PEQUEA VALLEY
SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2010

Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2010

TABLE of CONTENTS

	Page
Independent Auditors' Report	1 & 2
Supplementary Information	
Management's Discussion and Analysis	3 - 14
Financial Statements	
Statement of Net Assets	15 & 16
Statement of Activities	17 & 18
Balance Sheet - Governmental Funds	19 & 20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	23 & 24
Statement of Net Assets - Proprietary Funds	25
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	26
Statement of Cash Flows - Proprietary Funds	27 & 28
Statement of Net Assets - Fiduciary Funds	29
Statement of Changes in Net Assets - Fiduciary Funds	30
Notes to Financial Statements	31 - 55

Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2010

TABLE of CONTENTS
(Continued)

	Page
Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	56 & 57
Notes to Required Supplementary Information	58
Schedule of Expenditures of Federal Awards	59 - 61
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	62 & 63
Independent Auditors' Report on Compliance with Requirements that Could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	64 & 65
Schedule of Findings and Questioned Costs	66 - 71
Summary Schedule of Prior Audit Findings	72
Corrective Action Plan	73 - 77

TROUT, EBERSOLE & GROFF LLP
CPAs | BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Pequea Valley School District's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2010, 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 with the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 56 and 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise **Pequea Valley School District's** basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Trout, Ebersole + Groff, LLP

November 23, 2010
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, 2010. 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 transmittal letter, 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 for the 2009-2010 fiscal year were expected to grow by 4.1% from the previous year. At year-end, actual expenditures were $1,719,216 or 5.8% lower than budgeted. Additionally, actual revenues were $113,680 or 0.38% higher than budgeted. An explanation of these differences is below.

The 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 independent firm to estimate the amount of dollars each district should budget in order to cover all healthcare claims. For the 2009-2010 school year, the district's actual expenditures were $108,350 less than budgeted.

Expenses for utilities were approximately $310,000 less than budgeted. The School District budgeted for additional electric costs planning for anticipated rate increases in future years. Fuel oil and bottled gas were budgeted at peak rates and were not decreased when rates decreased. Additionally, some of the decrease in expenditures can be attributed to the district's energy conservation plan.

Employer retirement contributions are anticipated to increase to approximately 30% of total salaries in the next couple years. As such, a decision was made to over budget retirement contributions by $324,500 in order to mitigate the large increase in future years.

According to school policy and labor agreements, any employee who receives tuition reimbursement and/or takes professional development leave and does not return to work for a minimum of one year is required to pay back tuition and/or all benefits received respectively. This amounted to $72,885.

Due to staff turnover, curtailment of overtime, and the reduction of budgeted positions, the School District was able to reduce salary expenditures by $274,000. Additionally, the School District's actual tuition reimbursement was $48,654 less than budgeted.

The School District received $231,314 of federal stimulus funds which were used to offset one time expenditures.

The School District designated $1,500,000 of the general fund balance in order to stabilize the impending retirement rate increase. Additionally, it designated $50,000 for renovations to the high school, and $750,000 for other projects.

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.

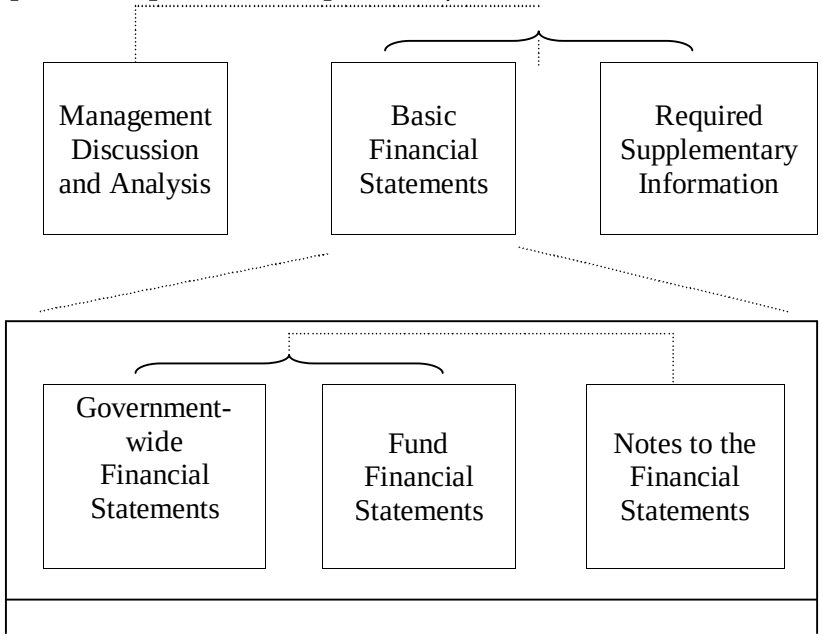
The first two statements are government-wide financial statements - the statement of net assets and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. The governmental funds statements tell how general School District services were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities that the School District operates like a business. For this School District, this is 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, to whom the resources in question belong.

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 section 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 to someone else's resources - scholarship and activity funds
Required financial statements	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows	Statement of Net Assets and Statement of Changes in Net Assets
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 assets 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 assets and how they have changed. Net assets, the difference between the School District's assets and liabilities, are one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net assets are 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 18, 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 assets 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 on 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 flows.

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. All of the School District's fiduciary activities are reported in separate statements of net assets and changes in net assets - 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 assets were $26,539,025 as of June 30, 2010.

Table A-1
Fiscal Years Ended June 30, 2010 and 2009
Net Assets

	2010			2009		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	18,066,828	249,464	18,316,292	13,319,243	220,310	13,539,553
Capital Assets	47,662,579	409,372	48,071,951	47,872,997	438,404	48,311,401
Total Assets	65,729,407	658,836	66,388,243	61,192,240	658,714	61,850,954
Current and Other Liabilities	5,538,069	10,084	5,548,153	6,022,199	11,746	6,033,945
Long-Term Liabilities	34,301,065	-0-	34,301,065	32,897,896	-0-	32,897,896
Total Liabilities	39,839,134	10,084	39,849,218	38,920,095	11,746	38,931,841
Net Assets:						
Invested in Capital Assets, net of Related Debt	11,843,702	409,372	12,253,074	13,420,265	438,404	13,858,669
Restricted	8,541	-0-	8,541	106	-0-	106
Unrestricted	14,038,030	239,380	14,277,410	8,851,774	208,564	9,060,338
Total Net Assets	25,890,273	648,752	26,539,025	22,272,145	646,968	22,919,113

Most of the School District's net assets are invested in capital assets (buildings, land, and equipment). The remaining unrestricted net assets are a combination of designated and undesignated amounts. The designated balances are amounts set aside to fund future purchases or capital projects as planned by the School District.

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 that statement and rearranges it slightly so that you can see our total revenues for the year.

Table A-2
Fiscal Years Ended June 30, 2010 and 2009
Changes in Net Assets

	2010			2009		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	200,451	478,914	679,365	278,346	537,150	815,496
Operating Grants and Contributions	5,990,026	445,505	6,435,531	5,096,753	382,208	5,478,961
Capital Grants and Contributions	331,599	-0-	331,599	462,875	-0-	462,875
General Revenues:						
Property Taxes	18,496,897	-0-	18,496,897	18,110,163	-0-	18,110,163
Other Taxes	2,153,459	-0-	2,153,459	1,850,257	-0-	1,850,257
Grants, Subsidies, and Contributions, Unrestricted	2,601,915	-0-	2,601,915	2,859,995	-0-	2,859,995
Other	132,010	553	132,563	(755,400)	294,231	(461,169)
Total Revenues	29,906,357	924,972	30,831,329	27,902,989	1,213,589	29,116,578
Expenses:						
Instructional Programs	15,086,513	-0-	15,086,513	14,899,002	-0-	14,899,002
Instructional Student Support	2,776,191	-0-	2,776,191	2,616,511	-0-	2,616,511
Administrative and Financial Support	2,511,900	-0-	2,511,900	2,765,228	-0-	2,765,228
Operation and Maintenance of Plant	2,312,346	-0-	2,312,346	2,360,334	-0-	2,360,334
Pupil Transportation	1,752,418	-0-	1,752,418	1,758,211	-0-	1,758,211
Student Activities	493,101	-0-	493,101	537,505	-0-	537,505
Community Services	15,098	-0-	15,098	12,818	-0-	12,818
Interest on Long-Term Debt	1,340,662	-0-	1,340,662	1,398,151	-0-	1,398,151
Food Services	-0-	923,188	923,188	-0-	910,518	910,518
Total Expenses	26,288,229	923,188	27,211,417	26,347,760	910,518	27,258,278
Increase (Decrease) in Net Assets	3,618,128	1,784	3,619,912	1,555,229	303,071	1,858,300

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, 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, 2010 and 2009
Governmental Activities

	2010		2009	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional Programs	15,086,513	10,604,615	14,899,002	11,237,162
Instructional Student Support	2,776,191	2,555,901	2,616,511	2,424,908
Administrative and Financial Support	2,511,900	2,301,002	2,765,228	2,548,411
Operation and Maintenance of Plant	2,312,346	2,260,727	2,360,334	2,276,943
Pupil Transportation	1,752,418	606,258	1,758,211	620,364
Student Activities	493,101	427,103	537,505	465,780
Community Services	15,098	1,484	12,818	942
Interest on Long-Term Debt	1,340,662	1,009,063	1,398,151	935,276
Total Governmental Activities	26,288,229	19,766,153	26,347,760	20,509,786
Less: Unrestricted Grants, Subsidies		(2,601,915)		(2,859,995)
Total Needs from Local Taxes and Other Revenues		17,164,238		17,649,791

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

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, 2010 and 2009
Business-Type Activities

	2010		2009	
	Total Cost of Services	Net Revenue of Services	Total Cost of Services	Net Cost of Services
Functions/Programs:				
Food Services	923,188	1,231	910,518	8,840

The statement of revenues, expenses, and changes in net assets for this proprietary fund will further detail the actual results of operations.

The School District Funds

As of June 30, 2010, the School District governmental funds reported a combined fund balance of $14,349,870, which is an increase of $5,162,859 from the previous year. The primary reasons for this increase are explained below:

Capital Projects Fund:
In the spring of 2010 the board authorized the issuance of $4,000,000 bonds to be used to build a health and physical sciences addition to the high school. This increased the capital project's fund balance by that amount.

Additionally, the School District's actual expenses were 5.8% lower than budgeted, which resulted in an increase in the general fund balance of $1,719,216. Most of this fund balance will be designated for various future 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. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is authorized by state law. A schedule, showing the School District's original and final budget amounts compared with amounts actually paid and received, is provided on pages 56 and 57.

General Fund Budget (Continued)

Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budget 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 Asset and Debt Administration

Capital Assets

As of June 30, 2010, the School District had $47,243,358 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 $255,147.

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

	2010	2009
Land and Land Improvements	1,971,771	2,081,282
Buildings and Building Improvements	42,395,866	43,715,503
Furniture and Equipment	2,413,448	1,670,166
Vehicles	19,746	31,554
New Construction in Progress	442,527	-0-
	47,243,358	47,498,505

Capital Asset and Debt Administration (Continued)

Debt Administration

As of July 1, 2009, the School District had a total outstanding bond principal of $33,830,000. During the year, the School District made payments against principal, refinanced existing debt, and added new debt netting an increase of $1,340,000 resulting in an ending outstanding debt as of June 30, 2010, of $35,170,000.

Table A-6
Outstanding Debt

	2010	2009
Issue:		
Series A of 2003	-0-	605,000
Series of 2006	17,840,000	17,895,000
Series of 2009 (series 2002)	1,750,000	2,305,000
Series A of 2010 (series 2003, 2005, note 2003)	11,580,000	13,025,000
Series B of 2010	4,000,000	-0-
	35,170,000	33,830,000

More detailed information about our long-term liabilities is included in Note 9 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 10 and 11 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 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 an annual, steady increase that generally reflects increases at or slightly above the CPI, an indication that employment opportunities are available for residents of our School District.

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

In the 2010-2011 budget the School District increased expenditures by 1.2% from the previous year. After the budget year was closed, the State Legislature set the employer contribution for retirement lower than budgeted. The excess will be transferred into a designated fund to mitigate future retirement increases. This will provide stability in future budgets. 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. Utilities were increased by 6.2% to cover the additional expenses for the health and physical sciences addition on the high school, and pending increases in rates. The technology budget was increased by 19.6% in order to begin and sustain a one-to-one laptop initiative at the high school. The School District eliminated six professional positions in order to balance the budget.

Budgeted revenue for the 2010-2011 school year is 1.2% higher than the previous fiscal year. The millage rate for 2010-2011 is 16.3333, which is 3.75% higher than the previous year. Local revenue continues to provide the majority of funding for School District expenses as noted on page 13, with property taxes making up slightly over 63% of total projected revenue from all sources.

The comparison of revenue and expenditure categories is as follows:

Table A-7
Budgeted Revenues

	2010-2011	2009-2010
Local Sources	73.4%	70.8%
State Sources	21.2%	21.2%
Federal/Other Sources (ARRA)	5.4%	8.0%

Budgeted Expenditures

	2010-2011	2009-2010
Instruction	50.4%	50.7%
Support Services	32.1%	32.4%
Non-Instruction/Community	2.0%	1.4%
Fund Transfers/Debt	15.5%	15.5%

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, Business Administrator, **Pequea Valley School District**, 166 S. New Holland Road, P.O. Box 130, Kinzers, PA 17535.

Pequea Valley School District

STATEMENT of NET ASSETS

June 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Equivalents	$ 724,114	$ 206,812	$ 930,926
Investments	15,072,614	15,083	15,087,697
Taxes Receivable, net	1,160,231	-0-	1,160,231
Internal Balances	74,468	(74,468)	-0-
Due from Other Governments	884,007	64,164	948,171
Other Receivables	103,892	195	104,087
Inventories	39,301	37,678	76,979
Other Assets	8,201	-0-	8,201
Total Current Assets	**18,066,828**	**249,464**	**18,316,292**
Noncurrent Assets			
Land	616,644	-0-	616,644
Building and Building Improvements, net of Accumulated Depreciation	42,395,866	-0-	42,395,866
Site Improvements, net of Accumulated Depreciation	1,355,127	-0-	1,355,127
Furniture and Equipment, net of Accumulated Depreciation	2,413,448	409,372	2,822,820
Vehicles, net of Accumulated Depreciation	19,746	-0-	19,746
Construction in Progress	442,527	-0-	442,527
Deferred Bond Issue Costs, net of Accumulated Amortization	419,221	-0-	419,221
Total Noncurrent Assets	**47,662,579**	**409,372**	**48,071,951**
TOTAL ASSETS	**$ 65,729,407**	**$ 658,836**	**$ 66,388,243**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET ASSETS
(Continued)
June 30, 2010

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	$ 196,540	$ -0-	$ 196,540
Current Portion of Long-Term Debt	2,630,000	-0-	2,630,000
Accrued Salaries and Benefits	1,300,906	-0-	1,300,906
Compensated Absences			
Due Within One Year	224,259	-0-	224,259
Accrued Retirement Bonuses			
Due Within One Year	50,400	-0-	50,400
Accrued Interest on Long-Term Debt	441,410	-0-	441,410
Payroll Deductions and Withholdings	110,679	-0-	110,679
Deferred Revenues	-0-	6,626	6,626
Due to Other Governments	412,093	3,458	415,551
Other Current Liabilities	171,782	-0-	171,782
Total Current Liabilities	**5,538,069**	**10,084**	**5,548,153**
Noncurrent Liabilities			
Bonds Payable,			
net of Amortized Discount	32,769,656	-0-	32,769,656
Accrued Retirement Bonuses	662,445	-0-	662,445
Long-Term Portion of			
Compensated Absences	764,261	-0-	764,261
Other Postemployment Benefit Liabilities	104,703	-0-	104,703
Total Noncurrent Liabilities	**34,301,065**	**-0-**	**34,301,065**
TOTAL LIABILITIES	**39,839,134**	**10,084**	**39,849,218**
NET ASSETS			
Invested in Capital Assets,			
net of Related Debt	11,843,702	409,372	12,253,074
Restricted for:			
Debt Service	8,541	-0-	8,541
Unrestricted	14,038,030	239,380	14,277,410
TOTAL NET ASSETS	**$ 25,890,273**	**$ 648,752**	**$ 26,539,025**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2010

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 Assets: Governmental Activities	Net Revenue (Expense) and Changes in Net Assets: Business-Type Activities	Net Revenue (Expense) and Changes in Net Assets: Total
Governmental Activities:							
Instruction	$ 15,086,513	$ 142,692	$ 4,339,206	$ -0-	$ (10,604,615)	$ -0-	$ (10,604,615)
Instructional Student Support	2,776,191	-0-	220,290	-0-	(2,555,901)	-0-	(2,555,901)
Administrative and Financial Support Services	2,511,900	16,041	194,857	-0-	(2,301,002)	-0-	(2,301,002)
Operation and Maintenance of Plant Services	2,312,346	7,121	44,498	-0-	(2,260,727)	-0-	(2,260,727)
Pupil Transportation	1,752,418	-0-	1,146,160	-0-	(606,258)	-0-	(606,258)
Student Activities	493,101	34,597	31,401	-0-	(427,103)	-0-	(427,103)
Community Services	15,098	-0-	13,614	-0-	(1,484)	-0-	(1,484)
Interest on Long-Term Debt	1,340,662	-0-	-0-	331,599	(1,009,063)	-0-	(1,009,063)
Total Governmental Activities	**26,288,229**	**200,451**	**5,990,026**	**331,599**	**(19,766,153)**	**-0-**	**(19,766,153)**
Business-Type Activities:							
Food Services	**923,188**	**478,914**	**445,505**	**-0-**	**-0-**	**1,231**	**1,231**
Total Primary Government	**$ 27,211,417**	**$ 679,365**	**$ 6,435,531**	**$ 331,599**	**$ (19,766,153)**	**$ 1,231**	**$ (19,764,922)**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2010

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 Assets: Governmental Activities	Net Revenue (Expense) and Changes in Net Assets: Business-Type Activities	Net Revenue (Expense) and Changes in Net Assets: Total
General Revenues:							
Taxes:							
Property Taxes, Levied for							
General Purposes					$ 18,496,897	$ -0-	$ 18,496,897
Public Utility Realty, Earned Income,							
Occupation and Per Capita Taxes							
Levied for General Purposes					2,153,459	-0-	2,153,459
Unrestricted Grants and Subsidies					2,601,915	-0-	2,601,915
Unrestricted Investment Earnings					127,825	553	128,378
Miscellaneous Income					606	-0-	606
Loss on Fixed Asset Dispositions					3,579	-0-	3,579
Total General Revenues					**23,384,281**	**553**	**23,384,834**
CHANGES in NET ASSETS					**3,618,128**	**1,784**	**3,619,912**
NET ASSETS							
Beginning					22,272,145	646,968	22,919,113
Ending					**$ 25,890,273**	**$ 648,752**	**$ 26,539,025**

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

	Major Funds					
	General Fund	Capital Reserve	Capital Project	Debt Service	Athletic	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	$ 655,259	$ -0-	$ -0-	$ -0-	$ 68,855	$ 724,114
Investments	5,411,609	4,960,177	3,614,691	8,541	-0-	13,995,018
Taxes Receivable, net	1,160,231	-0-	-0-	-0-	-0-	1,160,231
Due from Other Funds	87,304	-0-	-0-	-0-	-0-	87,304
Due from Other Governments	884,007	-0-	-0-	-0-	-0-	884,007
Other Receivables	103,892	-0-	-0-	-0-	-0-	103,892
Inventories	39,301	-0-	-0-	-0-	-0-	39,301
Prepaid Expenses	6,882	-0-	-0-	-0-	-0-	6,882
TOTAL ASSETS	**8,348,485**	**4,960,177**	**3,614,691**	**8,541**	**68,855**	**17,000,749**
LIABILITIES and FUND BALANCES						
LIABILITIES						
Accounts Payable	170,089	-0-	26,168	-0-	283	196,540
Due to Other Funds	6,957	1,158	-0-	-0-	3,402	11,517
Accrued Salaries and Benefits	1,300,906	-0-	-0-	-0-	-0-	1,300,906
Payroll Deductions and Withholdings	110,679	-0-	-0-	-0-	-0-	110,679
Payable to Other Governments	412,093	-0-	-0-	-0-	-0-	412,093
Deferred Revenue	594,126	-0-	-0-	-0-	-0-	594,126
Other Current Liabilities	25,018	-0-	-0-	-0-	-0-	25,018
TOTAL LIABILITIES	**$ 2,619,868**	**$ 1,158**	**$ 26,168**	**$ -0-**	**$ 3,685**	**$ 2,650,879**

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS
(Continued)
June 30, 2010

	Major Funds					
	General Fund	Capital Reserve	Capital Project	Debt Service	Athletic	Total Governmental Funds
FUND BALANCES						
Reserved for:						
Inventories	$ 39,301	$ -0-	$ -0-	$ -0-	$ -0-	$ 39,301
Prepaid Expenses	6,882	-0-	-0-	-0-	-0-	6,882
Reserve for Debt Service	-0-	-0-	-0-	8,541	-0-	8,541
Unreserved - Designated	3,550,000	-0-	-0-	-0-	-0-	3,550,000
Unreserved - Undesignated:						
General Fund	2,132,434	-0-	-0-	-0-	-0-	2,132,434
Special Revenue Funds	-0-	4,959,019	-0-	-0-	65,170	5,024,189
Capital Projects Funds	-0-	-0-	3,588,523	-0-	-0-	3,588,523
TOTAL FUND BALANCES	**5,728,617**	**4,959,019**	**3,588,523**	**8,541**	**65,170**	**14,349,870**
TOTAL LIABILITIES and FUND BALANCES	**$ 8,348,485**	**$ 4,960,177**	**$ 3,614,691**	**$ 8,541**	**$ 68,855**	**$ 17,000,749**

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET ASSETS
June 30, 2010

Total Fund Balances - Governmental Funds	$	14,349,870
Amounts reported for governmental activities in the statement of net assets 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 $68,753,111 and the accumulated depreciation is $21,509,753.		47,243,358
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		930,832
Property taxes receivable are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		594,126
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable		(35,170,000)
Accrued Interest on Long-Term Debt		(441,410)
Bond Issue Costs, net of Amortization		419,221
Bond Premium, net of Amortization		(387,086)
Bond Discount, net of Amortization		157,430
Accrued Retirement Bonuses		(712,845)
Compensated Absences		(988,520)
Postemployment Benefits		(104,703)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	**$**	**25,890,273**

See notes to financial statements.

Pequea Valley School District

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

Year Ended June 30, 2010

	Major Funds					
REVENUES	**General Fund**	**Capital Reserve**	**Capital Project**	**Debt Service**	**Athletic**	**Total Governmental Funds**
Local Sources:						
Real Estate Taxes	$ 18,377,396	$ -0-	$ -0-	$ -0-	$ -0-	$ 18,377,396
Other Taxes	2,153,459	-0-	-0-	-0-	-0-	2,153,459
Investment Earnings	81,851	22,335	1,197	20	79	105,482
Other Revenue	189,370	-0-	-0-	-0-	34,597	223,967
Total Local Sources	20,802,076	22,335	1,197	20	34,676	20,860,304
State Sources	6,063,750	-0-	-0-	-0-	-0-	6,063,750
Federal Sources	2,836,878	-0-	-0-	-0-	-0-	2,836,878
Total Revenues	**29,702,704**	**22,335**	**1,197**	**20**	**34,676**	**29,760,932**
EXPENDITURES						
Instructional Services	14,566,621	23,134	-0-	-0-	-0-	14,589,755
Support Services	8,902,408	128,741	-0-	-0-	-0-	9,031,149
Noninstructional Services	370,701	-0-	-0-	-0-	137,498	508,199
Capital Outlay	-0-	151,853	290,675	-0-	-0-	442,528
Debt Service	-0-	-0-	-0-	15,619,689	-0-	15,619,689
Refund of Prior Year Expenditures	2,098	-0-	-0-	-0-	-0-	2,098
Total Expenditures	**23,841,828**	**303,728**	**290,675**	**15,619,689**	**137,498**	**40,193,418**
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	**5,860,876**	**(281,393)**	**(289,478)**	**(15,619,669)**	**(102,822)**	**(10,432,486)**
OTHER FINANCING SOURCES (USES)						
Refunding Bond Proceeds	-0-	-0-	-0-	15,591,612	-0-	15,591,612
Debt Service Fund Transfer	(3,914,492)	-0-	-0-	3,914,492	-0-	-0-
Other Fund Transfers	(117,220)	-0-	3,878,000	(3,878,000)	117,220	-0-
Proceeds from Sale of Capital Assets	3,733	-0-	-0-	-0-	-0-	3,733
Net Other Financing Sources (Uses)	**(4,027,979)**	**-**	**3,878,000**	**15,628,104**	**117,220**	**15,595,345**
NET CHANGES in FUND BALANCES	**1,832,897**	**(281,393)**	**3,588,522**	**8,435**	**14,398**	**5,162,859**
FUND BALANCES						
Beginning	3,895,720	5,240,412	1	106	50,772	9,187,011
Ending	**$ 5,728,617**	**$ 4,959,019**	**$ 3,588,523**	**$ 8,541**	**$ 65,170**	**$ 14,349,870**

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, 2010

Net Changes in Fund Balances - Total Governmental Funds		$ 5,162,859
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	(2,094,624)	
Capital Outlays	1,839,618	(255,006)
Proceeds from the sale of fixed assets are reported in the statement of activities net of the remaining basis of the assets disposed. This amount represents the remaining basis of all disposed assets.		(141)
Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered available revenues in the governmental funds. Deferred tax revenues increased by this amount this year.		119,501
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 assets. Also, governmental funds report the effect of issuance costs, 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.		(1,276,687)
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.		(33,800)
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.		$ (64,681)

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, 2010

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.	$ 43,552
The accrued post-retirement 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 post-retirement benefit for the year.	(51,681)
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.	(25,788)
CHANGES in NET ASSETS of GOVERNMENTAL ACTIVITIES	**$ 3,618,128**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET ASSETS -
PROPRIETARY FUNDS
June 30, 2010

	Enterprise Funds	
	Food Service	Internal Service Funds
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 206,812	$ -0-
Investments	15,083	1,077,596
Due from Other Funds	6,957	-0-
Due from Other Governments	64,164	-0-
Inventories	37,678	-0-
Other Current Assets	195	-0-
Total Current Assets	**330,889**	**1,077,596**
Noncurrent Assets		
Machinery and Equipment, net of Accumulated Depreciation	**409,372**	**-0-**
TOTAL ASSETS	**740,261**	**1,077,596**
LIABILITIES		
Current Liabilities		
Due to Other Funds	81,425	-0-
Due to Other Governments	3,458	-0-
Other Current Liabilities	-0-	146,764
Deferred Revenue	6,626	-0-
TOTAL LIABILITIES	**91,509**	**146,764**
NET ASSETS		
Invested in Capital Assets, net of Related Debt	409,372	-0-
Unrestricted	239,380	930,832
TOTAL NET ASSETS	**$ 648,752**	**$ 930,832**

See notes to financial statements.

Pequea Valley School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS -
PROPRIETARY FUNDS
Year Ended June 30, 2010

	Enterprise Funds	
	Food Service	Internal Service Funds
OPERATING REVENUES		
Food Service Revenue	$ 478,914	$ -0-
Charges for Services	-0-	1,883,806
Total Operating Revenues	**478,914**	**1,883,806**
OPERATING EXPENSES		
Salaries	292,188	-0-
Employee Benefits	92,582	1,931,937
Purchased Professional and Technical Services	45,916	-0-
Other Purchased Services	26,583	-0-
Supplies	422,097	-0-
Depreciation	43,822	-0-
Total Operating Expenses	**923,188**	**1,931,937**
OPERATING INCOME (LOSS)	**(444,274)**	**(48,131)**
NONOPERATING REVENUES		
Investment Earnings	553	22,343
State Sources	49,092	-0-
Federal Sources	396,413	-0-
Net Nonoperating Revenues	**446,058**	**22,343**
CHANGES in NET ASSETS	**1,784**	**(25,788)**
NET ASSETS		
Beginning	646,968	956,620
Ending	**$ 648,752**	**$ 930,832**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2010

	Enterprise Funds	
	Food Service	Internal Service Funds
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	$ 478,695	$ -0-
Cash Received from Assessments Made to Other Funds	-0-	1,909,132
Cash Payments to Employees for Services	(343,153)	-0-
Cash Payments for Insurance Service	-0-	-0-
Cash Payments to Suppliers for Goods and Services	(501,806)	(1,934,458)
Net Cash Used by Operating Activities	**(366,264)**	**(25,326)**
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Purchase of Capital Acquisitions	**(14,790)**	**-0-**
CASH FLOWS from NON-CAPITAL FINANCING ACTIVITIES		
State Sources	44,797	-0-
Federal Sources	350,066	-0-
Net Cash Provided by Non-Capital Financing Activities	**394,863**	**-0-**
CASH FLOWS from INVESTING ACTIVITIES		
Investment Earnings	553	35,648
Purchase of Investments	(40)	(35,648)
Net Cash Provided by Investing Activities	**513**	**-0-**
INCREASE in CASH and CASH EQUIVALENTS	**14,322**	**(25,326)**
CASH and CASH EQUIVALENTS		
Beginning of Year	192,490	25,326
End of Year	**$ 206,812**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
(Continued)
Year Ended June 30, 2010

	Enterprise Funds	
	Food Service	Internal Service Funds
RECONCILIATION of OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES		
Operating Loss	**$ (444,274)**	**$ (48,131)**
ADJUSTMENTS to RECONCILE OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES		
Depreciation	43,822	-0-
Donated Commodities Used	50,642	-0-
Increase in Accounts Receivable	(50,643)	-0-
Increase in Inventory	(5,572)	-0-
Increase (Decrease) in Other Current Assets	(195)	37,736
Decrease in Accounts Payable	(1,443)	(14,931)
Increase in Interfund Payable	41,617	-0-
Decrease in Deferred Revenue	(218)	-0-
Total Adjustments	**78,010**	**22,805**
Net Cash Used by Operating Activities	**$ (366,264)**	**$ (25,326)**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET ASSETS -
FIDUCIARY FUNDS
June 30, 2010

	Private Purpose Trust	Agency Fund
ASSETS		
Cash and Cash Equivalents	$ -0-	$ 20,959
Investments	108,510	47,460
TOTAL ASSETS	**108,510**	**68,419**
LIABILITIES		
Accounts Payable	-0-	9,604
Due to Other Funds	-0-	1,319
Other Current Liabilities	1,215	57,496
TOTAL LIABILITIES	**1,215**	**68,419**
NET ASSETS		
Restricted for Scholarships	**$ 107,295**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CHANGES in NET ASSETS -
FIDUCIARY FUNDS
Year Ended June 30, 2010

	Private Purpose Trust
ADDITIONS	
Investment Earnings	$ 1,435
Gifts and Contributions	1,236
Total Additions	**2,671**
DEDUCTIONS	
Scholarships Awarded	**1,315**
CHANGES in NET ASSETS	**1,356**
NET ASSETS	
Beginning	105,939
Ending	**$ 107,295**

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 1,803 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.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

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.

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 districts. LCCTC is controlled and governed by the Career and Technology Center Board for Lancaster County, which is comprised of school board members of all the member 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, 2010, was approximately $369,169. 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. In 1995, the Authority entered into an additional agreement with the same parties to provide funding for the upgrading and modernization of the LCCTC facilities. In 1998, the Authority entered into an additional agreement with the member districts and the Authority Board to advance refund the Authority's 1995 bonds. The School District has an ongoing financial responsibility to the Authority for a portion of the debt obligation relating to these improvements. The balance of the School District's share of this obligation at June 30, 2010, was $-0-. The School District's lease payment to the Authority for the year ended June 30, 2010, was $77,622, which has been reported in the School District's general fund. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

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, 2010. 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, 2010, was approximately $979,166. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau)

The School District participates with 16 other school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee. 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, 2010, was $35,000. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

Lancaster-Lebanon Public Schools Employees' Healthcare Consortium (EHCC)

The School District participates with 12 other school districts in a self-insured stop-loss pool. The School District is self-insured for claims up to $60,000. The pool reimburses monies to the School District for individual claims above $60,000 up to $200,000. The pool has commercial insurance for claims greater than $200,000.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets 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. 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.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. 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 Reserve Fund - This fund is used to account for transfers from other funds and related investment earnings for capital outlays not accounted for in another fund.

Capital Projects Fund - This fund is used to account for financial resources related to fixed asset acquisitions, construction, and improvements.

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

The School District reports the following proprietary funds:

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

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.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

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.

Additionally, the School District reports the following nonmajor governmental funds:

> **Athletic Fund** - This fund accounts for gate receipts and other revenues from athletic events and costs of the athletic program.

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, 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 and compensated absence payments 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, 2010, which are not intended to finance fiscal 2010 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds, and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the School District follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue 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, revenue 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 and catering 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 both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

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

Investments

Investments are recorded at market value.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes Receivable and Deferred 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 tax revenues. 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.

Inventories in the governmental funds represent the estimated cost using the first-in/first-out (FIFO) method of supplies on hand at June 30, 2010. The costs of inventory items are recorded as expenditures in the governmental funds when purchased. The inventory cost has been recorded as an asset in the governmental funds, offset by a fund balance reserve in an equal amount.

Inventories in the cafeteria fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2010, including the value of commodities donated by the federal government. 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

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets. Bond premiums and discounts, as well as issuance 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

The School District accrues vacation leave as a liability as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year end, taking into consideration any limits specified in the School District's severance policy. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected.

Additional amounts are accrued for salary-related payments associated with the payment of compensated absences 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, 2010, the School District had no encumbrances.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2010, 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 Equity

Unreserved fund balance for governmental fund types represents the amount available for budgeting future operations. Reserved fund balances for governmental fund types represent the amounts that have been identified for a specified expenditure. Designations of fund balance represent tentative management plans that are subject to change. Unrestricted net assets for proprietary fund types represent the net assets available for future operations or distribution.

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 2010.

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

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

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

The deposit and investment policy of the School District adheres to state statutes. There were no deposit or investment transactions during the year that were in violation 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, 2010, $15,655,140 of School District's bank balance of $15,905,140 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	15,655,140
	15,655,140

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	15,655,140
Insured Amount	250,000
Bank Balance	15,905,140
Outstanding Checks	(132,705)
Carrying Amount - Bank Balances	15,772,435
Petty Cash	1,450
Certificates of Deposit Classified as Investments on the Balance Sheet	(14,822,000)
Total Cash and Cash Equivalents Per Financial Statements	**951,885**

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

Investments

As of June 30, 2010, the School District had the following investments:

Investments	Maturity	Fair Value
PSDLAF		31,943
PSDMAX		381,183
U S Treasury MMF		8,541
Certificates of Deposit	0 - 12 Months	14,231,000
Certificates of Deposit	Over 12 Months	591,000
		15,243,667

Interest Rate Risk

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

Credit Risk

The School District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2010, the School District investments were rated as:

Investments	Standard & Poor's
PSLDAF	AAAm
PSDMAX	AAAm
U S Treasury Money Market Funds	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:	
PSDLAF	9%
PSDMAX	89%
Business-Type Activities and Food Service Fund:	
PSDMAX	100%

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

Concentration of Credit Risk (Continued)

General Fund:	
PSDMA	100%
Capital Reserve Fund:	
PSDMAX	85%
PSDLAF	15%
Capital Project Fund:	
PSDMAX	100%
Debt Service Fund:	
U.S. Treasury MM Fun	100%
Other Funds:	
PSDMAX	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, 2010, was 15.74 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2010, 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, 2010, are as follows:

	Taxes Receivable	Estimated Uncollectable	Net Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	795,280	-0-	795,280	201,154	594,126
Realty Transfer Taxes	23,731	-0-	23,731	23,731	-0-
Earned Income Taxes	341,220	-0-	341,220	341,220	-0-
	1,160,231	**-0-**	**1,160,231**	**566,105**	**594,126**

NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2010, the following amounts are due from other governmental units:

Due From	General Fund	Enterprise Fund	Total
Federal Grants	338,855	58,440	397,295
State Match for Lunch Program	-0-	5,724	5,724
State Retirement Subsidy	97,328	-0-	97,328
State Social Security Subsidy	59,356	-0-	59,356
Other State Subsidies	150,404	-0-	150,404
Due from Intermediate Unit	53,793	-0-	53,793
Local	184,271	-0-	184,271
	884,007	**64,164**	**948,171**

NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2010, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	87,304	6,957
Enterprise Fund - Food Service	6,957	81,425
Capital Reserve Fund	-0-	1,158
Student Activity Fund	-0-	1,319
Athletic Fund	0-	3,402
	94,261	**94,261**

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

The general fund has an interfund payable owed to the enterprise fund-food service for general fund expenses paid by the enterprise fund-food service.

Interfund transfers for the year ended June 30, 2010, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	4,031,712
Athletic Fund	117,220	-0-
Capital Projects Fund	3,878,000	-0-
Debt Service Fund	3,914,492	3,878,000
	7,909,712	**7,909,712**

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

Transfers are made from the general fund to the athletic fund to provide funding for the athletic activities not supported by user charges.

Transfers are made from the debt service fund to the capital projects fund for equipment purchases.

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2010, is as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Historical Cost:				
Capital Assets not Being Depreciated:				
Construction in Progress	-0-	442,527	-0-	442,527
Land	616,644	-0-	-0-	616,644
Total Cost	**616,644**	**442,527**	**-0-**	**1,059,171**
Capital Assets Being Depreciated:				
Site Improvements	2,751,977	-0-	-0-	2,751,977
Building and Building Improvements	60,282,515	230,111	-0-	60,512,626
Furniture and Equipment	3,148,891	1,166,979	(17,573)	4,298,297
Vehicles	131,040	-0-	-0-	131,040
Total Cost	**66,314,423**	**1,397,090**	**(17,573)**	**67,693,940**
Accumulated Depreciation:				
Site Improvements	1,287,339	109,511	-0-	1,396,850
Building and Building Improvements	16,567,012	1,549,748	-0	18,116,760
Furniture and Equipment	1,478,725	423,556	(17,432)	1,884,849
Vehicles	99,485	11,809	-0-	111,294
Total Accumulated Depreciation	**19,432,561**	**2,094,624**	**(17,432)**	**21,509,753**
Net Capital Assets Being Depreciated	**46,881,862**	**(697,534)**	**(141)**	**46,184,187**
Net Capital Assets	**47,498,506**	**(255,007)**	**(141)**	**47,243,358**

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2010, is as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	790,508	14,790	-0-	805,298
Accumulated Depreciation:				
Equipment	352,104	43,822	-0-	395,926
Net Capital Assets	**438,404**	**(29,032)**	**-0-**	**409,372**

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	1,739,744
Instructional Student Support	135,769
Administration and Financial Support Services	171,468
Operation and Maintenance of Plant Services	47,643
	2,094,624

NOTE 8 - DEFERRED REVENUE

Deferred revenue consists of the following as of June 30, 2010:

	General Fund	Food Service Fund	Total
Deferred Taxes	594,126	-0-	594,126
Prepaid Lunch Sales	-0-	6,626	6,626
	594,126	**6,626**	**600,752**

NOTE 9 - 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. The principal amount outstanding at June 30, 2010 was $17,840,000.

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) currently refund the Series of 2002 General Obligation Bonds, and (2) pay the costs and expenses of issuing the note. The principal amount outstanding at June 30, 2010 was $1,750,000 due in various amounts from August 15, 2010 through February 15, 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, and (2) currently refund a portion of outstanding General Obligation Bonds, Series of 2005, and (3) currently refund outstanding General Obligation Notes, Series 2003, and (4) pay the costs and expenses of issuing the bonds. The principal amount outstanding for Series A of 2010 at June 30, 2010 was $11,580,000 due in various amounts from May 2011 through May 2021.

The School District's savings amount to $367,159 throughout the term of the bonds. The present value of these savings is $382,939.

The proceeds of the General Obligation Bonds, Series B of 2010, will be 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. The principal amount outstanding for the Series B of 2010 at June 30, 2010 was $4,000,000, due in various amounts from May 2011 through May 2021.

Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2010, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2010	Due Within One Year
Series of 2006	02/01/2020	3.50% - 4.75%	17,840,000	140,000
GON Series of 2009	02/15/2013	2.75%	1,750,000	565,000
Series A of 2010	5/15/2021	1.00% - 4.00%	11,580,000	1,920,000
Series B of 2010	5/15/2021	1.00% - 3.60%	4,000,000	5,000
			35,170,000	**2,630,000**

NOTE 9 - LONG-TERM DEBT (Continued)

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
General Obligation Debt	33,830,000	15,580,000	14,240,000	35,170,000
Bond Premium	276,683	147,937	37,534	387,086
Bond Discount	(28,443)	(136,325)	(7,338)	(157,430)
Accrued Retirement Bonuses	756,397	-0-	43,552	712,845
Estimated Liability for Compensated Absences	923,839	64,681	-0-	988,520
Estimated Liability for Other Postemployment Benefits	53,022	51,681	-0-	104,703
	35,811,498	**15,707,974**	**14,313,748**	**37,205,724**

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

	Interest	Principal	Total
2011	1,305,106	2,630,000	3,935,106
2012	1,259,283	2,855,000	4,114,283
2013	1,171,198	2,955,000	4,126,198
2014	1,057,335	3,050,000	4,107,335
2015	914,827	3,180,000	4,094,827
2016 - 2020	2,503,694	15,835,000	18,338,694
2021	135,595	4,665,000	4,800,595
	8,347,038	**35,170,000**	**43,517,038**

NOTE 10 - 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, 2010:

Accumulated Sick Days	765,967
Accumulated Vacation Days	73,216
Accumulated Personal Days	79,090
Employer Social Security and Medicare on Days Amounts Above	70,247
	988,520

NOTE 11 - 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. A summary of the amount recorded as a liability in the governmental activities for this supplemental retirement benefit is as follows for June 30, 2010:

	Governmental Activities
Estimated Accrued Retirement Bonus	**712,845**

NOTE 12 - OPERATING LEASE

Lease Rental Debt, Series of 1998 dated October 7, 1998, was issued by the Lancaster County Career and Technical Center Authority (Authority) to advance refund the Authority's Series of 1995 lease revenue bonds. The 1995 bonds were issued to provide funds for the upgrading and modernization of the facilities of the Lancaster County Career and Technical Center. The Lancaster County Career and Technical Center and the 16 member school districts have entered into a lease agreement with the Authority and each school district will pay its proportionate share of the lease rentals in order to fund the Series of 1998 debt. The School District made its final payment under this agreement during the year ended June 30, 2010.

NOTE 13 - 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.

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

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 two 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 percent of their compensation if they are in Class TC or 6.5 percent 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 percent for Class TC or 7.5 percent for Class TD. Members who joined the Plan after June 30, 2001, are automatically in Class TD and are required to contribute 7.5 percent. 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, 2010, the rate of employer contribution was 4.78 percent of covered payroll. The 4.78 percent rate is comprised of a pension contribution rate of 4.00 percent for pension benefits and .78 percent for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth'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, 2010, 2009, and 2008, were $560,468, $648,129, and $785,458, respectively. Those amounts are equal to the required contribution for each year.

NOTE 14 - 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 $60,000 per individual and $2,958,070 in total per year.

A liability for claims incurred prior to June 30, 2010, and subsequently paid is recorded in the amount of $146,764 in other current liabilities in the internal service fund.

Changes in the School District's claims liability amount in fiscal years 2010 and 2009 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2009 - 2010	161,695	1,638,409	1,946,868	146,764
2008 - 2009	318,422	2,615,681	2,772,408	161,695

NOTE 14 - RISK MANAGEMENT (Continued)

Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for 17 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, 2010, 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 asset, 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, 2010, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES

Description

The School District has adopted 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 $104,703 in total liabilities resulting from the adoption.

The School District maintains a single employer defined benefit plan to provide post retirement 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 post employment 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.

NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES (Continued)

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 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	156,172
Interest on OPEB Obligation	2,386
Adjustment to Annual Required Contribution	(3,255)
Annual OPEB Cost	155,303
Contributions Made	103,622
Estimated Increase in Net OPEB Obligation	51,681
Net OPEB Obligation - Beginning of Year	53,022
Net OPEB Obligation - End of Year	104,703

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 and 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation-End of Year
6/30/2009	156,172	66%	53,022
6/30/2010	155,303	33%	104,703

Because 2008-2009 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 has been implemented prospectively; therefore, the above illustration does not reflect similar information respective of the two preceding years.

Funding Status and Funding Progress

As of January 14, 2009, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled $1,251,184, resulting in an unfunded actuarial accrued liability (UAAL) of $1,251,184. The covered payroll (annual payroll of active employees covered by the Plan) equaled $10,519,029, and the ratio of the UAAL to the covered payroll equaled 1.48%.

NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES (Continued)

Funding Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the 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 School District is required to present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the School District maintains no Plan assets, information relative to Plan asset required disclosures is not applicable. Additionally, because 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively.

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 January 14, 2009, 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 8.5% in the first year gradually decreasing by 0.5% per year to an ultimate rate of 5% in 2015 and later.

NOTE 16 - 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.

NOTE 17 - SPECIFIC RESERVED FUND BALANCES

Specific reserves represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. At June 30, 2010, the School District has included the following amounts as specific reserved fund balances:

Debt Service Funds - Reserve for Debt Service Expenditures	8,541

NOTE 18 - DESIGNATED FUND BALANCE

Designated fund balances represent fund balances that are segregated for tentative plans to use financial resources in a future period. The School District has designated this amount to fund the future increased costs of the Pennsylvania Public School Employees' Retirement System (PSERS) and future renovation of the Pequea Valley High School.

General Fund:	
Unreserved - Designated	
For Future PSERS Costs	1,800,000
For High School Renovation	1,000,000
For Other Projects	750,000
	3,550,000

NOTE 19 - SUBSEQUENT EVENTS

The School District adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* effective July 1, 2010. Financial statements issued for future period will reflect certain reclassifications of the School District's fund balance components in accordance with the standard. The standard will also eliminate the athletic fund. Effective July 1, 2010 all of the School District's athletic activities will be accounted for in the general fund; the athletic fund balance of $65,170 at June 30, 2010 will be transferred to the general fund.

NOTE 20 - CONTINGENCIES and COMMITMENTS

Legal Matters

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

Pequea Valley School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
Year Ended June 30, 2010

	Budgeted Amounts		Actual Budgetary Basis Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Local Sources:				
Real Estate Taxes	$ 18,347,239	$ 18,347,239	$ 18,377,396	$ 30,157
Other Taxes	1,778,506	1,778,506	2,153,459	374,953
Investment Earnings	150,000	150,000	81,851	(68,149)
Other Revenue	48,500	48,500	189,370	140,870
Total Local Sources	20,324,245	20,324,245	20,802,076	477,831
State Sources	6,201,860	6,201,860	6,063,750	(138,110)
Federal Sources	2,662,918	2,662,918	2,836,878	173,960
Total Revenues	**29,189,023**	**29,189,023**	**29,702,704**	**513,681**
EXPENDITURES				
Instructional Services:				
Regular Programs	11,305,322	11,305,322	11,323,744	(18,422)
Special Programs	2,849,810	2,849,810	2,560,771	289,039
Vocational Programs	528,214	528,214	549,648	(21,434)
Other Instructional Programs	86,435	86,435	132,458	(46,023)
Total Instructional Services	**14,769,781**	**14,769,781**	**14,566,621**	**203,160**
Support Services:				
Pupil Personnel Services	817,881	817,881	772,861	45,020
Instructional Staff Services	1,953,957	1,953,957	1,877,321	76,636
Administrative Services	1,461,346	1,461,346	1,409,359	51,987
Pupil Health	199,892	199,892	193,525	6,367
Business Services	416,469	416,469	417,456	(987)
Operation of Plant and Maintenance Services	2,563,527	2,563,527	2,219,762	343,765
Student Transportation Services	1,805,551	1,805,551	1,752,418	53,133
Central and Other Business Services	241,625	241,625	259,706	(18,081)
Other Support Services	25,500	25,500	-0-	25,500
Total Support Services	**9,485,748**	**9,485,748**	**8,902,408**	**583,340**
Noninstructional Services:				
Student Activities	412,334	412,334	355,603	56,731
Community Services	2,000	2,000	15,098	(13,098)
Total Noninstructional Services	**414,334**	**414,334**	**370,701**	**43,633**
Refund of Prior Year Expenditures	-0-	-0-	**2,098**	**(2,098)**
Total Expenditures	**24,669,863**	**24,669,863**	**23,841,828**	**828,035**
OTHER FINANCING SOURCES (USES)				
Debt Service Fund Transfer	(4,101,059)	(4,101,059)	(3,914,492)	186,567
Other Fund Transfers	(418,108)	(418,108)	(117,220)	300,888
Proceeds from Sale of Capital Assets	7	7	3,733	3,726
Budgetary Reserve	(400,000)	(400,000)	-0-	400,000
Net Other Financing Uses	**$ (4,919,160)**	**$ (4,919,160)**	**$ (4,027,979)**	**$ 891,181**

See auditors' report.

Pequea Valley School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
(Continued)
Year Ended June 30, 2010

	Budgeted Amounts		Actual Budgetary Basis Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
NET CHANGES in FUND BALANCES	**$ (400,000)**	**$ (400,000)**	**$ 1,832,897**	**$ 2,232,897**
FUND BALANCES				
Beginning			3,895,720	
Change in Inventory			-0-	
Ending			**$ 5,728,617**	

See 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 Board, for consideration, a draft operating budget projection or other information to review, for the fiscal year commencing the following July 1. The Board determines if it will approve a resolution to keep any tax increase below the index.

2. If the 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 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 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, 2010.

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 revenue and expenditures have been added to the original budgeted revenue and expenditures.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

Year Ended June 30, 2010

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	(Deferred) Revenue at July 1, 2009	Total Received for the Year	Expenditures	(Deferred) Revenue at June 30, 2010
U.S. Department of Agriculture									
Passed Through the Pennsylvania Department of Education:									
School Breakfast Program (Note 3)	I/F	10.553	N/A	07/01/09 - 06/30/10	N/A	$ -0-	$ 43,294	$ 53,254	$ 9,960
School Breakfast Program (Note 3)	I/F	10.553	N/A	07/01/08 - 06/30/09	N/A	1,860	1,860	-0-	-0-
National School Lunch Program (Note 3)	I/F	10.555	N/A	07/01/09 - 06/30/10	N/A	-0-	239,552	288,033	48,481
National School Lunch Program (Note 3)	I/F	10.555	N/A	07/01/08 - 06/30/09	N/A	10,233	10,233	-0-	-0-
Total Passed Through the Pennsylvania Department of Education						**12,093**	**294,939**	**341,287**	**58,441**
Passed Through the Pennsylvania Department of Agriculture:									
Food Donation (Note 2)	I/F	10.550	N/A	07/01/08 - 06/30/09	N/A	**-0-**	**55,126**	**55,126**	**-0-**
Total U.S. Department of Agriculture						**12,093**	**350,065**	**396,413**	**58,441**
U.S. Department of Education									
Passed Through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies (Note 3)	I/F	84.010	013-100332	05/13/09 - 09/30/10	1,168,034	-0-	700,820	894,151	193,331
Title I Grants to Local Educational Agencies (Note 3)	I/F	84.010	077-100332	07/01/09 - 09/30/10	3,600	-0-	-0-	1,800	1,800
Title I Grants to Local Educational Agencies (Note 3)	I/F	84.010	013-090332	07/01/08 - 09/30/09	1,018,980	152,999	341,892	188,893	-0-
Title I Grants to Local Educational Agencies (Note 3)	I/F	84.010	042-090332	11/25/08 - 09/30/09	47,549	17,213	30,256	13,043	-0-
Title I Grants to Local Educational Agencies (Note 3)	I/F	84.010	077-090332	07/01/08 - 09/30/09	2,000	716	1,200	-0-	(484)
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-100332	07/01/09 - 09/30/10	12,156	-0-	9,725	10,592	867
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-090332	07/01/08 - 09/30/09	12,878	$ (758)	$ 920	$ 1,678	$ -0-

See auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2010

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	(Deferred) Revenue at July 1, 2009	Total Received for the Year	Expenditures	(Deferred) Revenue at June 30, 2010
U.S. Department of Education (Continued)									
Passed Through the Pennsylvania Department of Education (Continued):									
Improving Teacher Quality State Grants	I/F	84.367	020-100332	05/13/09 - 09/30/10	209,088	$ -0-	$ 153,331	$ 201,351	$ 48,020
Improving Teacher Quality State Grants	I/F	84.367	020-090332	07/01/08 - 09/30/09	203,674	29,865	40,735	10,870	-0-
School Improvements Grant (Note 3)	I/F	84.377	042-090332	11/25/08 - 09/30/09	37,451	13,557	23,835	10,278	-0-
ARRA - Title I Grants to Local Educational Agencies, Recovery Act (Note 3)	I/F	84.389	127-100332	05/13/09 - 09/30/10	591,607	-0-	348,004	443,325	95,321
ARRA - State Fiscal Stabilization Fund (SFSF)- Education State Grants, Recovery Act (Note 3)	I/F	84.394	126-100332	07/01/09 - 09/30/10	301,311	-0-	301,311	301,311	-0-
Total Passed Through the Pennsylvania Department of Education						**213,592**	**1,952,029**	**2,077,292**	**338,855**
Passed Through Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States (Note 3)	I/F	84.027	062-090013	07/01/09 - 06/30/10	404,949	-0-	404,949	404,949	-0-
ARRA Special Education - Grants to States, Recovery Act (Note 3)	I/F	84.391	128-100013	02/17/09 - 09/30/11	472,861	-0-	311,109	329,939	18,830
Total Passed Through Lancaster-Lebanon Intermediate Unit #13						**-0-**	**716,058**	**734,888**	**18,830**
Total U.S. Department of Education						**213,592**	**2,668,087**	**2,812,180**	**357,685**
TOTAL EXPENDITURES of FEDERAL AWARDS						**$ 225,685**	**$ 3,018,152**	**$ 3,208,593**	**$ 416,126**

Legend
I = Indirect funding
F = Federal share
CFDA = Catalog of Federal Domestic Assistance

See auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2010

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 - FOOD DONATION

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 ha decided to combine the inventories. The revenue and expenditures shown are the amounts of inventory received by the School District

NOTE 3 - 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
School Improvement Grants	84.377	School Improvements Grants Cluster
ARRA - Title I Grants to Local Educational Agencies Recovery Act	84.389	Title I, Part A Cluster
ARRA - Special Education - Grants to States, Recovery Act	84.391	Special Education Cluster
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.397	State Fiscal Stabilization Fund Cluster

See auditors' report.

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 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, 2010, which collectively comprise **Pequea Valley School District's** basic financial statements and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered **Pequea Valley School District's** internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Pequea Valley School District's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 #2010-01, #2010-02, and #2010-03 to be material weaknesses.

A significant deficiency is a control deficiency, or combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2010-04, and #2010-05 to be significant deficiencies.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of **Pequea Valley School District** in a separate letter dated November 23, 2010.

Pequea Valley School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **Pequea Valley School District's** response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, School Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Trout, Ebersole + Groff, LLP

November 23, 2010
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT on COMPLIANCE with REQUIREMENTS that COULD have a DIRECT and MATERIAL EFFECT on each MAJOR PROGRAM and on INTERNAL CONTROL over COMPLIANCE in ACCORDANCE with OMB CIRCULAR A-133

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

Compliance

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 a direct and material effect on each of **Pequea Valley School District's** major federal programs for the year ended June 30, 2010. **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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of **Pequea Valley School District's** management. Our responsibility is to express an opinion on **Pequea Valley School District's** compliance based on our audit.

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. Our audit does not provide a legal determination of **Pequea Valley School District's** compliance with those requirements.

In our opinion, **Pequea Valley School District** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items #2010-06, #2010-07, #2010-08, and #2010-09.

Internal Control Over Compliance

Management of **Pequea Valley School District** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Pequea Valley School District's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Pequea Valley School District's** internal control over compliance.

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

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

Pequea Valley School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Pequea Valley School District's** responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the management, School Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Trout, Ebersole & Groff, LLP

November 23, 2010
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Pequea Valley School District

SCHEDULE of FINDINGS and QUESTIONED COSTS

Year Ended June 30, 2010

A. Summary of Auditors' Results

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

2. Five significant deficiencies relating to the audit of the financial statements are reported in the 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*. Three of the significant deficiencies are determined to be material weaknesses.

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

4. No significant deficiencies relating to the audit of the major federal program are reported in the Independent Auditors' Report on Compliance with Requirements that Could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.

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

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

7. The programs tested as major programs are: Title I Grants to Local Educational Agencies - CFDA #84.010, Special Education - Grants to States - CFDA #84.027, Title I Grants to Local Educational Agencies, Recovery Act - CFDA #84.389, Special Education - Grants to States, Recovery Act - CFDA #84.391, and State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act - CFDA #84.394.

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

#2010-01 - Bank Reconciliations

The School District did not consistently complete or approve completed bank reconciliations during the year. Bank reconciliations are an important internal control to monitor cash flow and discrepancies that may occur between the bank and the general ledger. During our audit, it was noted that bank reconciliations were not completed for the scholarship funds for the year. In addition, the bank reconciliations for the cafeteria fund lacked documentation of completion and approval by management. Lastly, the general fund reconciliations were completed and approved by management; however there were uninvestigated differences in the reconciliation without documentation.

Recommendation: Bank reconciliations should be completed on a monthly basis for all bank accounts and signed off by the preparer. The completed bank reconciliations should be reviewed by management and documented as such. Differences should be investigated and resolved in a timely manner to ensure proper reporting to the board.

School District's Response: Bank reconciliations for the scholarship fund and cafeteria fund will be completed and reviewed by management on a monthly basis. Differences in the general fund reconciliations will be noted and investigated by management.

#2010-02 - Adjusting Journal Entries

The School District has designated an employee responsible to oversee the adjusting cash to accrual journal entries. However, there were several additional material adjusting entries that needed to be made for the financial statements to be prepared in conformity with generally accepted accounting principles. The School District has assumed responsibility for and evaluated the adequacy of the adjusting entries and has accepted responsibility for them. The material audit adjustments that needed to be made were as follows:

Accrued interest income had to be recorded for the general fund,
Accrued receivable for retirement and social security revenue,
Accrued receivable for the debt sinking subsidy,
Federal receivables were recorded,
Inventory was adjusted,
Additional accounts payable was recorded in the amount of approximately $135,000,
Deferred revenue was recorded, and
Taxes receivable was recorded.

B. Findings - Financial Statements Audit (Continued)

Material Weaknesses (Continued)

Recommendation: The School District should continue to record as many accrual basis adjustments as possible. Some adjustments are made with information that we as auditors receive from third parties and therefore are not known prior to the audit beginning.

School District's Response: Every effort will be made to ensure adjusting journal entries necessary for the financial statements are prepared in conformity with generally accepted accounting principles for all funds prior to the year-end audit.

#2010-03 - Preparation of Financial Statements

The School District has designated an employee 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 accepted responsibility for them. However, the School District's staff is not experienced in preparing all of the required financial statements and notes to the financial statements for the School District in conformity with the accounting principles generally accepted in the United States of America.

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

School District's Response: Since the 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 understands and accepts that this material weakness cannot be corrected without hiring additional staff who has the necessary knowledge and expertise.

Significant Deficiencies

#2010-04 - Scholarship Fund

The scholarship fund was not accounted for correctly in the general ledger system. Activity was recorded in the net asset accounts rather than revenue and expense accounts. Entries were completed in order to correct the net asset accounts and to record activity correctly in order to apply analytical procedures. Journal entries should not be posted to the net asset account. Activity should be posted to revenue and expense accounts in the general ledger system.

B. Findings - Financial Statements Audit (Continued)

Significant Deficiencies (Continued)

Recommendation: The scholarship fund should be reviewed periodically to ensure that the proper accounting treatment is being used to record activity of the fund.

School District's Response: This was the first year the scholarship fund was on the general ledger system and additional training was provided to staff to correct this mistake. Periodic reviews will be conducted by the Assistant to the Business Administrator to ensure activities are properly recorded.

#2010-05 - Payroll Accrual

The general fund payroll accrual incorrectly included an administrator in the teacher accrual and two teachers were not adjusted for their disability pay. The accruals are recorded differently based upon the classification of employee.

Recommendation: Management should review the payroll accrual to determine that all expenses are properly recorded.

School District's Response: Management will review all accruals prior to submission to the auditors.

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

Compliance Findings

DEPARTMENT OF EDUCATION
#2010-06 - Title I Grants to Local Educational Agencies - CFDA #84.010, Grant Number 013-090332, Year Ended June 30, 2010

Criteria: The School District is required to file a Reconciliation of Cash on Hand Quarterly Report on a quarterly basis to the Pennsylvania Department of Education within 10 business days of the end of a quarter, for all active grants.

Statement of Condition: The School District did not file the September 2009 required Reconciliation of Cash on Hand Quarterly Report in a timely manner.

Cause and Effect: The School District did not meet their filing requirements due to internal oversight.

Questioned Costs: None

Recommendation: Procedures should be established to ensure that all required reports are filed in a timely manner.

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

Compliance Findings (Continued)

School District Response: The individual who was responsible for this process was reassigned. This turnover caused the oversight. The Business Administrator and the Assistant to the Business Administrator reviewed the procedures with the new Federal Programs Coordinator to ensure future oversights are eliminated.

#2010-07 - Title I Grants to Local Educational Agencies - CFDA #84.010, Grant Number 013-100332, Year Ended June 30, 2010

Criteria: The School District is required to acquire and maintain signed semi-annual certifications from employees who work solely in the program stating that the employee is engaged solely in activities supported by the program.

Statement of Condition: The School District did not obtain these certifications in a timely manner.

Cause and Effect: The School District did not meet this requirement due to the transition of the Federal Program Coordinator position.

Questioned Costs: None

Recommendation: Procedures should be established to ensure that semi-annual certifications are obtained in a timely manner.

School District Response: The individual who was responsible for this process was reassigned. This turnover caused the oversight. The Business Administrator and the Assistant to the Business Administrator reviewed the procedures with the new Federal Programs Coordinator to ensure future oversights are eliminated.

#2010-08 - Special Education - Grants to States, Recovery Act- CFDA #84.391, Grant Number 128-100013, Year Ended June 30, 2010

Criteria: Non-federal entities are prohibited from contracting with or making subawards to parties that are suspended or debarred or whose principals are suspended or debarred. When a non-federal entity enters into a contract or makes a subaward greater than or equal to $25,000 with another entity, the non-federal entity must verify that the entity is not suspended or debarred.

Statement of Condition: School District personnel did not perform the required verification checks on parties with whom they contracted within the program.

Cause and Effect: The error was caused by internal oversight at the School District.

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

Compliance Findings (Continued)

Questioned Costs: None

Recommendation: School District personnel should perform the required verification checks prior to entering into an agreement greater than or equal to $25,000, and should maintain documentation of the verification checks.

#2010-08 - Special Education - Grants to States, Recovery Act- CFDA #84.391, Grant Number 128-100013, Year Ended June 30, 2010 (Continued)

School District Response: The individual who was responsible for this process was reassigned. This turnover caused the oversight. The Business Administrator and the Assistant to the Business Administrator reviewed the procedures with the new Federal Programs Coordinator to ensure future oversights are eliminated.

#2010-09 - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act - CFDA #84.394, Grant Number 126-100332, Year Ended June 30, 2010

Criteria: The School District is required to file with the Pennsylvania Department of Education a Final Expenditure Report by August 27, 2010.

Statement of Condition: The School District did not file the required Final Expenditure Report in a timely manner.

Cause and Effect: An oversight by the School District led to the reports being filed late.

Questioned Costs: None

Recommendation: Procedures should be established to ensure that the reports are filed in a timely manner.

School District Response: The individual who was responsible for this process was reassigned. This turnover caused the oversight. The Business Administrator and the Assistant to the Business Administrator reviewed the procedures with the new Federal Programs Coordinator to ensure future oversights are eliminated.

Compliance Finding

DEPARTMENT OF EDUCATION
#2009-12 - Title I Grants to Local Educational Agencies - CFDA #84.010, Grant Number 013-090332, Year Ended June 30, 2009

The School District did not file the required Reconciliation of Cash on Hand Quarterly Report for the quarter ended March 2009 in a timely manner.

Recommendation: Procedures should be established to ensure that all required reports are filed in a timely manner.

Current Status: As noted in finding #2010-06, the School District did not file the September 2009 required Reconciliation of Cash on Hand Quarterly Report in a timely manner.

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

Corrective Action Plan
November 23, 2010

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, 2010.

Name and address of independent public accounting firm:

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

Audit period: July 1, 2009, through June 30, 2010

The findings from the June 30, 2010, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weaknesses

#2010-01 – Bank Reconciliations

The School District did not consistently complete or approve completed bank reconciliations during the year. Bank reconciliations are an important internal control to monitor cash flow and discrepancies that may occur between the bank and the general ledger. During our audit, it was noted that bank reconciliations were not completed for the scholarship funds for the year. In addition, the bank reconciliations for the cafeteria fund lacked documentation of completion and approval by management. Lastly, the general fund reconciliations were completed and approved by management; however there were uninvestigated differences in the reconciliation without documentation.

Recommendation: Bank reconciliations should be completed on a monthly basis for all bank accounts and signed off by the preparer. The completed bank reconciliations should be reviewed by management and documented as such. Differences should be investigated and resolved in a timely manner to ensure proper reporting to the board.

School District Response

Bank reconciliations for the scholarship fund and cafeteria fund will be completed and reviewed by management on a monthly basis. Differences in the general fund reconciliations will be noted and investigated by management.

#2010-02– Adjusting Journal Entries

The School District has designated an employee responsible to oversee the adjusting cash to accrual journal entries. However, there were several additional material adjusting entries that needed to be made for the financial statements to be prepared in conformity with generally accepted accounting principles. The School District has assumed responsibility for and evaluated the adequacy of the adjusting entries and has accepted responsibility for them. The material audit adjustments that needed to be made were as follows:

- Accrued interest income had to be recorded for the general fund,
- Accrue receivable for retirement and social security revenue,
- Accrued receivable for the debt sinking subsidy,
- Federal receivables were recorded,
- Inventory was adjusted,
- Additional accounts payable was recorded in the amount of approximately $135,000
- Deferred revenue was recorded, and
- Taxes receivable was recorded.

Recommendation: The School District should continue to record as many accrual basis adjustments as possible. Some adjustments are made with information that we as auditors receive from third parties and therefore are not known prior to the audit beginning.

School District Response

Every effort will be made to ensure adjusting journal entries necessary for the financial statements are prepared in conformity with generally accepted accounting principles for all funds prior to the year-end audit.

#2010-03 – Preparation of Financial Statements

The School District has designated an employee 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 accepted responsibility for them. However, the School District's staff is not experienced in preparing all of the required financial statements and notes to the financial statements for the School District in conformity with the accounting principles generally accepted in the United States of America.

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

School District Response

Since the 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 understands and accepts that this material weakness cannot be corrected without hiring additional staff who has the necessary knowledge and expertise.

Significant Deficiencies

#2010-04 – Scholarship Fund

The scholarship fund was not accounted for correctly in the general ledger system. Activity was recorded in the net asset accounts rather than revenue and expense accounts. Entries were completed in order to correct the net asset accounts and to record activity correctly in order to apply analytical procedures. Journal entries should not be posted to the net asset account. Activity should be posted to revenue and expense accounts in the general ledger system.

Recommendation: The scholarship fund should be reviewed periodically to ensure that the proper accounting treatment is being used to record activity of the fund.

School District Response

This was the first year the scholarship fund was on the general ledger system and additional training was provided to staff to correct this mistake. Periodic reviews will be conducted by the Assistant to the Business Administrator to ensure activities are properly recorded.

#2010-05 – Payroll Accrual

The general fund payroll accrual incorrectly included an administrator in the teacher accrual and two teachers were not adjusted for their disability pay. The accruals are recorded differently based upon the classification of employee.

Recommendation: Management should review the payroll accrual to determine that all expenses are properly recorded.

School District Response

Management will review all accruals prior to submission to the auditors.

COMPLIANCE FINDINGS - DEPARTMENT OF EDUCATION

#2010-06 - Title I Grants to Local Educational Agencies - CFDA #84.010, Grant Number 013-090332, Year Ended June 30, 2010

Criteria: The School District is required to file a reconciliation of cash on hand quarterly report on a quarterly basis to the Pennsylvania Department of Education within 10 business days of the end of a quarter, for all active grants.

Statement of Condition: The School District did not file the September 2009 required reconcilement of cash on hand quarterly report in a timely manner.

Cause and Effect: The School District did not meet their filing requirements due to internal oversight.

Questioned Costs: None

Recommendation: Procedures should be established to ensure that all required reports are filed in a timely manner.

School District Response

The individual who was responsible for this process was reassigned. This turnover caused the oversight. The Business Administrator and the Assistant to the Business Administrator reviewed the procedures with the new Federal Programs Coordinator to ensure future oversights are eliminated.

#2010-07 – Title I Grants to Local Educational Agencies – CFDA #84.010, Grant Number 013-100332, Year Ended June 30, 2010

Criteria: The School District is required to acquire and maintain signed semi-annual certifications from employees who work solely in the program stating that the employee is engaged solely in activities supported by the program.

Statement of Condition: The School District did not obtain these certifications in a timely manner.

Cause and Effect: The School District did not meet this requirement due to the transition of the Federal Program Coordinator position.

Questioned Costs: None

Recommendation: Procedures should be established to ensure that semi-annual certifications are obtained in a timely manner.

School District Response

The individual who was responsible for this process was reassigned. This turnover caused the oversight. The Business Administrator and the Assistant to the Business Administrator reviewed the procedures with the new Federal Programs Coordinator to ensure future oversights are eliminated.

#2010-08 – Special Education – Grants to States, Recovery Act- CFDA #84.391, Grant Number 128-100013, Year Ended June 30, 2010

Criteria: Non-federal entities are prohibited from contracting with or making sub-awards to parties that are suspended or debarred or whose principals are suspended or debarred. When a non-federal entity enters into a contract or makes a sub-award greater than or equal to $25,000 with another entity, the non-federal entity must verify that the entity is not suspended or debarred.

Statement of Condition: School District personnel did not perform the required verification checks on parties with whom they contracted within the program.

Cause and Effect: The error was caused by internal oversight at the School District.

Questioned Costs: None

Recommendation: School District personnel should perform the required verification checks prior to entering into an agreement than $25,000, and should maintain documentation of the verification checks.

School District Response

The individual who was responsible for this process was reassigned. This turnover caused the oversight. The Business Administrator and the Assistant to the Business Administrator reviewed the procedures with the new Federal Programs Coordinator to ensure future oversights are eliminated.

#2010-09 – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act - CFDA #84.394, Grant Number 126-100332, Year Ended June 30, 2010

Criteria: The School District is required to file with the Pennsylvania Department of Education a Final Expenditure Report by August 27, 2010.

Statement of Condition: The School District did not file the required Final Expenditure Report in a timely manner.

Cause and Effect: An oversight by the School District led to the reports being filed late.

Questioned Costs: None

Recommendation: Procedures should be established to ensure that the reports are filed in a timely manner.

School District Response

The individual who was responsible for this process was reassigned. This turnover caused the oversight. The Business Administrator and the Assistant to the Business Administrator reviewed the procedures with the new Federal Programs Coordinator to ensure future oversights are eliminated.

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