Pequea Valley School District

Year Ended June 30, 2013

TROUT, EBERSOLE & GROFF LLP
CPAs | BUSINESS ADVISORS
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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2013

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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2013

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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, 2013, 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 20 to the financial statements, the School District changed its method of accounting for bond issuance costs applicable to the government-wide financial statements as a result of implementing GASB Statement No. 65, *Items Previously Reported as Assets and Liabilitie*s. Our opinions are not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 14 and budgetary comparison information on page 54 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 financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2013, 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 the School District's internal control over financial reporting and compliance.

Trout, Ebersole + Groff, LLP

December 3, 2013
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, 2013. 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* issued June 1999. 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 2012-2013 fiscal year were expected to increase by 3.9% from the previous year's expenditure budget with the anticipation of utilizing $593,460 of fund balance. At year end, actual expenditures were 2.1% lower than budgeted, and revenues also increased over budget by 3.1%, resulting in not needing to utilize fund balance and a surplus of $1,385,521. An explanation of this difference is below.

School District expenditures were $653,562 less than budgeted. The School District is a member of the Lancaster-Lebanon Public Schools Employees Health Care Cooperative which self-funds health care for its employees. The Cooperative utilizes an advisor to estimate the amount of dollars each school district should budget in order to cover all health care claims. For the 2012-2013 school year, the School District's actual expenditures were significantly lower than budgeted.

School District revenues in the general fund for the 2012-2013 school year were $925,419 greater than budgeted. State revenue decreased $93,175 from what was budgeted, however Federal revenue increased by $441,936. Local revenue increased by $576,658. The majority of this increase was due to an increase in collection rates in current real estate taxes from 93% to 96%, and an increase in the collection of earned income taxes.

The School District committed $5,300,000 of the general fund balance for future retirement reserves and assigned $1,300,000 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.

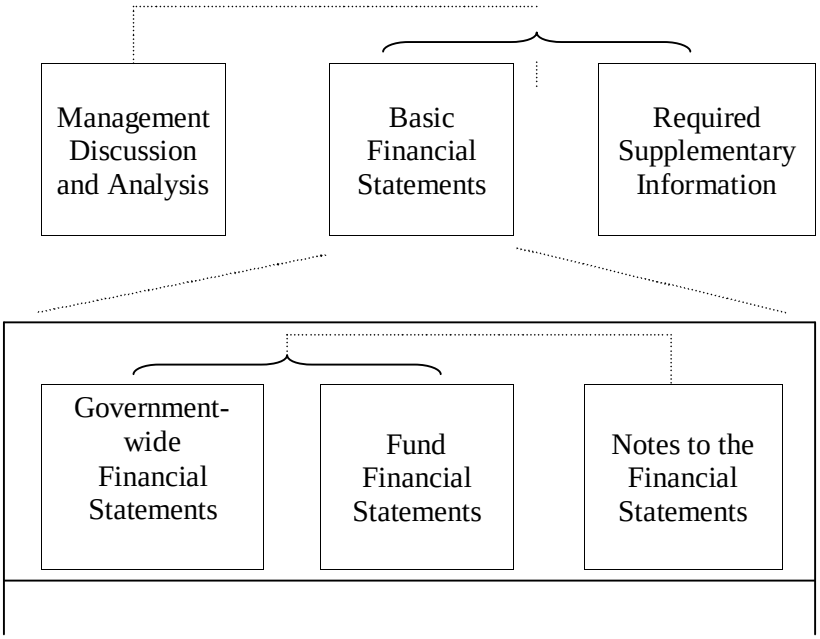
Using this Annual Report (Continued)

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 provide 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 $32,275,416 as of June 30, 2013.

Table A-1
Fiscal Years Ended June 30, 2013, and 2012
Net Position

	2013			2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	17,094,220	273,572	17,367,792	15,553,913	294,009	15,847,922
Capital Assets	47,340,826	276,886	47,617,712	49,315,765	320,826	49,636,591
Total Assets	**64,435,046**	**550,458**	**64,985,504**	**64,869,678**	**614,835**	**65,484,513**
Deferred Outflows of Resources	**909,255**	**-0-**	**909,255**	**-0-**	**-0-**	**-0-**
Current and Other Liabilities	7,172,935	10,896	7,183,831	6,974,418	15,968	6,990,386
Long-Term Liabilities	26,435,512	-0-	26,435,512	28,153,771	-0-	28,153,771
Total Liabilities	**33,608,447**	**10,896**	**33,619,343**	**35,128,189**	**15,968**	**35,144,157**
Net Position:						
Invested in Capital Assets, net of Related Debt	19,822,493	276,886	20,099,379	19,212,548	320,826	19,533,374
Restricted	-0-	-0-	-0-	-0-	-0-	-0-
Unrestricted	11,913,361	262,676	12,176,037	10,528,941	278,041	10,806,982
Total Net Position	**31,735,854**	**539,562**	**32,275,416**	**29,741,489**	**598,867**	**30,340,356**

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, 2013, and 2012
Changes in Net Position

	2013			2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	120,303	328,087	448,390	137,495	394,735	532,230
Operating Grants and Contributions	5,112,668	429,848	5,542,516	4,680,425	441,353	5,121,778
Capital Grants and Contributions	354,303	-0-	354,303	374,162	-0-	374,162
General Revenues:						
Property Taxes	20,365,050	-0-	20,365,050	19,878,242	-0-	19,878,242
Other Taxes	2,393,594	-0-	2,393,594	1,709,136	-0-	1,709,136
Grants, Subsidies, and Contributions, Unrestricted	2,825,520	-0-	2,825,520	2,867,929	-0-	2,867,929
Other	98,808	445	99,253	62,816	497	63,313
Total Revenues	**31,270,246**	**758,380**	**32,028,626**	**29,710,205**	**836,585**	**30,546,790**
Expenses:						
Instructional Programs	17,276,950	-0-	17,276,950	16,919,708	-0-	16,919,708
Instructional Student Support	2,795,400	-0-	2,795,400	3,098,057	-0-	3,098,057
Administrative and Financial Support	2,791,194	-0-	2,791,194	2,542,510	-0-	2,542,510
Operation and Maintenance of Plant	2,378,202	-0-	2,378,202	2,650,902	-0-	2,650,902
Pupil Transportation	1,853,985	-0-	1,853,985	1,885,750	-0-	1,885,750
Student Activities	651,434	-0-	651,434	606,474	-0-	606,474
Community Services	28,965	-0-	28,965	14,161	-0-	14,161
Interest on Long-Term Debt	1,189,319	-0-	1,189,319	1,266,435	-0-	1,266,435
Food Services	-0-	817,685	817,685	-0-	863,252	863,252
Total Expenses	**28,965,449**	**817,685**	**29,783,134**	**28,983,997**	**863,252**	**29,847,249**
Increase (Decrease) in Net Position	**2,304,797**	**(59,305)**	**2,245,492**	**726,208**	**(26,667)**	**699,541**

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, 2013, and 2012
Governmental Activities

	2013		2012	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Instructional Programs	17,276,950	13,666,452	16,919,708	13,690,790
Instructional Student Support	2,795,400	2,599,371	3,098,057	2,918,211
Administrative and Financial Support	2,791,194	2,511,104	2,542,510	2,320,581
Operation and Maintenance of Plant	2,378,202	2,310,692	2,650,902	2,576,306
Pupil Transportation	1,853,985	863,456	1,885,750	811,331
Student Activities	651,434	587,368	606,474	577,799
Community Services	28,965	4,716	14,161	4,624
Interest on Long-Term Debt	1,189,319	835,016	1,266,435	892,273
Total Governmental Activities	**28,965,449**	**23,378,175**	**28,983,997**	**23,791,915**
Less: Unrestricted Grants, Subsidies		(2,825,520)		(2,867,929)
Total Needs from Local Taxes and Other Revenues		**20,552,655**		**20,923,986**

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, 2013, and 2012
Business-Type Activities

	2013		2012	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Functions/Programs:				
Food Services	817,685	59,750	863,252	27,164

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, 2013, the School District governmental funds reported a combined fund balance of $12,188,843 which is an increase of $1,246,821 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 2012-2013 budget. Revenues exceeded expenses in the General Fund by $1,385,521, additionally the Capital Reserve fund decreased by $138,700. $5,300,000 is committed to use for increased retirement costs and $1,300,000 is assigned for future health care increases. $2,358,046 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 54.

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, 2013, the School District had $47,264,105 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deletions, and depreciation) of $1,774,272.

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

	2013	2012
Land and Land Improvements	1,660,833	1,763,306
Buildings and Building Improvements	42,901,664	44,513,768
Furniture and Equipment	2,639,534	2,688,985
Vehicles	62,074	72,318
New Construction in Progress	-0-	-0-
	47,264,105	**49,038,377**

Debt Administration

As of July 1, 2012, the School District had a total outstanding bond principal of $29,685,000. During the year, the School District made payments against principal in the amount of $2,955,000. The School District also advance refunded $11,135,000 of the General Obligation Bond Series 2006 and $3,985,000 General Obligation Bond Series B of 2010 through the issuance of General Obligation Series A & B of 2013. Current year debt service and advanced refunding activity resulted in an ending outstanding debt as of June 30, 2013, of $27,945,000.

Table A-6
Outstanding Debt

	2013	2012
Issue:		
Series of 2006	4,025,000	16,460,000
Series of 2009 (series 2002)	-0-	600,000
Series A of 2010 (series 2003, 2005, note 2003)	7,585,000	8,635,000
Series B of 2010	-0-	3,990,000
Series A of 2013	9,730,000	-0-
Series B of 2013	6,605,000	-0-
	27,945,000	**29,685,000**

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 13 and 14 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 2013-2014 budget the School District increased expenditures by 3.3% from the previous year. The largest increase in expenditures (25.7% or $780,173) was due to an increase in tuition to other agencies which includes expenditures to Charter Schools and Special Education Services. Benefits also increased by 9.7% primarily due to the increase in the PSERS rate. Overall the cost of salaries decreased by 3.0%, much of which was due to the furloughing of part-time staff and contracting that service from a private temp agency. Debt service is funded at the maximum needed level. The amount budgeted will not fully be used until 2018-2019. The additional amount budgeted dedicates and holds millage to be used for future capital projects.

Economic Factors and Next Year's Budgets and Rates (Continued)
Budgeted revenue for the 2013-2014 school year is 1.1% higher than the previous fiscal year and expects to use $364,000 of fund balance. The millage rate for 2013-2014 is 17.3866, which is 2.94% 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

	2013-2014	2012-2013
Local Sources	73.1%	73.7%
State Sources	20.0%	19.1%
Federal/Other Sources	6.9%	7.2%

Budgeted Expenditures

	2013-2014	2012-2013
Instruction	51.4%	50.5%
Support Services	32.4%	32.8%
Non-Instruction/Community	2.0%	2.0%
Fund Transfers/Debt	14.2%	14.7%

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, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 2,460,286	$ 221,617	$ 2,681,903
Investments	12,079,947	15,097	12,095,044
Taxes Receivable, net	907,427	-0-	907,427
Internal Balances	8,443	(8,443)	-0-
Due from Other Governments	1,426,268	12,673	1,438,941
Other Receivables	210,947	1,877	212,824
Prepaid Expenses	902	-0-	902
Inventories	-0-	30,751	30,751
Total Current Assets	**17,094,220**	**273,572**	**17,367,792**
Noncurrent Assets			
Land	616,644	-0-	616,644
Building and Building Improvements, net of Accumulated Depreciation	42,901,664	-0-	42,901,664
Site Improvements, net of Accumulated Depreciation	1,044,189	-0-	1,044,189
Furniture and Equipment, net of Accumulated Depreciation	2,639,534	276,886	2,916,420
Vehicles, net of Accumulated Depreciation	62,074	-0-	62,074
Deferred Bond Issue Costs, net of Accumulated Amortization	76,721	-0-	76,721
Total Noncurrent Assets	**47,340,826**	**276,886**	**47,617,712**
TOTAL ASSETS	**64,435,046**	**550,458**	**64,985,504**
DEFERRED OUTFLOWS OF RESOURCES			
Loss on Bond Refunding, net of Accumulated Amortization	**$ 909,255**	**$ -0-**	**$ 909,255**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION
(Continued)
June 30, 2013

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	$ 555,372	$ -0-	$ 555,372
Current Portion of Long-Term Debt	3,125,000	-0-	3,125,000
Accrued Salaries and Benefits	2,113,628	-0-	2,113,628
Compensated Absences			
Due Within One Year	131,529	-0-	131,529
Accrued Interest on Long-Term Debt	133,896	-0-	133,896
Payroll Deductions and Withholdings	96,286	-0-	96,286
Unearned Revenues	18,074	7,381	25,455
Due to Other Governments	549,386	3,515	552,901
Other Current Liabilities	449,764	-0-	449,764
Total Current Liabilities	**7,172,935**	**10,896**	**7,183,831**
Noncurrent Liabilities			
Bonds Payable,			
net of Unamortized Discount	25,225,867	-0-	25,225,867
Accrued Retirement Bonuses	474,446	-0-	474,446
Long-Term Portion of			
Compensated Absences	552,056	-0-	552,056
Other Postemployment Benefit Liabilities	183,143	-0-	183,143
Total Noncurrent Liabilities	**26,435,512**	**-0-**	**26,435,512**
TOTAL LIABILITIES	**33,608,447**	**10,896**	**33,619,343**
NET POSITION			
Invested in Capital Assets,			
net of Related Debt	19,822,493	276,886	20,099,379
Unrestricted	11,913,361	262,676	12,176,037
TOTAL NET POSITION	**$ 31,735,854**	**$ 539,562**	**$ 32,275,416**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	$ 17,276,950	$ 70,970	$ 3,539,528	$ -0-	$ (13,666,452)	$ -0-	$ (13,666,452)
Instructional Student Support	2,795,400	-0-	196,029	-0-	(2,599,371)	-0-	(2,599,371)
Administrative and Financial Support Services	2,791,194	36,613	243,477	-0-	(2,511,104)	-0-	(2,511,104)
Operation and Maintenance of Plant Services	2,378,202	12,720	54,790	-0-	(2,310,692)	-0-	(2,310,692)
Pupil Transportation	1,853,985	-0-	990,529	-0-	(863,456)	-0-	(863,456)
Student Activities	651,434	-0-	64,066	-0-	(587,368)	-0-	(587,368)
Community Services	28,965	-0-	24,249	-0-	(4,716)	-0-	(4,716)
Interest on Long-Term Debt	1,189,319	-0-	-0-	354,303	(835,016)	-0-	(835,016)
Total Governmental Activities	**28,965,449**	**120,303**	**5,112,668**	**354,303**	**(23,378,175)**	**-0-**	**(23,378,175)**
Business-Type Activities:							
Food Services	**817,685**	**328,087**	**429,848**	**-0-**	**-0-**	**(59,750)**	**(59,750)**
Total Primary Government	**$ 29,783,134**	**$ 448,390**	**$ 5,542,516**	**$ 354,303**	**$ (23,378,175)**	**$ (59,750)**	**$ (23,437,925)**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2013

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					$ 20,365,050	$ -0-	$ 20,365,050
Public Utility Realty, Earned Income,							
Occupation and other Taxes							
Levied for General Purposes					2,393,594	-0-	2,393,594
Unrestricted Grants and Subsidies					2,825,520	-0-	2,825,520
Unrestricted Investment Earnings					80,265	445	80,710
Gain on Fixed Asset Dispositions					18,543	-0-	18,543
Total General Revenues					**25,682,972**	**445**	**25,683,417**
CHANGES in NET POSITION					**2,304,797**	**(59,305)**	**2,245,492**
NET POSITION							
Beginning, As Originally Stated					29,741,489	598,867	30,340,356
Cumulative Effect of Change in Accounting Principle (Note 20)					(310,432)	-0-	(310,432)
Beginning, Restated					**29,431,057**	**598,867**	**30,029,924**
Ending					**$ 31,735,854**	**$ 539,562**	**$ 32,275,416**

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	Major Funds			
	General Fund	Capital Project	Debt Service	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 2,460,286	$ -0-	$ -0-	$ 2,460,286
Investments	7,751,549	3,229,895	-0-	10,981,444
Taxes Receivable, net	907,427	-0-	-0-	907,427
Due from Other Funds	13,705	-0-	-0-	13,705
Due from Other Governments	1,426,268	-0-	-0-	1,426,268
Other Receivables	205,685	-0-	-0-	205,685
Prepaid Expenses	902	-0-	-0-	902
TOTAL ASSETS	**12,765,822**	**3,229,895**	**-0-**	**15,995,717**
LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable	555,372	-0-	-0-	555,372
Accrued Salaries and Benefits	2,113,628	-0-	-0-	2,113,628
Payroll Deductions and Withholdings	96,285	-0-	-0-	96,285
Payable to Other Governments	549,386	-0-	-0-	549,386
Other Current Liabilities	18,154	-0-	-0-	18,154
TOTAL LIABILITIES	**3,332,825**	**-0-**	**-0-**	**3,332,825**
DEFERRED INFLOWS of RESOURCES				
Deferred Taxes	**474,049**	**-0-**	**-0-**	**474,049**
FUND BALANCES				
Nonspendable	902	-0-	-0-	902
Committed	5,300,000	-0-	-0-	5,300,000
Assigned	1,300,000	3,229,895	-0-	4,529,895
Unassigned	2,358,046	-0-	-0-	2,358,046
TOTAL FUND BALANCES	**8,958,948**	**3,229,895**	**-0-**	**12,188,843**
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES	**$ 12,765,822**	**$ 3,229,895**	**$ -0-**	**$ 15,995,717**

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET POSITION
June 30, 2013

Total Fund Balances - Governmental Funds	$ 12,188,843
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 $75,999,736 and the accumulated depreciation is $28,735,631.	47,264,105
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	648,818
Property taxes receivable are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	474,049
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities and related accounts at year end consist of:	
Bonds Payable	(27,945,000)
Accrued Interest on Long-Term Debt	(133,896)
Loss on Bond Refunding	909,255
Bond Premium, net of Amortization	(405,867)
Bond Insurance Costs, net of Amortization	76,721
Accrued Retirement Bonuses	(474,446)
Compensated Absences	(683,585)
Other Postemployment Benefits	(183,143)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	**$ 31,735,854**

See notes to financial statements.

Pequea Valley School District

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

Year Ended June 30, 2013

	Major Funds			
REVENUES	**General Fund**	**Capital Project**	**Debt Service**	**Total Governmental Funds**
Local Sources:				
Real Estate Taxes	$ 20,339,418	$ -0-	$ -0-	$ 20,339,418
Other Taxes	2,393,594	-0-	-0-	2,393,594
Investment Earnings	43,429	20,198	-0-	63,627
Other Revenue	188,938	-0-	-0-	188,938
Total Local Sources	22,965,379	20,198	-0-	22,985,577
State Sources	6,203,429	-0-	-0-	6,203,429
Federal Sources	2,020,424	-0-	-0-	2,020,424
Total Revenues	**31,189,232**	**20,198**	**-0-**	**31,209,430**
EXPENDITURES				
Instructional Services	15,127,719	-0-	-0-	15,127,719
Support Services	9,873,097	81,767	-0-	9,954,864
Noninstructional Services	680,399	-0-	-0-	680,399
Capital Outlay	-0-	77,131	-0-	77,131
Debt Service	-0-	-0-	4,138,498	4,138,498
Bond Issuance Costs	-0-	-0-	198,561	198,561
Refund of Prior Years' Revenues	2,541	-0-	-0-	2,541
Total Expenditures	**25,683,756**	**158,898**	**4,337,059**	**30,179,713**
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	**5,505,476**	**(138,700)**	**(4,337,059)**	**1,029,717**
OTHER FINANCING SOURCES (USES)				
Proceeds of Refunding Debt	-0-	-0-	16,335,000	16,335,000
Bond Premium on Refunding Bonds	-0-	-0-	200,631	200,631
Payment to Refunded Bond Escrow Agent	-0-	-0-	(16,337,070)	(16,337,070)
Proceeds from Sale of Capital Assets	18,543	-0-	-0-	18,543
Debt Service Fund Transfer	(4,138,498)	-0-	4,138,498	-0-
Net Other Financing Sources (Uses)	**(4,119,955)**	**-0-**	**4,337,059**	**217,104**
NET CHANGES in FUND BALANCES	**1,385,521**	**(138,700)**	**-0-**	**1,246,821**
FUND BALANCES				
Beginning	7,573,427	3,368,595	-0-	10,942,022
Ending	**$ 8,958,948**	**$ 3,229,895**	**$ -0-**	**$ 12,188,843**

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, 2013

Net Changes in Fund Balances - Total Governmental Funds		$ 1,246,821
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	(2,609,221)	
Capital Outlays	834,949	(1,774,272)
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 increased by this amount this year.		25,632
The issuance of long-term debt obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt obligations and related items.		(15,581,016)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		18,075,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.		$ 256,637

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, 2013

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.	$ (21,326)
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.	76,789
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.	9,406
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.	(8,874)
CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES	**$ 2,304,797**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION -
PROPRIETARY FUNDS
Year Ended June 30, 2013

	Enterprise Funds	
	Food Service	**Internal Service Funds**
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 221,617	$ -0-
Investments	15,097	1,098,502
Due from Other Governments	12,673	-0-
Inventories	30,751	-0-
Other Current Assets	1,877	-0-
Total Current Assets	**282,015**	**1,098,502**
Noncurrent Assets		
Machinery and Equipment, net of Accumulated Depreciation	**276,886**	**-0-**
TOTAL ASSETS	**558,901**	**1,098,502**
LIABILITIES		
Current Liabilities		
Due to Other Funds	8,443	-0-
Due to Other Governments	3,515	-0-
Other Current Liabilities	-0-	449,684
Unearned Revenue	7,381	-0-
TOTAL LIABILITIES	**19,339**	**449,684**
NET POSITION		
Invested in Capital Assets, net of Related Debt	276,886	-0-
Unrestricted	262,676	648,818
TOTAL NET POSITION	**$ 539,562**	**$ 648,818**

See notes to financial statements.

Pequea Valley School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
PROPRIETARY FUNDS
Year Ended June 30, 2013

	Enterprise Funds	
	Food Service	**Internal Service Funds**
OPERATING REVENUES		
Food Service Revenue	$ 328,087	$ -0-
Charges for Services	-0-	2,769,688
Total Operating Revenues	**328,087**	**2,769,688**
OPERATING EXPENSES		
Salaries	261,666	-0-
Employee Benefits	111,824	2,795,200
Purchased Professional and Technical Services	46,524	-0-
Other Purchased Services	25,996	-0-
Supplies	327,735	-0-
Depreciation	43,940	-0-
Total Operating Expenses	**817,685**	**2,795,200**
OPERATING LOSS	**(489,598)**	**(25,512)**
NONOPERATING REVENUES		
Investment Earnings	445	16,638
State Sources	49,619	-0-
Federal Sources	380,229	-0-
Net Nonoperating Revenues	**430,293**	**16,638**
CHANGES in NET POSITION	**(59,305)**	**(8,874)**
NET POSITION		
Beginning	598,867	657,692
Ending	**$ 539,562**	**$ 648,818**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2013

	Enterprise Funds	
	Food Service	Internal Service Funds
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	$ 326,968	$ -0-
Cash Received from Assessments Made to Other Funds	-0-	2,769,688
Cash Payments to Employees for Services	(404,167)	-0-
Cash Payments to Suppliers for Goods and Services	(368,757)	(2,769,688)
Net Cash Used by Operating Activities	**(445,956)**	**-0-**
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
State Sources	53,242	-0-
Federal Sources	388,724	-0-
Net Cash Provided by Noncapital Financing Activities	**441,966**	**-0-**
CASH FLOWS from INVESTING ACTIVITIES		
Investment Earnings	445	16,638
Purchase of Investments	(1)	(16,638)
Net Cash Provided by Investing Activities	**444**	**-0-**
DECREASE in CASH and CASH EQUIVALENTS	**(3,546)**	**-0-**
CASH and CASH EQUIVALENTS		
Beginning of Year	225,163	-0-
End of Year	**$ 221,617**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
(Continued)
Year Ended June 30, 2013

	Enterprise Funds	
	Food Service	Internal Service Funds
RECONCILIATION of OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES		
Operating Loss	**$ (489,598)**	**$ (25,512)**
ADJUSTMENTS to RECONCILE OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES		
Depreciation	43,940	-0-
Donated Commodities Used	24,699	-0-
Decrease in Inventory	8,972	-0-
Increase in Other Current Assets	(1,655)	-0-
Decrease (Increase) in Accounts Payable	(518)	25,512
Decrease in Interfund Payable	(30,677)	-0-
Decrease in Unearned Revenue	(1,119)	-0-
Total Adjustments	**43,642**	**25,512**
Net Cash Used by Operating Activities	**$ (445,956)**	**$ -0-**
SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION		
NONCASH FLOWS from NONCAPITAL and RELATED FINANCING ACTIVITIES		
Receipt and use of USDA Donated Commodities	24,699	-0-

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION -
FIDUCIARY FUNDS
June 30, 2013

	Private Purpose Trust	Agency Fund
ASSETS		
Cash and Cash Equivalents	$ -0-	$ 18,002
Other Receivables	-0-	142
Investments	105,397	47,504
TOTAL ASSETS	**105,397**	**65,648**
LIABILITIES		
Accounts Payable	-0-	3,921
Due to Other Funds	100	5,162
Other Current Liabilities	409	56,510
Interest Payable	-0-	55
TOTAL LIABILITIES	**509**	**65,648**
NET POSITION		
Restricted for Scholarships	**$ 104,888**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CHANGES in NET POSITION -
FIDUCIARY FUNDS
Year Ended June 30, 2013

	Private Purpose Trust
ADDITIONS	
Investment Earnings	$ 81
Gifts and Contributions	493
Total Additions	**574**
DEDUCTIONS	
Scholarships Awarded	**508**
CHANGES in NET POSITION	**66**
NET POSITION	
Beginning	104,822
Ending	**$ 104,888**

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 three 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 (GASB), *The Financial Reporting Entity*, 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. 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)

Reporting Entity (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, 2013, was approximately $466,184. 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 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 12. 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, 2013. 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, 2013, was approximately $439,000. 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)

Reporting Entity (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, 2013, was $38,967 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.

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, 2013, which are not intended to finance fiscal 2013 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 is 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 revenues 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, 2013, 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. The School District generally capitalizes assets with a cost of $5,000 or more as purchase and construction outlays occur. 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, 2013, 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, 2013, 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 special items for the fiscal year 2013.

Current Year Changes in Accounting Principles
During the current year, the School District adopted GASB Statement No. 61, *The Financial Reporting Entity*. The objective of this statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The implementation of the statement did not result in a change of the School District's reporting entity.

During the current year, the School District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The most significant change is the relabeling of net assets as net position throughout the School District's financial statements.

During the current year, the School District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for the School District's June 30, 2014 financial statements, but the School District elected to early-implement the standard as permitted.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Year Changes in Accounting Principles (Continued)
The significant effects are as follows: (1) the School District's unamortized deferred bond issuance costs as of June 30, 2012 were written off in a beginning balance restatement of the governmental activities, (2) the School District's loss on bond refundings has been reclassified to a deferred outflow of resources of the governmental activities, and (3) the general fund's delinquent real estate deferred revenue is now presented as a deferred inflow of resources in that fund.

Pending Changes in Accounting Principles
In March 2012, GASB issued 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*. The provisions of this statement are effective for the School District's June 30, 2014 financial statements.

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 April 2013, GASB issued 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 provisions of this statement are effective for the School District's June 30, 2014 financial statements.

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

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

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

> Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

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

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

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

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk although the public school code requires that all deposits of the School District which are not insured are collateralized by the depository institution. As of June 30, 2013, $10,766,726 of the School District's bank balance of $12,976,726 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	10,766,726
	10,766,726

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	10,766,726
Insured Amount	2,210,000
Bank Balance	12,976,726
Outstanding Checks	(131,271)
Carrying Amount - Bank Balances	12,845,455
Petty Cash	1,450
Certificates of Deposit Classified as Investments on the Balance Sheet	(10,147,000)
Total Cash and Cash Equivalents Per Financial Statements	**2,699,905**

Investments

As of June 30, 2013, the School District had the following investments:

Investments	Maturity	Fair Value
PA School District Liquid Asset Fund - Max Series		2,100,945
PA School District Liquid Asset Fund - Certificates of Deposit	0 - 12 Months	10,147,000
		12,247,945

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.

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

Credit Risk
The School District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2013, the School District investments were rated as:

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

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

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

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

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, 2013, was 16.89 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2013, 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, 2013, are as follows:

	Taxes Receivable	Estimated Uncollectable	Net Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	634,487	-0-	634,487	160,438	474,049
Realty Transfer Taxes	24,152	-0-	24,152	24,152	-0-
Earned Income Taxes	248,788	-0-	248,788	248,788	-0-
	907,427	**-0-**	**907,427**	**433,378**	**474,049**

NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2013, the following amounts are due from other governmental units:

Due From	General Fund	Enterprise Fund	Total
Federal Grants	900,026	12,113	912,139
State Match for Lunch Program	-0-	560	560
State Retirement Subsidy	244,729	-0-	244,729
State Social Security Subsidy	34,129	-0-	34,129
Other State Subsidies	63,279	-0-	63,279
Due from Intermediate Unit	142,966	-0-	142,966
Local	41,139	-0-	41,139
	1,426,268	**12,673**	**1,438,941**

NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2013, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	13,705	-0-
Enterprise Fund - Food Service	-0-	8,443
Scholarship Fund	-0-	100
Student Activity Fund	-0-	5,162
	13,705	**13,705**

The general fund has interfund receivables that represent other fund expenses that were paid for by the general fund.

NOTE 6 - INTERFUND ACCOUNTS (Continued)

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

Interfund transfers for the year ended June 30, 2013, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	4,138,498
Debt Service Fund	4,138,498	-0-
	4,138,498	**4,138,498**

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, 2013, is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Historical Cost:				
Capital Assets not Being Depreciated:				
Construction in Progress	-0-	-0-	-0-	-0-
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	65,837,504	77,131	-0-	65,914,635
Furniture and Equipment	5,779,243	757,818	-0-	6,537,061
Vehicles	179,419	-0-	-0-	179,419
Total Cost	**74,548,143**	**834,949**	**-0-**	**75,383,092**

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Accumulated Depreciation:				
Site Improvements	1,605,315	102,473	-0-	1,707,788
Building and Building Improvements	21,323,736	1,689,235	-0-	23,012,971
Furniture and Equipment	3,090,258	807,269	-0-	3,897,527
Vehicles	107,101	10,244	-0-	117,345
Total Accumulated Depreciation	**26,126,410**	**2,609,221**	**-0-**	**28,735,631**
Net Capital Assets Being Depreciated	**48,421,733**	**(1,774,272)**	**-0-**	**46,647,461**
Net Capital Assets	**49,038,377**	**(1,774,272)**	**-0-**	**47,264,105**

Capital asset activity for business-type activities for the year ended June 30, 2013, is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	800,197	-0-	-0-	800,197
Accumulated Depreciation:				
Equipment	479,371	43,940	-0-	523,311
Net Capital Assets	**320,826**	**(43,940)**	**-0-**	**276,886**

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	2,122,581
Instructional Student Support	245,856
Administration and Financial Support Services	185,246
Operation and Maintenance of Plant Services	55,538
	2,609,221

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, 2013, the School District was liable for $2,113,628 of payroll, payable during July and August 2013, 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, 2013, 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 $7,381 as of June 30, 2013.

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, 2013 was $4,025,000.

On June 29, 2009, the School District issued General Obligation Note Series of 2009 in the amount of $2,305,000. The proceeds were used to (1) refund the Series of 2002 General Obligation Bonds, and (2) pay the costs and expenses of issuing the note. The bond was paid in full during the year ended June 30, 2013.

In April 2010, the School District issued General Obligation Bond Series A of 2010 and Series B of 2010 in the amounts of $11,580,000 and $4,000,000, respectively. 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, 2013 was $7,585,000 due in various amounts from May 2013 through May 2021. The proceeds of the General Obligation Bonds, Series B of 2010, were used to provide funds to (1) finance various capital improvement projects of the School District, and (2) pay the costs and expenses of issuing the bonds. Series B of 2010 was fully refunded with the issuance of General Obligation Bonds Series A of 2013.

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, 2013 was $9,730,000 due in various amounts from February 2014 through February 2021.

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

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, 2013 was $6,605,000 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, 2013, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2013	Due Within One Year
Series of 2006	2/01/2020	3.50% - 4.75%	4,025,000	1,970,000
Series A of 2010	5/15/2021	1.00% - 4.00%	7,585,000	1,075,000
Series A of 2013	2/01/2021	.45% - 4.00%	9,730,000	5,000
Series B of 2013	2/01/2018	.60% - 1.76%	6,605,000	75,000

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
General Obligation Debt	29,685,000	16,335,000	18,075,000	27,945,000
Bond Premium	261,821	200,631	56,585	405,867
Loss on Bond Refunding	-0-	(909,255)	-0-	(909,255)
Accrued Retirement Bonuses	551,235	-0-	76,789	474,446
Estimated Liability for Compensated Absences	662,259	21,326	-0-	683,585
Estimated Liability for Other Postemployment Benefits	192,549	-0-	9,406	183,143
	31,352,864	**15,647,702**	**18,217,780**	**28,782,786**

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

	Interest	Principal	Total
2014	624,024	3,125,000	3,749,024
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 - 2021	442,110	10,460,000	10,902,110
	2,883,926	**27,945,000**	**30,828,926**

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 - DEFEASED DEBT

On June 20, 2013, the School District issued General Obligation Bonds Series of 2013 A with an issuance price of $9,730,000, with interest rates ranging from .45% to 4.00%. The School District issued the bonds to advance refund $5,120,000 of the General Obligation Bonds, Series of 2006, with interest rates ranging from 3.50% to 4.75%, and $3,985,000 of the General Obligation Bonds, Series B of 2010, with interest rates ranging from 1.00% to 3.60%. The School District used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the Series of 2006 and Series B of 2010 Bonds. As a result, the portions of the Series of 2006 and Series B of 2010 Bonds are considered defeased, and the School District has removed the liability from its accounts. The outstanding principal of the defeased bonds at June 30, 2013 is $9,105,000.

As a result of the advance refunding, the School District reduced its total debt service requirement of the General Obligation Bonds Series of 2006 and General Obligation Bonds Series B of 2010 by $580,600, which resulted in an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of $547,467.

On June 20, 2013 the School District issued General Obligation Bonds Series of 2013 B with an issuance price of $6,605,000, with interest rates ranging from .60% to 1.76%. The School District issued the bonds to advance refund $6,015,000 of the General Obligation Bonds, Series of 2006, with interest rates ranging from 3.50% and 4.75%. The School District used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the Series of 2006 Bonds. As a result, the portion of the Series of 2006 Bonds is considered defeased, and the School District has removed the liability from its accounts. The outstanding principal of the defeased bonds at June 30, 2013 is $6,015,000.

As a result of the advance refunding, the School District reduced its total debt service requirement of the General Obligation Bonds Series of 2006 by $132,665, which resulted in an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of $134,235.

The balance of defeased debt outstanding at June 30, 2013 was $15,710,000.

NOTE 12 - 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 the Brownstown, Mount Joy, and Willow Street campuses of the Lancaster County Career and Technology Center (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 costs of issuing the bonds. The LCCTC and the sixteen member schools have entered into a lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to fund the debt based on real estate market values as set forth in the LCCTC organization agreement. Although the resolution provided for an amount not to exceed $43,000,000, it is currently anticipated that the aggregate amount borrowed will be between $21,000,000 and $30,000,000. The bonds are issued in three different series over three years. The amount of each series will not exceed $10,000,000 without the member schools' approval. The bonds are intended to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed $1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of $1,330,000.

NOTE 12 - 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.

Subsequent to June 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.

The School District's lease rental obligation for future minimum rental payments related to the issued debt and its potential exposure if the full principal amount of $43,000,000 were to be issued are as follows:

Fiscal Year Ended June 30,	Currently Issued Bonds $9,995,000 Future Minimum Rental Payments	Maximum Bonds Outstanding $43,000,000 Maximum Potential for Future Minimum Rental Payments
2014	22,916	171,159
2015	22,810	165,543
2016	22,896	161,729
2017	22,970	159,190
2018	22,820	156,792
2019 - 2023	114,493	750,605
2024 - 2028	114,658	698,338
2029 - 2033	114,406	636,604
2034 - 2037	91,797	410,100
	549,766	**3,310,060**

NOTE 13 - COMPENSATED ABSENCES

A summary of the amount recorded as a liability in the governmental activities for compensated absences is as follows as of June 30, 2013:

Accumulated Sick Days	552,056
Accumulated Vacation Days	89,319
Accumulated Personal Days	32,863
Employer Social Security and Medicare on Amounts Above	9,347
	683,585

NOTE 14 - 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 $474,446 at June 30, 2013.

NOTE 15 - 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 publicly available financial report that includes general purpose financial statements for the plan. That report may be obtained by writing to PSERS, P. O. Box 125, Harrisburg, PA 17108-0125.

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, 2013, the rate of employer contribution was 12.36% of covered payroll. The 12.36% rate is comprised of a pension contribution rate of 11.50% for pension benefits and 0.86% 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, 2013, 2012, and 2011, were $1,441,753, $1,035,012, and $659,392, respectively. Those amounts are equal to the required contribution for each year.

NOTE 16 - RISK MANAGEMENT

Hospitalization
The School District is participating in the insurance consortium with the Lancaster-Lebanon Intermediate Unit (the LLIU) to provide for the medical care for eligible employees and their dependents. The School District remits funds to the LLIU. The LLIU deposits the funds into the School District trust account to be held for the benefits described above, and CoreSource, Inc., the plan administrator, upon receiving funds from the trust account, processes and pays the claims. The School District also contracts with Health America, a claims administrator, to process and pay claims. The School District is limited in liability for claims to $70,000 per individual and $3,728,290 in total per year.

A liability for claims incurred prior to June 30, 2013, and subsequently paid is recorded in the amount of $449,684 in other current liabilities in the internal service fund.

Changes in the School District's claims liability amount in fiscal years 2013 and 2012 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2012 - 2013	424,172	2,795,200	2,769,688	449,684
2011 - 2012	147,322	3,513,400	3,236,550	424,172

Workers' Compensation
The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation 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 re-insurance 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, 2013, 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, 2013, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 17 - 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 the implementation of GASB Statement No. 45, the financial statements reflect a long-term liability of $183,143 for other postemployment benefits.

The School District maintains a single employer defined benefit plan to provide postemployment healthcare 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	8,665
Adjustment to Annual Required Contribution	(18,835)
Annual OPEB Cost	332,235
Estimated Contributions Made	(341,641)
Increase in Net OPEB Obligation	(9,406)
Net OPEB Obligation - Beginning of Year	192,549
Net OPEB Obligation - End of Year	**183,143**

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013, 2012 and 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation-End of Year
6/30/2013	332,235	103%	183,143
6/30/2012	132,614	70%	192,459
6/30/2011	133,409	64%	153,220

NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES (Continued)

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%.

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 healthcare 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 RSI 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 18 - 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, 2013, the School District has included the following as committed fund balances:

General Fund - Committed to offset Future Retirement Contributions	5,300,000

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	1,300,000
Capital Project Fund - Assigned for Capital Outlays	3,229,895

NOTE 19 - CONTINGENCIES and COMMITMENTS

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

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

NOTE 20 - CHANGE in ACCOUNTING PRINCIPLE

As part of the implementation of GASB 65, the School District restated the beginning net position of the governmental activities.

In prior years, the School District capitalized bond issuance costs and amortized them over the life of the bond issue. GASB 65 requires that bond issuance costs, other than prepaid bond insurance, be expensed when incurred. Bond issuance costs of $310,432 were written off in a prior period restatement as of July 1, 2012.

Pequea Valley School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
Year Ended June 30, 2013

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Local Sources:				
Real Estate Taxes	$ 20,031,615	$ 20,031,615	$ 20,339,418	$ 307,803
Other Taxes	1,775,506	1,775,506	2,393,594	618,088
Investment Earnings	45,000	45,000	43,429	(1,571)
Other Revenue	536,600	536,600	188,938	(347,662)
Total Local Sources	22,388,721	22,388,721	22,965,379	576,658
State Sources	6,296,604	6,296,604	6,203,429	(93,175)
Federal Sources	1,578,488	1,578,488	2,020,424	441,936
Total Revenues	**30,263,813**	**30,263,813**	**31,189,232**	**925,419**
EXPENDITURES				
Instructional Services:				
Regular Programs	11,316,380	11,316,380	11,167,960	148,420
Special Programs	3,450,724	3,450,724	3,184,200	266,524
Vocational Programs	719,064	719,064	651,750	67,314
Other Instructional Programs	102,114	102,114	123,809	(21,695)
Total Instructional Services	**15,588,282**	**15,588,282**	**15,127,719**	**460,563**
Support Services:				
Pupil Personnel Services	707,518	707,518	792,289	(84,771)
Instructional Staff Services	1,925,985	1,925,985	1,883,021	42,964
Administrative Services	1,622,582	1,622,582	1,655,794	(33,212)
Pupil Health	263,201	263,201	247,977	15,224
Business Services	599,021	599,021	510,965	88,056
Operation of Plant and Maintenance Services	2,607,543	2,607,543	2,628,144	(20,601)
Student Transportation Services	2,115,482	2,115,482	1,853,985	261,497
Central and Other Business Services	238,369	238,369	300,922	(62,553)
Other Support Services	25,500	25,500	-0-	25,500
Total Support Services	**10,105,201**	**10,105,201**	**9,873,097**	**232,104**
Noninstructional Services:				
Student Activities	597,269	597,269	651,434	(54,165)
Community Services	20,098	20,098	28,965	(8,867)
Total Noninstructional Services	**617,367**	**617,367**	**680,399**	**(63,032)**
Refund of Prior Year Revenues	**-0-**	**-0-**	**2,541**	**(2,541)**
Total Expenditures	**26,310,850**	**26,310,850**	**25,683,756**	**627,094**
OTHER FINANCING SOURCES (USES)				
Debt Service Fund Transfer	(4,146,423)	(4,146,423)	(4,138,498)	7,925
Proceeds from Sale of Capital Assets	-0-	-0-	18,543	18,543
Budgetary Reserve	(400,000)	-0-	-0-	-0-
Net Other Financing Uses	**(4,546,423)**	**(4,146,423)**	**(4,119,955)**	**26,468**
NET CHANGES in FUND BALANCES	**$ (593,460)**	**$ (193,460)**	**1,385,521**	**$ 1,578,981**
FUND BALANCES				
Beginning			7,573,427	
Ending			**$ 8,958,948**	

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, 2013.

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 EXPENDITURES of FEDERAL AWARDS

Year Ended June 30, 2013

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, 2012	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2013
U.S. Department of Agriculture									
Passed Through the Pennsylvania Department of Education:									
School Breakfast Program (Note 2)	I	10.553	N/A	07/01/12 - 06/30/13	N/A	$ -0-	$ 59,315	$ 61,164	$ 1,849
School Breakfast Program (Note 2)	I	10.553	N/A	07/01/11 - 06/30/12	N/A	8,604	8,604	-0-	-0-
National School Lunch Program (Note 2)	I	10.555	N/A	07/01/12 - 06/30/13	N/A	-0-	284,102	294,366	10,264
National School Lunch Program (Note 2)	I	10.555	N/A	07/01/11 - 06/30/12	N/A	40,138	40,138	-0-	-0-
Total Passed Through the Pennsylvania Department of Education						**48,742**	**392,159**	**355,530**	**12,113**
Passed Through the Pennsylvania Department of Agriculture:									
National School Lunch Program (Notes 2 and 3)	I	10.555	N/A	07/01/12 - 06/30/13	N/A	**-0-**	**24,699**	**24,699**	**-0-**
Total U.S. Department of Agriculture						**48,742**	**416,858**	**380,229**	**12,113**
U.S. Department of Education									
Passed Through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies (Note 2)	I	84.010	13-130332	08/13/12 - 09/30/13	1,370,219	-0-	602,489	1,167,340	564,851
Title I Grants to Local Educational Agencies (Note 2)	I	84.010	13-120332	09/19/11 - 09/30/12	969,712	228,399	428,880	200,481	-0-
Title I Grants to Local Educational Agencies (Note 2)	I	84.010	042-110332	03/01/11 - 09/30/12	56,180	(4,819)	5,914	10,733	-0-
Improving Teacher Quality State Grants	I	84.367	020-130332	08/13/12 - 09/30/13	170,758	-0-	110,377	140,511	30,134
Improving Teacher Quality State Grants	I	84.367	020-120332	09/19/11 - 09/30/12	164,668	$ 5,600	$ 38,283	$ 31,459	$ (1,224)

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2013

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, 2012	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2013
U.S. Department of Education (Continued)									
Passed Through the Pennsylvania Department of Education (Continued):									
Rural and Low Income Schools	I	84.358	007-130332	01/04/13 - 09/30/13	34,342	$ -0-	$ 15,263	$ 21,326	$ 6,063
Education Jobs Fund	I	84.410	140-120332	07/01/11 - 06/30/12	2,716	2,716	2,716	-0-	-0-
Total Passed Through the Pennsylvania Department of Education						**231,896**	**1,203,922**	**1,571,850**	**599,824**
Passed Through Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States (Note 2)	I	84.027	062-120013	07/01/12 - 09/30/13	368,747	-0-	68,545	368,747	300,202
Special Education - Grants to States (Note 2)	I	84.027	062-120013	07/01/11 - 09/30/12	369,264	299,119	299,119	-0-	-0-
Special Education - Preschool Grants (Note 2)	I	84.173	131-110013	07/01/12 - 06/30/13	1,219	-0-	-0-	1,219	1,219
Special Education - Preschool Grants (Note 2)	I	84.173	131-110013	07/01/11 - 06/30/12	2,428	2,428	2,428	-0-	-0-
Total Passed Through Lancaster-Lebanon Intermediate Unit #13						**301,547**	**370,092**	**369,966**	**301,421**
Total U.S. Department of Education						**533,443**	**1,574,014**	**1,941,816**	**901,245**
TOTAL EXPENDITURES of FEDERAL AWARDS						**$ 582,185**	**$ 1,990,872**	**$ 2,322,045**	**$ 913,358**

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, 2013

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 - CLUSTER IDENTIFICATION

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

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

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

NOTE 4 - 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, 2013 was $24,159 which is listed on the PDE confirmation as program #044-007332.

See independent auditors' report.

TROUT, EBERSOLE & GROFF LLP
CPAs | BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT on INTERNAL CONTROL over FINANCIAL REPORTING and on COMPLIANCE and OTHER MATTERS BASED on an AUDIT of FINANCIAL STATEMENTS PERFORMED in ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Pequea Valley School District**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise **Pequea Valley School District's** basic financial statements and have issued our report thereon dated December 3, 2013.

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 significant deficiency and material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2013-1 and #2013-2 to be material weaknesses.

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 item #2013-3 to be a significant deficiency.

Compliance and Other Matters

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

Pequea Valley School District's Response to Findings

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

Purpose of this Report

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

Trout, Ebersole + Groff, LLP

December 3, 2013
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, 2013. **Pequea Valley School District's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with 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 #2013-4 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, 2013.

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, 2013.

Other Matters
The results of our auditing procedures disclosed another instance 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 #2013-5. Our opinion on each major program is not modified with respect to these matters.

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 #2013-4 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 #2013-5 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

December 3, 2013
Lancaster, Pennsylvania

TROUT, EBERSOLE, & GROFF, LLP
Certified Public Accountants

Pequea Valley School District

SCHEDULE of FINDINGS and QUESTIONED COSTS

Year Ended June 30, 2013

A. Summary of Auditors' Results

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

2. Two material weaknesses and one significant deficiency 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 and Improving Teacher Quality State Grants - CFDA #84.367.

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

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

B. Findings - Financial Statements Audit

Material Weaknesses

#2013-1 - 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 does not possess the expertise 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.

#2013-2 - Year-End Close Process

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

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

B. Findings - Financial Statements Audit (Continued)

Material Weaknesses (Continued)

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

- Adjusting food service inventory.
- Recording donated commodities received and used in the food service fund.
- Adjusting fringe benefit expenses for the food service fund.
- Recording depreciation expense for the food service fund.
- Recording of current year debt service activity.
- Recording of 2013 Series A & B bond issuance in the debt service fund.
- Internal service fund activity was not recorded throughout the fiscal year. Amounts were proposed for adjustment based on activity relating to the health care fund at year end.

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

Recommendation: The School District should reevaluate the year-end close process. Although significant improvements have been made throughout the year, including calculating and recording taxes receivable and federal and intergovernmental receivables, the School District should continue to focus on closing the fiscal year accounts, which includes recording as many accrual basis adjustments as possible, within 60 days of year-end. Additionally, the School District should require a second level of management review for all year-end adjusting entries that are posted to the system.

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

Significant Deficiency

#2013-3 - Capital Assets

Criteria: Capital assets placed in service during the fiscal year should be recorded prior to the start of the year-end audit. The calculated useful life of assets should be determined at the time of entry and depreciation expense should be reviewed.

Statement of Condition: The depreciation expense calculation errors identified on five fiscal year 2012 additions during prior year's audit (correctly reported in the financial statements) were not corrected by the School District within the capital asset software. As such, the system incorrectly calculated the current year depreciation expense on the same five assets.

Cause and Effect: The School District had not updated the capital asset records for all assets placed in service throughout the 2013 fiscal year prior to the start of the year-end audit. Once the capital asset additions were entered into the software, depreciation expense was automatically calculated. Based upon audit procedures performed, it was determined that depreciation expense calculation errors occurred. The School District evaluated this issue and determined that the impact was an understatement of depreciation expense. This adjustment has been reflected in the financial statements.

B. Findings - Financial Statements Audit (Continued)

Significant Deficiencies (Continued)

Recommendation: The School District should be recording capital asset additions on a regular basis throughout the fiscal year. Additionally, School District should work with the capital asset software vendor to resolve the existing depreciation calculation issue on these five assets. Implementation of a second level review of the recordation of new assets in the capital asset software system could determine that appropriate estimated useful lives have been applied and proactively identify any issues. On an annual basis, the School District should review the accumulated depreciation report to determine that the software system is appropriately depreciating capital assets based upon the estimated useful lives established at the time the asset is recorded.

School District's Response: The School District should record capital asset additions on a regular basis. A procedure is being developed to insure this timely booking. Additionally, capital assets will be tied back to financial statements.

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

Compliance Finding and Material Weakness

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

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 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.

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: $577 x 207 students = $119,408

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.

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

Compliance Finding and Material Weakness (Continued)

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. The School District will monitor the demographics of low-income students on a regular basis and distribute funds accordingly. Additionally, District office staff will be meeting with the Regional Coordinator for the Division of Federal Programs at the Pennsylvania Department of Education for guidance on reallocation of funds.

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

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 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

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**:** The School District transitioned responsibilities of Federal Programs between staff members and in the transition a miscommunication occurred which resulted in reports not being filed timely. Procedures are being developed to ensure reports are being filed timely.

Material Weakness

DEPARTMENT of EDUCATION
#2012-04 - Improving Teacher Quality State Grants - CFDA #84.367, Year Ended June 30, 2012

The School District obligated federal funds in advance of the approved grant beginning date of September 19, 2011. When this error was discovered during the audit, the School District made journal entries to remove these charges from the grant program.

Recommendation - We recommend that the School District follow established procedures to ensure that federal funds are obligated only after the grant is officially approved.

Current Status - The School District correctly demonstrated in the current year that the School District is following the established procedures to ensure that federal funds are obligated only after the grant is officially approved.

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www.pequeavalley.org

Corrective Action Plan
December 3, 2013

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, 2013.

Name and address of independent public accounting firm:

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

Audit period: July 1, 2012 through June 30, 2013

The findings from the June 30, 2013, schedule of findings and questioned costs are discussed below. The findings are numbered consistent with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

#2013-1 - 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 does not possess the expertise 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.

#2013-2 - Year-End Close Process

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

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

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

- Adjusting food service inventory.
- Recording donated commodities received and used in the food service fund.
- Adjusting fringe benefit expenses for the food service fund.
- Recording depreciation expense for the food service fund.
- Recording of current year debt service activity.
- Recording of 2013 Series A & B bond issuance in the debt service fund.
- Internal service fund activity was not recorded throughout the fiscal year. Amounts were proposed for adjustment based on activity relating to the health care fund at year end.

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

Recommendation: The School District should reevaluate the year-end close process. Although significant improvements have been made throughout the year, including calculating and recording taxes receivable and federal and intergovernmental receivables, the School District should continue to focus on closing the fiscal year accounts, which includes recording as many accrual basis adjustments as possible, within 60 days of year-end. Additionally, the School District should require a second level of management review for all year-end adjusting entries that are posted to the system.

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

SIGNIFICANT DEFICIENCY

#2013-3 - Capital Assets

Criteria: Capital assets placed in service during the fiscal year should be recorded prior to the start of the year-end audit. The calculated useful life of assets should be determined at the time of entry and depreciation expense should be reviewed.

Statement of Condition: The depreciation expense calculation errors identified on five fiscal year 2012 additions during prior year's audit (correctly reported in the financial statements) were not corrected by the School District within the capital asset software. As such, the system incorrectly calculated the current year depreciation expense on the same five assets.

Cause and Effect: The School District had not updated the capital asset records for all assets placed in service throughout the 2013 fiscal year prior to the start of the year-end audit. Once the capital asset additions were entered into the software, depreciation expense was automatically calculated. Based upon audit procedures performed, it was determined that depreciation expense calculation errors occurred. The School District evaluated this issue and determined that the impact was an understatement of depreciation expense. This adjustment has been reflected in the financial statements.

Recommendation: The School District should be recording capital asset additions on a regular basis throughout the fiscal year. Additionally, School District should work with the capital asset software vendor to resolve the existing depreciation calculation issue on these five assets. Implementation of a second level review of the recordation of new assets in the capital asset software system could determine that appropriate estimated useful lives have been applied and proactively identify any issues. On an annual basis, the School District should review the accumulated depreciation report to determine that the software system is appropriately depreciating capital assets based upon the estimated useful lives established at the time the asset is recorded.

School District's Response: The School District should record capital asset additions on a regular basis. A procedure is being developed to insure this timely booking. Additionally, capital assets will be tied back to financial statements.

COMPLIANCE FINDING AND MATERIAL WEAKNESS

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

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 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.

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: $577 x 207 students = $119,408

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. The School District will monitor the demographics of low-income students on a regular basis and distribute funds accordingly. Additionally, District office staff will be meeting with the Regional Coordinator for the Division of Federal Programs at the Pennsylvania Department of Education for guidance on reallocation of funds.

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

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 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

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: The School District transitioned responsibilities of Federal Programs between staff members and in the transition a miscommunication occurred which resulted in reports not being filed timely. Procedures are being developed 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
Business Administrator
Pequea Valley School District