenues					**26,640,674**	**401**	**26,641,075**
CHANGES in NET POSITION					**3,252,330**	**(76,704)**	**3,175,626**
NET POSITION							
Beginning, As Originally Stated					31,735,854	539,562	32,275,416
Effect of Prior Period Adjustment (Note 19)					293,977	-0-	293,977
Beginning, Restated					**32,029,831**	**539,562**	**32,569,393**
Ending					**$ 35,282,161**	**$ 462,858**	**$ 35,745,019**

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	Major Funds			
	General Fund	Capital Project	Debt Service	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 1,259,019	$ -0-	$ -0-	$ 1,259,019
Investments	10,620,403	3,008,289	-0-	13,628,692
Taxes Receivable, net	1,220,577	-0-	-0-	1,220,577
Due from Other Funds	219,563	-0-	-0-	219,563
Due from Other Governments	1,600,473	-0-	-0-	1,600,473
Other Receivables	66,582	-0-	-0-	66,582
TOTAL ASSETS	**14,986,617**	**3,008,289**	**-0-**	**17,994,906**
LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable	326,314	12,999	-0-	339,313
Due to Other Funds	131,221	-0-	-0-	131,221
Accrued Salaries and Benefits	2,343,319	-0-	-0-	2,343,319
Payroll Deductions and Withholdings	91,877	-0-	-0-	91,877
Payable to Other Governments	139,494	-0-	-0-	139,494
Other Current Liabilities	9,801	-0-	-0-	9,801
TOTAL LIABILITIES	**3,042,026**	**12,999**	**-0-**	**3,055,025**
DEFERRED INFLOWS of RESOURCES				
Deferred Taxes	**421,691**	**-0-**	**-0-**	**421,691**
FUND BALANCES				
Committed	6,600,000	-0-	-0-	6,600,000
Assigned	2,600,000	2,995,290	-0-	5,595,290
Unassigned	2,322,900	-0-	-0-	2,322,900
TOTAL FUND BALANCES	**11,522,900**	**2,995,290**	**-0-**	**14,518,190**
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES	**$ 14,986,617**	**$ 3,008,289**	**$ -0-**	**$ 17,994,906**

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET POSITION
June 30, 2014

Total Fund Balances - Governmental Funds	$ 14,518,190
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 $76,333,007 and the accumulated depreciation is $31,353,029.	44,979,978
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	1,101,376
Property taxes receivable are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	421,691
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities and related accounts at year end consist of:	
Bonds Payable	(24,820,000)
Accrued Interest on Long-Term Debt	(182,454)
Loss on Bond Refunding	795,503
Bond Premium, net of Amortization	(277,171)
Bond Insurance Costs, net of Amortization	31,866
Accrued Retirement Bonuses	(425,066)
Compensated Absences	(676,234)
Other Postemployment Benefits	(185,518)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	**$ 35,282,161**

See notes to financial statements.

Pequea Valley School District

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

Year Ended June 30, 2014

	Major Funds			
REVENUES	**General Fund**	**Capital Project**	**Debt Service**	**Total Governmental Funds**
Local Sources:				
Real Estate Taxes	$ 21,290,835	$ -0-	$ -0-	$ 21,290,835
Other Taxes	2,479,912	-0-	-0-	2,479,912
Investment Earnings	24,696	1,941	-0-	26,637
Other Revenue	557,130	-0-	-0-	557,130
Total Local Sources	24,352,573	1,941	-0-	24,354,514
State Sources	6,468,987	-0-	-0-	6,468,987
Federal Sources	1,578,530	-0-	-0-	1,578,530
Total Revenues	**32,400,090**	**1,941**	**-0-**	**32,402,031**
EXPENDITURES				
Instructional Services	15,536,749	47,598	-0-	15,584,347
Support Services	9,944,354	188,948	-0-	10,133,302
Noninstructional Services	644,513	-0-	-0-	644,513
Debt Service	-0-	-0-	3,741,494	3,741,494
Refund of Prior Years' Revenues	86	-0-	-0-	86
Total Expenditures	**26,125,702**	**236,546**	**3,741,494**	**30,103,742**
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	**6,274,388**	**(234,605)**	**(3,741,494)**	**2,298,289**
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	31,058	-0-	-0-	31,058
Debt Service Fund Transfer	(3,741,494)	-0-	3,741,494	-0-
Net Other Financing Sources (Uses)	**(3,710,436)**	**-0-**	**3,741,494**	**31,058**
NET CHANGES in FUND BALANCES	**2,563,952**	**(234,605)**	**-0-**	**2,329,347**
FUND BALANCES				
Beginning	8,958,948	3,229,895	-0-	12,188,843
Ending	**$ 11,522,900**	**$ 2,995,290**	**$ -0-**	**$ 14,518,190**

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, 2014

Net Changes in Fund Balances - Total Governmental Funds		$ 2,329,347
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	(2,617,398)	
Capital Outlays	333,271	(2,284,127)
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.		(52,358)
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.		(29,912)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		3,125,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.		(48,558)
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.		7,351
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.		$ 49,380

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, 2014

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.	$ (2,374)
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.	158,581
CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES	**$ 3,252,330**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION -
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Major Fund	
	Enterprise Fund Food Service	Internal Service Fund
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 232,473	$ -0-
Investments	15,099	1,101,376
Due from Other Funds	-0-	131,221
Due from Other Governments	174,178	52,191
Inventories	37,236	-0-
Other Current Assets	592	79,252
Total Current Assets	**459,578**	**1,364,040**
Noncurrent Assets		
Machinery and Equipment, net of Accumulated Depreciation	**233,501**	**-0-**
TOTAL ASSETS	**693,079**	**1,364,040**
LIABILITIES		
Current Liabilities		
Accounts Payable	3,294	-0-
Due to Other Funds	216,229	-0-
Due to Other Governments	3,680	-0-
Other Current Liabilities	-0-	262,664
Unearned Revenue	7,018	-0-
TOTAL LIABILITIES	**230,221**	**262,664**
NET POSITION		
Invested in Capital Assets, net of Related Debt	233,501	-0-
Unrestricted	229,357	1,101,376
TOTAL NET POSITION	**$ 462,858**	**$ 1,101,376**

See notes to financial statements.

Pequea Valley School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Major Fund	
	Enterprise Fund Food Service	Internal Service Fund
OPERATING REVENUES		
Food Service Revenue	$ 284,534	$ -0-
Charges for Services	-0-	3,054,444
Total Operating Revenues	**284,534**	**3,054,444**
OPERATING EXPENSES		
Salaries	113,018	-0-
Employee Benefits	89,094	2,898,737
Purchased Professional and Technical Services	236,628	-0-
Other Purchased Services	24,201	-0-
Supplies	348,032	-0-
Depreciation	43,385	-0-
Total Operating Expenses	**854,358**	**2,898,737**
OPERATING INCOME (LOSS)	**(569,824)**	**155,707**
NONOPERATING REVENUES		
Investment Earnings	401	2,874
State Sources	38,191	-0-
Federal Sources	454,528	-0-
Net Nonoperating Revenues	**493,120**	**2,874**
CHANGES in NET POSITION	**(76,704)**	**158,581**
NET POSITION		
Beginning, as Originally Stated	539,562	648,818
Effect of Prior Period Adjustment (Note 19)	-0-	293,977
Beginning, Restated	539,562	942,795
Ending	**$ 462,858**	**$ 1,101,376**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Major Fund	
	Enterprise Fund Food Service	**Internal Service Fund**
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	$ 284,171	$ -0-
Cash Received from Assessments Made to Other Funds	-0-	2,898,737
Cash Payments to Employees for Services	(202,112)	-0-
Cash Payments to Suppliers for Goods and Services	(356,541)	(2,898,737)
Net Cash Used by Operating Activities	**(274,482)**	**-0-**
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
State Sources	28,813	-0-
Federal Sources	256,124	-0-
Net Cash Provided by Noncapital Financing Activities	**284,937**	**-0-**
CASH FLOWS from INVESTING ACTIVITIES		
Investment Earnings	401	2,874
Purchase of Investments	-0-	(2,874)
Net Cash Provided by Investing Activities	**401**	**-0-**
DECREASE in CASH and CASH EQUIVALENTS	**10,856**	**-0-**
CASH and CASH EQUIVALENTS		
Beginning of Year	221,617	-0-
End of Year	**$ 232,473**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
(Continued)
Year Ended June 30, 2014

	Major Fund	
	Enterprise Fund Food Service	**Internal Service Fund**
RECONCILIATION of OPERATING INCOME (LOSS) to NET CASH USED by OPERATING ACTIVITIES		
Operating Income (Loss)	**$ (569,824)**	**$ 155,707**
ADJUSTMENTS to RECONCILE OPERATING INCOME (LOSS) to NET CASH USED by OPERATING ACTIVITIES		
Depreciation	43,385	-0-
Donated Commodities Used	46,442	-0-
Increase in Receivables	-0-	(131,443)
Increase in Interfund Receivable	-0-	(131,221)
Increase in Inventory	(6,485)	-0-
Decrease in Other Current Assets	1,285	-0-
Increase in Accounts Payable	3,292	106,957
Increase in Interfund Payable	207,786	-0-
Decrease in Unearned Revenue	(363)	-0-
Total Adjustments	**295,342**	**(155,707)**
Net Cash Used by Operating Activities	**$ (274,482)**	**$ -0-**
SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION		
NONCASH NONCAPITAL and RELATED FINANCING ACTIVITIES		
Receipt and use of USDA Donated Commodities	46,442	-0-

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION -
FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust	Agency Fund
ASSETS		
Cash and Cash Equivalents	$ -0-	$ 17,230
Other Receivables	-0-	2,039
Investments	104,999	47,508
TOTAL ASSETS	**104,999**	**66,777**
LIABILITIES		
Accounts Payable	-0-	4,756
Due to Other Funds	201	3,133
Other Current Liabilities	-0-	58,797
Interest Payable	-0-	91
TOTAL LIABILITIES	**201**	**66,777**
NET POSITION		
Restricted for Scholarships	**$ 104,798**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CHANGES in NET POSITION -
FIDUCIARY FUNDS
Year Ended June 30, 2014

	Private Purpose Trust
ADDITIONS	
Investment Earnings	$ 10
Gifts and Contributions	-0-
Total Additions	**10**
DEDUCTIONS	
Scholarships Awarded	**100**
CHANGES in NET POSITION	**(90)**
NET POSITION	
Beginning	104,888
Ending	**$ 104,798**

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, 2014, was approximately $515,173. 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, 2014. 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, 2014, was approximately $327,000. 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, 2014, was $30,972. 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, 2014, was approximately $5,800 for administrative fees and $309,000 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 and unemployment 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, 2014, which are not intended to finance fiscal 2014 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 market 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
On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in/first-out basis, and are expensed when used.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories (Continued)
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, 2014, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as unearned revenue until used. The School District combines School District and federal commodities inventories.

Capital Assets and Depreciation
The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at 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, as well as bond insurance costs, 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, as well as bond issuance costs, 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 bonus 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.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences and Retirement Bonuses (Continued)
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.

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. Encumbrances outstanding at year-end are reported as reservations of fund balances because they do not constitute expenditures or liabilities. As of June 30, 2014, 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. The School District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) The School District made all required contributions for the year ended June 30, 2014, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

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.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)
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.

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.

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. The School District had no extraordinary or special items for the fiscal year 2014.

Current Year Changes in Accounting Principles
During the current year, the School District adopted GASB Statement No. 66, *Technical Corrections, an Amendment of GASB Statements No. 10 and 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*s. The implementation of the standard had no significant impact on the School District's financial statements.

During the current year, the School District adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The implementation of the standard had no significant impact on the School District's financial statements.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles

In June 2012, GASB issued 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. The provisions of this statement are effective for the School District's June 30, 2015 financial statements.

In January 2013, GASB issued 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 provisions of this statement are effective for the School District's June 30, 2015 financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amends GASB Statement No. 68. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68.

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.

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

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, 2014, $10,891,971 of the School District's bank balance of $13,836,971 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	10,891,971
	10,891,971

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	10,891,971
Insured Amount	2,945,000
Bank Balance	13,836,971
Outstanding Checks	(618,699)
Carrying Amount - Bank Balances	13,218,272
Petty Cash	1,450
Certificates of Deposit Classified as Investments on the Balance Sheet	(11,711,000)
Total Cash and Cash Equivalents Per Financial Statements	**1,508,722**

Investments

As of June 30, 2014, the School District had the following investments:

Investments	Maturity	Fair Value
PA School District Liquid Asset Fund - Max Series		3,186,674
PA School District Liquid Asset Fund - Certificates of Deposit	0 - 12 Months	11,711,000
		14,897,674

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, 2014, the School District investments were rated as:

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

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

Concentration of Credit Risk
The School District places no limit on the amount they may invest in any one issuer. 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.

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, 2014, was 17.39 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2014, 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, 2014, are as follows:

	Taxes Receivable	Estimated Uncollectable	Net Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	662,276	-0-	662,276	240,585	421,691
Realty Transfer Taxes	37,339	-0-	37,339	37,339	-0-
Earned Income Taxes	520,962	-0-	520,962	520,962	-0-
	1,220,577	**-0-**	**1,220,577**	**798,886**	**421,691**

NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2014, the following amounts are due from other governmental units:

Due From	General Fund	Enterprise Fund	Internal Service Fund	Total
Federal Grants	692,955	164,240	-0-	857,195
State Match for Lunch Program	-0-	9,938	-0-	9,938
State Retirement Subsidy	393,033	-0-	-0-	393,033
State Social Security Subsidy	35,193	-0-	-0-	35,193
State School Construction Reimbursement	318,277	-0-	-0-	318,277
Other State Subsidies	9,679	-0-	-0-	9,679
Local	151,336	-0-	52,191	203,527
	1,600,473	**174,178**	**52,191**	**1,826,842**

NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2014, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	219,563	131,221
Enterprise Fund - Food Service	-0-	216,229
Internal Service Fund	131,221	-0-
Scholarship Fund	-0-	201
Student Activity Fund	-0-	3,133
	350,784	**350,784**

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 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.

NOTE 6 - INTERFUND ACCOUNTS (Continued)

Interfund transfers for the year ended June 30, 2014, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	3,741,494
Debt Service Fund	3,741,494	-0-
	3,741,494	**3,741,494**

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.

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2014, is as follows:

	Balance July 01, 2013	Additions	Deletions	Balance June 30, 2014
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	-0-	-0-	65,914,635
Furniture and Equipment	6,537,061	304,607	-0-	6,841,668
Vehicles	179,419	28,664	-0-	208,083
Total Cost	**75,383,092**	**333,271**	**-0-**	**75,716,363**
Accumulated Depreciation:				
Site Improvements	1,707,788	100,523	-0-	1,808,311
Building and Building Improvements	23,012,971	1,676,617	-0-	24,689,588
Furniture and Equipment	3,897,527	828,033	-0-	4,725,560
Vehicles	117,345	12,225	-0-	129,570
Total Accumulated Depreciation	**28,735,631**	**2,617,398**	**-0-**	**31,353,029**
Net Capital Assets Being Depreciated	**46,647,461**	**(2,284,127)**	**-0-**	**44,363,334**
Net Capital Assets	**47,264,105**	**(2,284,127)**	**-0-**	**44,979,978**

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	800,197	-0-	-0-	800,197
Accumulated Depreciation:				
Equipment	523,311	43,385	-0-	566,696
Net Capital Assets	**276,886**	**(43,385)**	**-0-**	**233,501**

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	1,993,904
Instructional Student Support	370,802
Administration and Financial Support Services	182,805
Operation and Maintenance of Plant Services	69,887
	2,617,398

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, 2014, the School District was liable for $2,343,319 of payroll, payable during July and August 2014, 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, 2014, 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 $7,018 as of June 30, 2014.

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 principal amount outstanding at June 30, 2014 was $2,055,000 due on February 1, 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 principal amount outstanding for Series A of 2010 at June 30, 2014 was $6,510,000 due in various amounts from May 2013 through May 2021.

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, 2014 was $9,725,000 due in various amounts from February 2014 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, 2014 was $6,530,000 due in various amounts from February 2014 through February 2018.

Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2014, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2014	Due Within One Year
Series of 2006	2/15/2015	4.00%	2,055,000	2,055,000
Series A of 2010	5/15/2021	1.00% - 4.00%	6,510,000	1,120,000
Series A of 2013	2/01/2021	.45% - 4.00%	9,725,000	5,000
Series B of 2013	2/01/2018	.60% - 1.76%	6,530,000	180,000

NOTE 10 - LONG-TERM DEBT (Continued)

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
General Obligation Debt	27,945,000	-0-	3,125,000	24,820,000
Bond Premium	405,867	-0-	128,696	277,171
Loss on Bond Refunding	(909,255)	-0-	(113,752)	(795,503)
Accrued Retirement Bonuses	474,446	-0-	49,380	425,066
Estimated Liability for Compensated Absences	683,585	-0-	7,351	676,234
Estimated Liability for Other Postemployment Benefits	183,143	2,375	-0-	185,518
	28,782,786	**2,375**	**3,196,675**	**25,588,486**

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

	Interest	Principal	Total
2015	597,228	3,360,000	3,957,228
2016	468,849	3,495,000	3,963,849
2017	411,923	3,715,000	4,126,923
2018	339,792	3,790,000	4,129,792
2019	235,390	3,910,000	4,145,390
2020 - 2021	206,720	6,550,000	6,756,720
	2,259,902	**24,820,000**	**27,079,902**

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 (the Authority) authorized the issuance of Guaranteed Lease Revenue Bonds, Series 2011 in the maximum aggregate principal amount of $43,000,000 to provide funds for renovations and additions to Brownstown, Mount Joy, and Willow Street campuses of the LCCTC, for the purchase and renovation of property for a practical nursing program at the LCCTC, for various other ongoing and proposed capital projects of the LCCTC, and for the payment and cost of issuing the bonds. The LCCTC and the 16 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 aggregate amount borrowed was $29,985,000. The bonds were issued in three different series over three years. The amount of each series could not exceed $10,000,000 without the member schools' approval. The bonds are intended to be repaid over a period not to exceed 30 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 Authority issued the first of three series, the Lancaster County Career & Technology Center General Obligation Bonds, Series of 2012, in the total amount of $9,995,000.

On September 30, 2013, the Authority issued the second of the three series, the Lancaster County Career & Technology Center General Obligation Bonds, Series of 2013, in the total amount of $9,995,000.

Subsequent to June 30, 2014, the Authority issued the third of the 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,	Currently Issued Bonds $23,890,000 Future Minimum Rental Payments
2015	55,521
2016	55,508
2017	55,458
2018	61,624
2019	61,553
2020 - 2024	307,924
2025 - 2029	307,868
2030 - 2034	307,978
2035 - 2037	184,635
	1,398,069

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, 2014:

Accumulated Sick Days	517,590
Accumulated Vacation Days	112,490
Accumulated Personal Days	34,880
Employer Social Security and Medicare on Amounts Above	11,274
	676,234

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 $425,066 at June 30, 2014.

NOTE 14 - DEFINED BENEFIT PENSION PLAN

Plan Description
The School District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employees' Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement, disability, and death benefits, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. The CAFR is also available on the publications page of the PSERS website.

Funding Policy
The contribution policy is set by the Code and requires contributions by active employees and by participating employers. Plan members may belong to four membership classes. Class TC and Class TD are available to plan members. Active members who joined the plan before July 22, 1983, are required to contribute 5.25% of their compensation if they are in Class TC or 6.5% for Class TD. Members who joined on or after July 11, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25% for Class TC or 7.5% for Class TD. Members who joined the plan after June 30, 2001, are automatically in Class TD and are required to contribute 7.5%. Members who joined the plan after June 30, 2011, automatically contribute at the Membership Class TE rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class TF membership, contribute 10.3% (base rate) of the members' qualifying compensation. Membership Class TE and TF are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class TE contribution to fluctuate between 7.5% and 9.5% and Membership Class TF contribution rate to fluctuate between 10.3% and 12.3%.

The contributions required of participating employers are based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. For fiscal year ended June 30, 2014, the rate of employer contribution was 16.93% of covered payroll. The 16.93% rate is comprised of a pension contribution rate of 16.00% for pension benefits and 0.93% for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth of Pennsylvania in an amount equal to the Commonwealth of Pennsylvania's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. **Pequea Valley School District's** contributions to PSERS for the years ended June 30, 2014, 2013, and 2012, were $1,816,181, $1,441,753, and $1,035,012, respectively. Those amounts are equal to the required contribution for each year.

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.

NOTE 15 - RISK MANAGEMENT (Continued)

Hospitalization (Continued)
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 $3,811,458 in total per year.

A liability for claims incurred prior to June 30, 2014, and subsequently paid is recorded in the amount of $262,664 in other current liabilities in the internal service fund.

Changes in the School District's claims liability amount in fiscal years 2014 and 2013 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2013 - 2014	449,684	2,898,737	3,085,757	262,664
2012 - 2013	424,172	2,795,200	2,769,688	449,684

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, 2014, 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, 2014, 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 $185,518 for other postemployment benefits.

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

Description (Continued)
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.

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	342,405
Interest on OPEB Obligation	8,241
Adjustment to Annual Required Contribution	(17,915)
Annual OPEB Cost	332,731
Estimated Contributions Made	(330,356)
Increase in Net OPEB Obligation	2,375
Net OPEB Obligation - Beginning of Year	183,143
Net OPEB Obligation - End of Year	**185,518**

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013, and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation-End of Year
6/30/2014	332,731	99%	185,518
6/30/2013	332,235	103%	183,143
6/30/2012	132,614	70%	192,549

Funding Status and Funding Progress
As of July 1, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled $2,634,908, resulting in an unfunded actuarial accrued liability (UAAL) of $2,634,908. The covered payroll (annual payroll of active employees covered by the plan) equaled $9,753,157, and the ratio of the UAAL to the covered payroll equaled 27.02%.

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

Funding Status and Funding Progress (Continued)
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.

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, 2012, 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 7.5% in the first year gradually decreasing by 0.5% per year to an ultimate rate of 5.5% in 2016 and later.

NOTE 17 - FUND BALANCE CLASSIFICATIONS

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, 2014, 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	1,300,000
	6,600,000

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.

General Fund - Assigned for Future Health Care Increases	1,600,000
General Fund - Assigned for Future Transfer to Capital Reserve Fund	1,000,000
Capital Project Fund - Assigned for Capital Outlays	2,995,290

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 - PRIOR PERIOD ADJUSTMENT

The School District has elected to restate the beginning net position of the governmental activities and the internal service fund. At June 30, 2013, the School District recorded the health insurance payable as accounts payable on the general fund and as other current liabilities on the internal service fund, resulting in the understatement of net position. As of July 1, 2013, net position has been increased by $293,977 for both the governmental activities and the internal service fund for this prior period adjustment.

Pequea Valley School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Local Sources:				
Real Estate Taxes	$ 20,715,472	$ 20,715,472	$ 21,290,835	$ 575,363
Other Taxes	1,750,506	1,750,506	2,479,912	729,406
Investment Earnings	20,000	20,000	24,696	4,696
Other Revenue	536,600	536,600	557,130	20,530
Total Local Sources	23,022,578	23,022,578	24,352,573	1,329,995
State Sources	6,658,953	6,658,953	6,468,987	(189,966)
Federal Sources	1,574,785	1,574,785	1,578,530	3,745
Total Revenues	**31,256,316**	**31,256,316**	**32,400,090**	**1,143,774**
EXPENDITURES				
Instructional Services:				
Regular Programs	12,024,733	12,024,733	11,283,381	741,352
Special Programs	3,450,000	3,450,000	3,284,994	165,006
Vocational Programs	805,506	805,506	703,764	101,742
Other Instructional Programs	111,835	111,835	264,610	(152,775)
Total Instructional Services	**16,392,074**	**16,392,074**	**15,536,749**	**855,325**
Support Services:				
Pupil Personnel Services	914,956	914,956	956,038	(41,082)
Instructional Staff Services	2,324,920	2,324,920	2,003,368	321,552
Administrative Services	1,424,377	1,424,377	1,490,376	(65,999)
Pupil Health	399,845	399,845	253,184	146,661
Business Services	515,028	515,028	570,937	(55,909)
Operation of Plant and Maintenance Services	2,323,450	2,323,450	2,594,442	(270,992)
Student Transportation Services	2,124,759	2,124,759	1,861,058	263,701
Central and Other Business Services	271,291	271,291	193,498	77,793
Other Support Services	25,500	25,500	21,453	4,047
Total Support Services	**10,324,126**	**10,324,126**	**9,944,354**	**379,772**
Noninstructional Services:				
Student Activities	617,600	617,600	609,967	7,633
Community Services	20,225	20,225	34,546	(14,321)
Total Noninstructional Services	**637,825**	**637,825**	**644,513**	**(6,688)**
Refund of Prior Year Revenues	**-0-**	**-0-**	**86**	**(86)**
Total Expenditures	**27,354,025**	**27,354,025**	**26,125,702**	**1,228,323**
OTHER FINANCING SOURCES (USES)				
Debt Service Fund Transfer	(4,146,423)	(4,146,423)	(3,741,494)	404,929
Proceeds from Sale of Capital Assets	-0-	-0-	31,058	31,058
Budgetary Reserve	(400,000)	-0-	-0-	-0-
Net Other Financing Uses	**(4,546,423)**	**(4,146,423)**	**(3,710,436)**	**435,987**
NET CHANGES in FUND BALANCES	**$ (644,132)**	**$ (244,132)**	**2,563,952**	**$ 2,808,084**
FUND BALANCES				
Beginning			8,958,948	
Ending			**$ 11,522,900**	

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, 2014.

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, 2008	-0-	1,251,184	1,251,184	0.00%	10,519,029	11.89%
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%

See independent auditors' report.

Pequea Valley School District

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

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed
June 30, 2012	132,614	70.34%
June 30, 2013	332,235	100.00%+
June 30, 2014	332,731	99.29%

See independent auditors' report.

The information presented on the required supplementary schedules on pages 55 and 56 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, 2012**	**July 1, 2010**	**July 1, 2008**
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	30 Years	30 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)	$7,871 - $10,693	$6,543 - $8,889	$5,882 - $7,991
Male (Age 45 - 64)	$5,450 - $11,472	$4,530 - $9,536	$4,073 - $8,574
Demographic Information:			
Active Participants	174	205	210
Retired Participants	38	26	25
Total Participants	**212**	**231**	**235**
Health Care Cost Trend Rate	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	8.5% decreasing to 0.5% a year to 5.0% to in 2015 and later

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

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

Year Ended June 30, 2014

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, 2013	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2014
U.S. Department of Agriculture									
Passed Through the Pennsylvania Department of Education:									
School Breakfast Program (Note 2)	I	10.553	N/A	07/01/13- 06/30/14	N/A	$ -0-	$ 41,979	$ 74,345	$ 32,366
School Breakfast Program (Note 2)	I	10.553	N/A	07/01/12- 06/30/13	N/A	1,849	1,849	-0-	-0-
National School Lunch Program (Note 2)	I	10.555	N/A	07/01/13- 06/30/14	N/A	-0-	201,866	333,740	131,874
National School Lunch Program (Note 2)	I	10.555	N/A	07/01/12- 06/30/13	N/A	10,264	10,264	-0-	-0-
Total Passed Through the Pennsylvania Department of Education						**12,113**	**255,958**	**408,085**	**164,240**
Passed Through the Pennsylvania Department of Agriculture:									
National School Lunch Program (Notes 2 and 3)	I	10.555	N/A	07/01/13 - 06/30/14	N/A	**-0-**	**46,442**	**46,442**	**-0-**
Total U.S. Department of Agriculture						**12,113**	**302,400**	**454,527**	**164,240**
U.S. Department of Education									
Passed Through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-140332	07/10/13 - 09/30/14	1,247,734	-0-	770,689	1,118,251	347,562
Title I Grants to Local Educational Agencies	I	84.010	013-130332	08/13/12 - 09/30/13	1,370,219	564,851	767,730	202,879	-0-
Improving Teacher Quality State Grants	I	84.367	020-140332	09/03/13 - 09/30/14	156,918	-0-	132,777	151,499	18,722
Improving Teacher Quality State Grants (Note 4)	I	84.367	020-130332	08/13/12 - 09/30/13	170,758	37,074	12,076	23,307	48,305
Improving Teacher Quality State Grants (Note 5)	I	84.367	020-120332	09/09/11- 09/30/12	164,668	(1,224)	-0-	-0-	(1,224)
Rural and Low Income Schools	I	84.358	007-140332	10/31/13 - 09/30/14	31,812	-0-	13,255	15,757	2,502
Rural and Low Income Schools	I	84.358	007-130332	01/04/13 - 09/30/13	34,342	6,063	19,079	13,016	-0-
Total Passed Through the Pennsylvania Department of Education						**$ 606,764**	**$ 1,715,606**	**$ 1,524,709**	**$ 415,867**

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2014

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, 2013	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2014
Passed Through Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States (Note 2)	I	84.027	062-14-0013	07/01/13 - 09/30/14	354,606	$ -0-	$ 79,968	$ 354,606	$ 274,638
Special Education - Grants to States (Note 2)	I	84.027	062-13-0013	07/01/12 - 09/30/13	368,747	300,202	300,202	-0-	-0-
Special Education - Preschool Grants (Note 2)	I	84.173	131-12-0-013	07/01/12 - 06/30/13	1,219	1,219	1,219	-0-	-0-
Special Education - Preschool Grants (Note 2)	I	84.173	131-13-0-013	07/01/13 - 09/30/14	1,225	-0-	-0-	1,225	1,225
Total Passed Through Lancaster-Lebanon Intermediate Unit #13						**301,421**	**381,389**	**355,831**	**275,863**
Total U.S. Department of Education						**908,185**	**2,096,995**	**1,880,540**	**691,730**
TOTAL EXPENDITURES of FEDERAL AWARDS						**$ 920,298**	**$ 2,399,395**	**$ 2,335,067**	**$ 855,970**

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, 2014

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
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 - ACCRUAL (DEFERRAL) ADJUSTMENT at JUNE 30, 2013

Project Title	Source Code	Federal CFDA Number	Grant Number	Grant Period Beginning / Ending Date	Accrued (Deferred) Shown at June 30, 2013	Correct Accrual (Deferral) at June 30, 2013
Improving Teacher Quality State Grants	I	84.367	020-130332	08/13/12 - 09/30/13	30,134	37,074

NOTE 5 - RETURNED MONEY

For the grant on the preceding schedule which designates 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, 2014.

NOTE 6 - 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, 2014 was $24,150 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 and 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, 2014, and the related notes to the financial statements, which collectively comprise **Pequea Valley School District**'s basic financial statements and have issued our report thereon dated November 20, 2014.

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 a material weakness and a significant deficiency.

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 deficiency described in the accompanying schedule of findings and questioned costs as item #2014-001 to be a material weakness.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2014-002 and #2014-003 to be significant deficiencies.

Compliance and Other Matters

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

Pequea Valley School District's Response to Findings

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

Purpose of this Report

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

Trout, Ebersole + Groff, LLP

November 20, 2014
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, 2014. **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.

Basis for Qualified Opinion on CFDA #84.010 - Title I Grants to Local Educational Agencies
As described in the accompanying schedule of findings and questioned costs, **Pequea Valley School District** did not comply with requirements regarding CFDA #84.010 Title I Grants to Local Educational Agencies as described in finding numbers #2014-004 for Eligibility. Compliance with such requirements is necessary, in our opinion, for **Pequea Valley School District** to comply with the requirements applicable to that program.

Qualified Opinion on CFDA #84.010 - Title I Grants to Local Educational Agencies
In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, **Pequea Valley School District** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA #84.010 - Title I Grants to Local Educational Agencies for the year ended June 30, 2014.

Unmodified Opinion on the Other Major Federal Program
In our opinion, **Pequea Valley School District** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters
The results of our auditing procedures disclosed another instances of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is disclosed in the accompanying schedule of findings and questioned costs as item #2014-005. Our opinion on each major program Is not modified with respect to this matter.

Pequea Valley School District's response to the noncompliance 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2014-004 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2014-005 to be a significant deficiency.

Pequea Valley School District's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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

November 20, 2014
Lancaster, Pennsylvania

TROUT, EBERSOLE, & GROFF, LLP
Certified Public Accountants

Pequea Valley School District

SCHEDULE of FINDINGS and QUESTIONED COSTS

Year Ended June 30, 2014

A. Summary of Auditors' Results

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

2. One material weakness and two significant deficiencies 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.*

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

4. One material weakness and one significant deficiency 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 a qualified opinion on compliance for one major program and an unmodified opinion on compliance on the other major program.

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: Title I Grants to Local Educational Agencies - CFDA #84.010, Special Education - Grants to States - CFDA #84.027, and Special Education - Preschool Grants - CFDA #84.173

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 Weakness

#2014-001 - 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 does not possess the expertise necessary to prepare the financial statements and the notes to the financial statements for **Pequea Valley School District** in conformity with generally accepted accounting principles.

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.

Significant Deficiencies

#2014-002 - 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 year-end close process, which includes preparation of reconciliations, debt schedules, capital asset ledger, and recordation of cash to accrual journal entries. Some of these closing activities occurred during the performance of audit fieldwork.

Cause and Effect: Amortization of bond issuance cost and bond premiums were calculated incorrectly resulting in an overstatement of debt service expense.

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

B. Findings - Financial Statements Audit (Continued)

Significant Deficiencies (Continued)

#2014-002 - Year-End Close Process (Continued)

Recommendation: The School District should continue to reevaluate the year-end close process. Although significant improvements have been made throughout the year, which includes the recording of food service closing entries and year-to-date internal service fund activity, the School District should continue to focus on closing the fiscal year accounts within 60 days of year-end. In doing so, all reconciliations, analysis, and additions to capital assets ledger should be completed within this timeframe, and include a second-level review to timely identify any potential errors or issues prior to the start of the annual audit.

School District's Response: The School District will continue to improve on yearend closeout procedures and will contact the auditors prior to the audit should any question arise as to any year end entry.

#2014-003 - Monitoring of Debt Service Payments

Criteria: Debt service control procedures should be conducted on a quarterly basis including an analysis of outstanding debt to identify potential errors.

Statement of Condition: The School District has an arrangement with Fulton Bank by which semi-annual interest payments and annual principal payments are transferred from the General Fund checking account to the Debt Service Sinking Fund account to satisfy debt service requirements. Based upon procedures performed, it was determined that Fulton Bank had incorrectly withdrawn two incorrect interest payments in excess of what was due during August and November 2013, totaling approximately $318,000.

Cause and Effect: The School District only analyzed outstanding debt during the year-end close process. Fulton Bank identified and rectified this error in the February 2014 time frame, reimbursing the School District for the overpayments.

Recommendation: The School District should implement quarterly control procedures surrounding debt service activity. Currently, analysis of outstanding debt are only performed during the year-end close process. Through performance of quarterly reconciliations of debt service payments, the School District would be able to timely identify potential errors of this nature in the future.

School District's Response: The School District refinanced debt at the end of the previous fiscal year. The overpayment resulted in a mistake at Fulton Bank when they pulled both the previous debt amount and the current debt amount. The School district worked with Fulton Bank to correct the error. The School district will continue to monitor debt service payments.

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

Compliance Finding and Material Weakness

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

Criteria: An LEA must serve eligible schools or attendance areas in rank order according to their percentage of poverty. An LEA must serve those areas or schools above 75 percent poverty, including any middle or high schools, before it serves any with a poverty-percentage at or below 75 percent. After an LEA has served all areas and schools with a poverty rate above 75 percent, the LEA may serve lower-poverty areas and schools either by continuing with the district-wide ranking or by ranking its schools at or below 75 percent poverty according to grade-span grouping.

Statement of Condition: 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 of $596 per student. Paradise Elementary 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.

Cause and Effect: The LEA did not maintain proper monitoring of the rank order between the two elementary schools throughout the grant year allowing the School District to adjust allocation of resources to the proper eligible school.

Questioned Costs: $596 x 197 students = $117,412

Recommendation**:** We recommend 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.

School District Response: The School District experienced an extreme shift from Salisbury Elementary School into Paradise Elementary School in low-income students resulting in inadequate distribution of Title I funds. Due to Title I funds transcending fiscal years, both the School District and Auditors recognized last fiscal year that this situation could not be easily corrected until the 2013-2014 grant year. The School District continues to monitor the demographics of low-income students on a regular basis and distribute funds accordingly.

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

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.

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

Compliance Finding and Significant Deficiency (Continued)

#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 (Continued)

Statement of Condition: 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

Cause and Effect: Due to miscommunication and oversight between programmatic staff and business office staff, the School District did not file the Reconciliation of Cash on Hand Quarterly Report(s) or final expenditure report per the Pennsylvania Department of Education (PDE) requirements. By not filing the required reports, 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**:** Due to the Title funds transcending fiscal years, the School District was made aware last audit cycle that due to a transition of staff, certain reports were not filed timely in the 2012-2013 grant year and the first two quarters of the 2013-2014 grant year. The School District developed procedures to ensure reports are being filed timely.

Compliance Finding and Material Weakness

#2013-4 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2013

The School District did not distribute funds in proper rank order for the 2011-2012 Title I grant. The failure to distribute funds in rank order caused a misallocation of funds between Paradise Elementary School and Salisbury Elementary of $577 per student. Paradise Elementary serves 207 low-income students creating a net shortage of funds of $119,408. These funds were improperly spent in the Salisbury Elementary School instead of Paradise Elementary School.

Recommendation: We recommend 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: As noted in #2014-004 in the Schedule of Findings and Questioned Costs, the School District did not distribute funds in proper rank order for the 2012-2013 Title I grant.

Compliance Finding and Significant Deficiency

#2013-5 - Title I Grants to Local Educational Agencies - CFDA #84.010 and Improving Teacher Quality State Grants - CFDA #84.367, Year Ended June 30, 2013

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

- 11/12 grant (13-120332) Reconciliation of Cash on Hand Quarterly Report for the second quarter of 2012-2013
- 12/13 grant (13-130332) Reconciliation of Cash on Hand Quarterly Report for the fourth quarter of 2012-2013
- 12/13 grant (42-110332) Reconciliation of Cash on Hand Reports for the first and second quarters of 2012-2013
- 10/11 grant (13-110332) final expenditure report due 10/30/2012

The missing reports for Improving Teacher Quality State Grants include the following:

- 12/13 grant (020-130332) Reconciliation of Cash on Hand Quarterly Reports for the third and fourth quarters of 2012-2013

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.

Current Status: As noted in #2014-005 in the Schedule of Findings and Questioned Costs, the School District failed to file required Reconciliation of Cash on Hand Quarterly Reports during the first and second quarters of 2013-2014.

PEQUEA VALLEY School District

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Corrective Action Plan
November 20, 2014

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, 2014.

Name and address of the independent public accounting firm:

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

Audit period: July 1, 2013 through June 30, 2014

The findings from the June 30, 2014, schedule of findings and questioned costs are discussed below. The findings are numbered consistent with the numbers assigned in the schedule.

Findings - Financial Statements Audit

Material Weakness

#2014-001 - 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 does not possess the expertise necessary to prepare the financial statements and the notes to the financial statements for **Pequea Valley School District** in conformity with generally accepted accounting principles.

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.

Significant Deficiencies

#2014-002 - 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 year-end close process, which includes preparation of reconciliations, debt schedules, capital asset ledger, and recordation of cash to accrual journal entries. Some of these closing activities occurred during the performance of audit fieldwork.

Cause and Effect: Amortization of bond issuance cost and bond premiums were calculated incorrectly resulting in an overstatement of debt service expense.

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 continue to reevaluate the year-end close process. Although significant improvements have been made throughout the year, which includes the recording of food service closing entries and year-to-date internal service fund activity, the School District should continue to focus on closing the fiscal year accounts within 60 days of year-end. In doing so, all reconciliations, analyses, and additions to capital assets ledger should be completed within this timeframe, and include a second-level review to timely identify any potential errors or issues prior to the start of the annual audit.

School District's Response: The School District will continue to improve on yearend closeout procedures and will contact the auditors prior to the audit should any question arise as to any year end entry.

#2014-003 - Monitoring of Debt Service Payments

Criteria: Debt service control procedures should be conducted on a quarterly basis including an analysis of outstanding debt to identify potential errors.

Statement of Condition: The School District has an arrangement with Fulton Bank by which semi-annual interest payments and annual principal payments are transferred from the General Fund checking account to the Debt Service Sinking Fund account to satisfy debt service requirements. Based upon procedures performed, it was determined that Fulton Bank had incorrectly withdrawn two incorrect interest payments in excess of what was due during August and November 2013, totaling approximately $318,000.

Cause and Effect: The School District only analyzed outstanding debt during the year-end close process. Fulton Bank identified and rectified this error in the February 2014 time frame, reimbursing the School District for the overpayments.

Recommendation: The School District should implement quarterly control procedures surrounding debt service activity. Currently, analyses of outstanding debt are only performed during the year-end close process. Through performance of quarterly reconciliations of debt service payments, the School District would be able to timely identify potential errors of this nature in the future.

School District's Response: The School District refinanced debt at the end of the previous fiscal year. The overpayment resulted in a mistake at Fulton Bank when they pulled both the previous debt amount and the current debt amount. The School district worked with Fulton Bank to correct the error. The School district will continue to monitor debt service payments.

Findings and Questioned Costs - Major Federal Awards Programs Audit

Compliance Finding and Material Weakness

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

Criteria: An LEA must serve eligible schools or attendance areas in rank order according to their percentage of poverty. An LEA must serve those areas or schools above 75 percent poverty, including any middle or high schools, before it serves any with a poverty-percentage at or below 75 percent. After an LEA has served all areas and schools with a poverty rate above 75 percent, the LEA may serve lower-poverty areas and schools either by continuing with the district-wide ranking or by ranking its schools at or below 75 percent poverty according to grade-span grouping.

Statement of Condition: 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 of $596 per student. Paradise Elementary 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.

Cause and Effect: The LEA did not maintain proper monitoring of the rank order between the two elementary schools throughout the grant year allowing the School District to adjust allocation of resources to the proper eligible school.

Questioned Costs: $596 x 197 students = $117,412

Recommendation: We recommend 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.

School District Response: The School District experienced an extreme shift from Salisbury Elementary School into Paradise Elementary School in low-income students resulting in inadequate distribution of Title I funds. Due to Title I funds transcending fiscal years, both the School District and Auditors recognized last fiscal year that this situation could not be easily corrected until the 2013-2014 grant year. The School District continues to monitor the demographics of low-income students on a regular basis and distribute funds accordingly.

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

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 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

Cause and Effect: Due to miscommunication and oversight between programmatic staff and business office staff, the School District did not file the Reconciliation of Cash on Hand Quarterly Report (s) or final expenditure report per the Pennsylvania Department of Education (PDE) requirements. By not filing the required reports, 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: Due to the Title funds transcending fiscal years, the School District was made aware last audit cycle that due to a transition of staff, certain reports were not filed timely in the 2012-2013 grant year and the first two quarters of the 2013-2014 grant year. The School District developed procedures 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 yours,

John A. Bowden

John A. Bowden
Business Administrator
Pequea Valley School District