PEQUEA VALLEY
SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2008

Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2008

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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2008

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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, 2008, 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 an opinion 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 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 opinion.

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 as of June 30, 2008, 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.

The management's discussion and analysis on pages 3 through 14, and budgetary comparison information on pages 54 and 55, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2008, 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 grants. 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 read in conjunction with this report in considering the results of our audit.

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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. 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Trout, Ebersole + Groff, LLP

November 24, 2008
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, 2008. 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 basic financial statements, and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

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

Financial Highlights

Overall expenditures for the 2007-2008 fiscal year were expected to grow by about 6.7% from the previous year. At year end, expenditures were 5.7% lower than budgeted. Additionally, revenues were 2.9% higher than budgeted. An explanation of these differences is below.

During the budget process the School District identified all positions that would be vacant at the end of the year and intended to fill all those positions. Prior to the start of the year the School District reevaluated some of those positions and although budgeted for them, never hired anyone to fill them. Additionally, several positions were able to be filled at a salary less than what was originally budgeted. This decreased expenditures by approximately $335,000 or 1.3% from what was budgeted.

The School District is a member of the Lancaster-Lebanon Public Schools Employees Health Care Cooperative which self-funds health care for its employees. The Cooperative utilizes an independent firm to estimate the amount of dollars each district should budget in order to cover all health care claims. For the 2007-2008 school year, the School District's actual expenditures were $410,800 less than budgeted. Additionally, due to the reevaluation of positions as mentioned above, the School District was able to save an additional $114,200 in benefit costs. The decrease in benefit expenditures represents about 2.0% of actual to budget.

Some of the other areas which make up the remaining 2.4% decrease in expenditures are as follows; transportation costs decreased by $166,863, contracted special education services decreased by $52,665, and due to a mild winter, heating oil decreased by $51,603.

Although the School District received approximately $83,900 less than what was budgeted in State and Federal revenue, its local revenue was $817,200 higher than budgeted. Interest earned on investments was $213,600 higher than budgeted. Earned income taxes, interim taxes, transfer taxes, and delinquent taxes combined to be $536,700 higher than budgeted.

The School District transferred $1,100,000 into the capital reserve fund to be used for future capital expenditures. Some of these expenditures will be for the opening of the new Paradise Elementary school. Additionally, the School District transferred $500,000 into the health care reserve fund, which is used for health care expenses that exceed budget.

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.

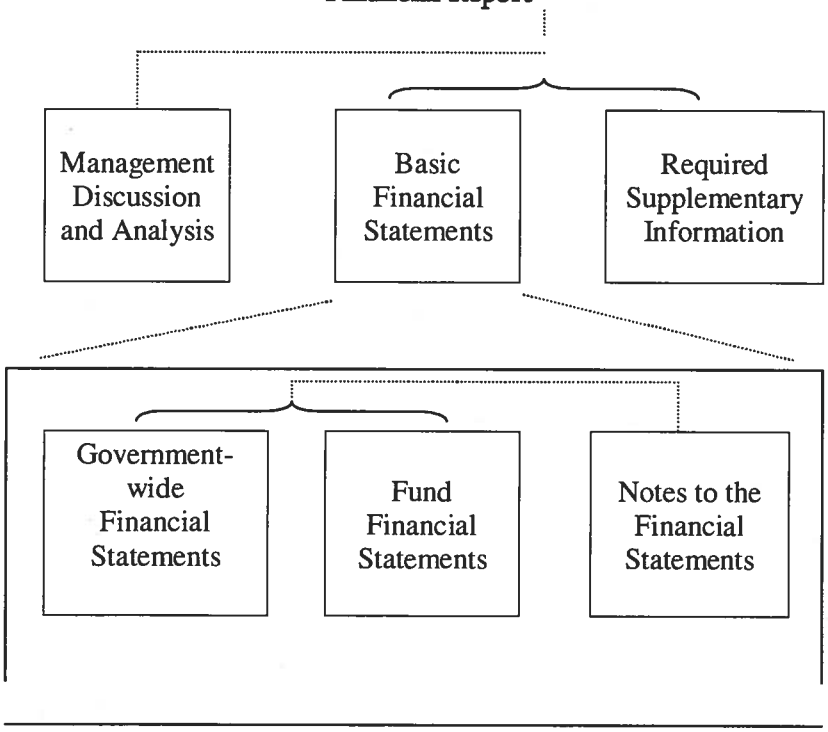
The first two statements are government-wide financial statements - the statement of net assets and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

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 services and internal services fund	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 Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows	Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary 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, you need 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 notifies 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 fiduciary net assets. 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 $21,060,813 as of June 30, 2008.

Table A-1
Fiscal Years Ended June 30, 2008 and 2007
Net Assets

	2008			2007		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	17,228,707	173,594	17,402,301	26,775,558	151,049	26,926,607
Capital Assets	46,290,385	181,216	46,471,601	33,324,313	211,400	33,535,713
Total Assets	**63,519,092**	**354,810**	**63,873,902**	**60,099,871**	**362,449**	**60,462,320**
Current and Other Liabilities	7,723,165	10,913	7,734,078	5,424,154	10,996	5,435,150
Long-Term Liabilities	35,079,011	-0-	35,079,011	37,900,141	-0-	37,900,141
Total Liabilities	**42,802,176**	**10,913**	**42,813,089**	**43,324,295**	**10,996**	**43,335,291**

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

	2008			2007		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Net Assets:						
Invested in Capital Assets, net of Related Debt	13,759,577	181,216	13,940,793	9,548,335	211,400	9,759,735
Restricted	97	-0-	97	179	-0-	179
Unrestricted	6,957,242	162,681	7,119,923	7,227,062	140,053	7,367,115
Total Net Assets	**20,716,916**	**343,897**	**21,060,813**	**16,775,576**	**351,453**	**17,127,029**

Most of the School District's net assets are invested in capital assets (buildings, land, and equipment). The remaining unrestricted net assets are combined 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.

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, 2008 and 2007
Changes in Net Assets

	2008			2007		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	190,615	526,484	717,099	161,258	514,406	675,664
Operating Grants and Contributions	4,442,155	360,510	4,802,665	4,135,310	329,562	4,464,872
Capital Grants and Contributions	513,606	-0-	513,606	397,026	-0-	397,026
General Revenues:						
Property Taxes	17,390,869	-0-	17,390,869	16,561,287	-0-	16,561,287
Other Taxes	1,996,068	-0-	1,996,068	1,989,936	-0-	1,989,936
Grants, Subsidies, and Contributions, Unrestricted	2,407,651	-0-	2,407,651	2,360,442	-0-	2,360,442
Other	1,228,533	4,034	1,232,567	1,311,707	5,844	1,317,551
Total Revenues	**28,169,497**	**891,028**	**29,060,525**	**26,916,966**	**849,812**	**27,766,778**
Expenses:						
Instructional Programs	14,121,812	-0-	14,121,812	13,076,707	-0-	13,076,707
Instructional Student Support	2,378,021	-0-	2,378,021	2,054,267	-0-	2,054,267
Administrative and Financial Support	2,092,335	-0-	2,092,335	2,033,028	-0-	2,033,028
Operation and Maintenance of Plant	2,105,177	-0-	2,105,177	2,033,666	-0-	2,033,666
Pupil Transportation	1,558,844	-0-	1,558,844	1,470,090	-0-	1,470,090
Student Activities	484,517	-0-	484,517	462,969	-0-	462,969
Community Services	15,109	-0-	15,109	6,610	-0-	6,610
Interest on Long-Term Debt	1,472,342	-0-	1,472,342	1,595,662	-0-	1,595,662
Food Services	-0-	898,584	898,584	-0-	871,292	871,292
Total Expenses	**24,228,157**	**898,584**	**25,126,741**	**22,732,999**	**871,292**	**23,604,291**
Increase (Decrease) in Net Assets	**3,941,340**	**(7,556)**	**3,933,784**	**4,183,967**	**(21,480)**	**4,162,487**

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 food service 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, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Fiscal Years Ended June 30, 2008 and 2007
Governmental Activities

	2008		2007	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional Programs	14,121,812	11,020,200	13,076,707	10,266,868
Instructional Student Support	2,378,021	2,137,305	2,054,267	1,801,245
Administrative and Financial Support	2,092,335	1,934,021	2,033,028	1,917,769
Operation and Maintenance of Plant	2,105,177	2,051,322	2,033,666	1,988,231
Pupil Transportation	1,558,844	559,380	1,470,090	477,313
Student Activities	484,517	419,885	462,969	382,733
Community Services	15,109	932	6,610	6,610
Interest on Long-Term Debt	1,472,342	958,736	1,595,662	1,198,636
Total Governmental Activities	**24,228,157**	**19,081,781**	**22,732,999**	**18,039,405**
Unrestricted Grants, Subsidies		2,407,651		2,360,442
Total Needs from Local Taxes and Other Revenues		**16,674,130**		**15,678,963**

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, 2008 and 2007
Business-Type Activities

	2008		2007	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Functions/Programs:				
Food Services	898,584	11,590	871,292	27,324
Investment Earnings	(4,034)	(4,034)	(5,844)	(5,844)
Total Business-Type Activities	**894,550**	**7,556**	**865,448**	**21,480**

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

The School District Funds

At June 30, 2008, the School District governmental funds reported a combined fund balance of $11,715,260, which is a decrease of $12,104,542. The primary reasons for this decrease are explained below:

Capital Projects Fund:

On June 30, 2007 the School District was beginning the construction of a new elementary school and as such maintained a balance of $17,836,025 in the capital projects fund. As of June 30, 2008, much of the construction on the new school had been completed and payment for such work was remitted, thus leaving a balance of $4,156,494 in the capital projects fund. This is a decrease of $13,679,531 from the previous year.

The difference of $1,574,989 was a result of increases in the general and special revenue funds.

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 54 and 55.

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.

General Fund Budget (Continued)

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

At June 30, 2008, the School District had $45,875,292 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deletions, and depreciation) of $13,036,499.

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

	2008	2007
Land and Land Improvements	2,226,011	2,335,522
Buildings and Building Improvements	27,344,533	28,421,857
Furniture and Equipment	853,977	787,206
Vehicles	44,453	57,352
New Construction in Progress	15,406,318	1,236,856
	45,875,292	**32,838,793**

Debt Administration

As of July 1, 2007, the School District had total outstanding bond principal of $38,980,000. During the year, the School District made payments against principal of $2,570,000 resulting in ending outstanding debt as of June 30, 2008, of $36,410,000.

Table A-6
Outstanding Debt

	2008	2007
Issue:		
Series of 2002	2,760,000	3,260,000
General Obligation Note of 2003	1,340,000	1,440,000
Series of 2003	7,235,000	7,795,000
Series A of 2003	1,190,000	1,775,000
Series of 2006	5,930,000	6,710,000
Series 2008	17,955,000	18,000,000
	36,410,000	**38,980,000**

Debt Administration (Continued)
Other obligations include accrued vacation pay and sick leave for specific employees of the School District. More detailed information about our long-term liabilities is included in Note 9 to the financial statements.

Economic Factors and Next Year's Budgets and Rates
The School District's general obligation bond rating is a Moody's A1 enhanced and A2 underlying rating. The A1 enhanced 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. Moody's cited that the A1 rating reflects the School District's stable tax base, adequate financial operations, and average debt burden.

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.

In the 2008-2009 budget the School District increased expenditures by 6.1% from the previous year. In order to mitigate the anticipated retirement rate hike in 2012 the School District chose not to decrease the retirement rate, but to increase it by 4.4% and transfer the difference into a fund designated to offset the costs of the projected rate increase. This will provide stability in future budgets. Additionally, the School District has been preparing for the proposed deregulation of electric rates in 2010 by increasing the electric utilities line item each of the last four years. The additional funds have been used in energy conservation initiatives throughout the School District. Debt service is fully funded with an additional $45,000 allocated to that line item to be used for future capital projects. The School District is in the process of completing the new Paradise Elementary School and anticipates utilizing approximately $2,000,000 out of the capital reserve fund to complete the project.

The School District will be closing old Paradise and Leacock Elementary Schools in January of 2009. The School District has decided to sell Leacock Elementary School and is exploring options as to the disposition of the old Paradise Elementary School. The proceeds of the sale of the Leacock Elementary School will be deposited into the capital reserve fund to be used for future capital expenditures.

Budgeted revenue for the 2008-2009 school year is 6.1% higher than the previous fiscal year. The majority of this is due to a 4.29% increase in the millage rate which the Board assessed in order to provide a balanced budget. An increase of 6.7% in state subsidies was based on figures available from the Governors Proposed Education Budget. Local revenue continues to provide the majority of funding for School District expenses as noted on page 14, with property taxes making up slightly over 61% of total projected revenue from all sources.

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

The comparison of revenue and expenditure categories is as follows:

Table A-7
Budgeted Revenues

	2008-2009	2007-2008
Local Sources	73.4%	73.4%
State Sources	21.9%	21.9%
Federal/Other Sources	4.7%	4.7%

Budgeted Expenditures

	2008-2009	2007-2008
Instruction	56.7%	56.7%
Support Services	25.5%	25.5%
Non-Instruction/Community	1.4%	1.4%
Fund Transfers/Debt	16.4%	16.4%

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, at **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, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Equivalents	$ 1,466,747	$ 94,431	$ 1,561,178
Investments	13,827,076	14,830	13,841,906
Taxes Receivable, net	1,177,532	-0-	1,177,532
Internal Balances	34,501	(34,501)	-0-
Due from Other Governments	587,835	46,594	634,429
Other Receivables	92,448	823	93,271
Inventories	36,690	51,417	88,107
Other Assets	5,878	-0-	5,878
Total Current Assets	**17,228,707**	**173,594**	**17,402,301**
Noncurrent Assets			
Land	651,861	-0-	651,861
Building and Building Improvements, net of Accumulated Depreciation	27,344,533	-0-	27,344,533
Site Improvements, net of Accumulated Depreciation	1,574,150	-0-	1,574,150
Furniture and Equipment, net of Accumulated Depreciation	853,977	181,216	1,035,193
Vehicles, net of Accumulated Depreciation	44,453	-0-	44,453
Construction in Progress	15,406,318	-0-	15,406,318
Deferred Bond Issue Costs, net of Accumulated Amortization	415,093	-0-	415,093
Total Noncurrent Assets	**46,290,385**	**181,216**	**46,471,601**
TOTAL ASSETS	$ 63,519,092	$ 354,810	$ 63,873,902

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET ASSETS

(Continued)

June 30, 2008

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	$ 1,936,071	$ 301	$ 1,936,372
Current Portion of Long-Term Debt	2,635,000	-0-	2,635,000
Accrued Salaries and Benefits	1,343,347	-0-	1,343,347
Compensated Absences Due Within One Year	222,344	-0-	222,344
Accrued Retirement Bonuses Due Within One Year	73,633	-0-	73,633
Accrued Interest on Long-term Debt	452,862	-0-	452,862
Payroll Deductions and Withholdings	106,660	-0-	106,660
Deferred Revenues	-0-	7,338	7,338
Due to Other Governments	610,439	3,274	613,713
Other Current Liabilities	342,809	-0-	342,809
Total Current Liabilities	**7,723,165**	**10,913**	**7,734,078**
Noncurrent Liabilities			
Bonds Payable, net of Amortized Discount	34,052,302	-0-	34,052,302
Accrued Retirement Bonuses	476,335	-0-	476,335
Long-Term Portion of Compensated Absences	550,374	-0-	550,374
Total Noncurrent Liabilities	**35,079,011**	**-0-**	**35,079,011**
TOTAL LIABILITIES	**42,802,176**	**10,913**	**42,813,089**
NET ASSETS			
Invested in Capital Assets, net of Related Debt	13,759,577	181,216	13,940,793
Restricted for:			
Debt Service	97	-0-	97
Unrestricted	6,957,242	162,681	7,119,923
TOTAL NET ASSETS	**$ 20,716,916**	**$ 343,897**	**$ 21,060,813**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2008

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	$ 14,121,812	$ 112,563	$ 2,989,049	$ -0-	$ (11,020,200)	$ -0-	$ (11,020,200)
Instructional Student Support	2,378,021	-0-	240,716	-0-	(2,137,305)	-0-	(2,137,305)
Administrative and Financial Support Services	2,092,335	29,493	128,821	-0-	(1,934,021)	-0-	(1,934,021)
Operation and Maintenance of Plant Services	2,105,177	10,334	43,521	-0-	(2,051,322)	-0-	(2,051,322)
Pupil Transportation	1,558,844	-0-	999,464	-0-	(559,380)	-0-	(559,380)
Student Activities	484,517	38,225	26,407	-0-	(419,885)	-0-	(419,885)
Community Services	15,109	-0-	14,177	-0-	(932)	-0-	(932)
Interest on Long-Term Debt	1,472,342	-0-	-0-	513,606	(958,736)	-0-	(958,736)
Total Governmental Activities	**24,228,157**	**190,615**	**4,442,155**	**513,606**	**(19,081,781)**	**-0-**	**(19,081,781)**
Business-Type Activities:							
Food Services	898,589	526,489	360,510	-0-	-0-	(11,590)	(11,590)
Total Primary Government	**$ 25,126,746**	**$ 717,104**	**$ 4,802,665**	**$ 513,606**	**$ (19,081,781)**	**$ (11,590)**	**$ (19,093,371)**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2008

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, net					$ 17,390,869	$ -0-	$ 17,390,869
Public Utility Realty, Earned Income, Occupation and Per Capita Taxes Levied for General Purposes, net					1,996,068	-0-	1,996,068
Unrestricted Grants and Subsidies					2,407,651	-0-	2,407,651
Unrestricted Investment Earnings					1,219,036	4,034	1,223,070
Miscellaneous Income					9,497	-0-	9,497
Total General Revenues					23,023,121	4,034	23,027,155
CHANGES in NET ASSETS					3,941,340	(7,556)	3,933,784
NET ASSETS							
Beginning					16,775,576	351,453	17,127,029
Ending					$ 20,716,916	$ 343,897	$ 21,060,813

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

	Major Funds					
	General Fund	Capital Reserve	Capital Project	Debt Service	Athletic	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	$ 1,412,065	$ -0-	$ -0-	$ -0-	$ 36,377	$ 1,448,442
Investments	2,941,745	4,287,826	6,066,682	1,292	-0-	13,297,545
Taxes Receivable, net	1,177,532	-0-	-0-	-0-	-0-	1,177,532
Due from Other Funds	84,478	1,004,454	-0-	-0-	-0-	1,088,932
Due from Other Governments	587,835	-0-	-0-	-0-	-0-	587,835
Other Receivables	5,255	52,808	11,616	-0-	-0-	69,679
Inventories	36,690	-0-	-0-	-0-	-0-	36,690
Prepaid Expenses	5,878	-0-	-0-	-0-	-0-	5,878
TOTAL ASSETS	6,251,478	5,345,088	6,078,298	1,292	36,377	17,712,533
LIABILITIES and FUND BALANCES						
LIABILITIES						
Accounts Payable	300,737	-0-	1,628,678	-0-	6,656	1,936,071
Due to Other Funds	1,504,614	36,417	13,383	-0-	17	1,554,431
Accrued Salaries and Benefits	1,343,347	-0-	-0-	-0-	-0-	1,343,347
Payroll Deductions and Withholdings	106,660	-0-	-0-	-0-	-0-	106,660
Payable to Other Governments	330,696	-0-	279,743	-0-	-0-	610,439
Deferred Revenue	421,938	-0-	-0-	-0-	-0-	421,938
Other Current Liabilities	24,387	-0-	-0-	-0-	-0-	24,387
TOTAL LIABILITIES	$ 4,032,379	$ 36,417	$ 1,921,804	$ -0-	$ 6,673	$ 5,997,273

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS
(Continued)
June 30, 2008

	Major Funds					
	General Fund	Capital Reserve	Capital Project	Debt Service	Athletic	Total Governmental Funds
FUND BALANCES						
Reserved for:						
Inventories	$ 36,690	$ -0-	$ -0-	$ -0-	$ -0-	$ 36,690
Prepaid Expenses	5,878	-0-	-0-	-0-	-0-	5,878
Reserve for Debt Service	-0-	-0-	-0-	97	-0-	97
Unreserved - Undesignated:						
General Fund	2,176,531	-0-	-0-	-0-	-0-	2,176,531
Special Revenue Funds	-0-	5,308,671	-0-	-0-	29,704	5,338,375
Capital Projects Funds	-0-	-0-	4,156,494	-0-	-0-	4,156,494
Debt Service Fund	-0-	-0-	-0-	1,195	-0-	1,195
TOTAL FUND BALANCES	**2,219,099**	**5,308,671**	**4,156,494**	**1,292**	**29,704**	**11,715,260**
TOTAL LIABILITIES and FUND BALANCES	**$ 6,251,478**	**$ 5,345,088**	**$ 6,078,298**	**$ 1,292**	**$ 36,377**	**$ 17,712,533**

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET ASSETS
June 30, 2008

Total fund balances - governmental funds	$	11,715,260
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 $66,067,621 and the accumulated depreciation is $20,192,329.		45,875,292
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		752,183
Property taxes receivable are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		421,938
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable		(36,410,000)
Accrued Interest on Long-Term Debt		(452,862)
Bond Issue Costs, net of Amortization		415,093
Bond Premium, net of Amortization		(314,318)
Bond Discount, net of Amortization		37,016
Accrued Retirement Bonuses		(549,968)
Compensated Absences		(772,718)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	**$**	**20,716,916**

See notes to financial statements.

Pequea Valley School District

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

Year Ended June 30, 2008

	Major Funds					
	General Fund	Capital Reserve	Capital Project	Debt Service	Athletic	Total Governmental Funds
REVENUES						
Local Sources:						
Real Estate Taxes	$ 17,362,604	$ -0-	$ -0-	$ -0-	$ -0-	$ 17,362,604
Other Taxes	1,996,068	-0-	-0-	-0-	-0-	1,996,068
Investment Earnings	363,591	167,111	489,931	196,943	1,460	1,219,036
Other Revenue	146,835	12,860	-0-	-0-	42,826	202,521
Total Local Sources	19,869,098	179,971	489,931	196,943	44,286	20,780,229
State Sources	5,868,803	-0-	-0-	-0-	-0-	5,868,803
Federal Sources	1,492,109	-0-	-0-	-0-	-0-	1,492,109
Total Revenues	**27,230,010**	**179,971**	**489,931**	**196,943**	**44,286**	**28,141,141**
EXPENDITURES						
Instructional Services	13,373,266	24,023	-0-	-0-	-0-	13,397,289
Support Services	7,989,480	141,681	-0-	-0-	-0-	8,131,161
Noninstructional Services	372,388	-0-	-0-	-0-	142,995	515,383
Capital Outlay	-0-	-0-	14,169,462	-0-	-0-	14,169,462
Debt Service	-0-	-0-	-0-	4,033,721	-0-	4,033,721
Total Expenditures	**21,735,134**	**165,704**	**14,169,462**	**4,033,721**	**142,995**	**40,247,016**
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	**5,494,876**	**14,267**	**(13,679,531)**	**(3,836,778)**	**(98,709)**	**(12,105,875)**
OTHER FINANCING SOURCES (USES)						
Debt Service Fund Transfer	(3,929,954)	(103,680)	-0-	4,033,634	-0-	-0-
Other Fund Transfers	(1,217,220)	1,400,899	-0-	(300,899)	117,220	-0-
Proceeds from Sale of Capital Assets	91	-0-	-0-	-0-	-0-	91
Net Other Financing Sources (Uses)	**(5,147,083)**	**1,297,219**	**-0-**	**3,732,735**	**117,220**	**91**
NET CHANGES in FUND BALANCES	**347,793**	**1,311,486**	**(13,679,531)**	**(104,043)**	**18,511**	**(12,105,784)**
FUND BALANCES						
Beginning	1,870,064	3,997,185	17,836,025	105,335	11,193	23,819,802
Change in Inventory	1,242	-0-	-0-	-0-	-0-	1,242
Ending	**$ 2,219,099**	**$ 5,308,671**	**$ 4,156,494**	**$ 1,292**	**$ 29,704**	**$ 11,715,260**

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, 2008

Net changes in fund balances - total governmental funds		$ (12,105,784)
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	(1,412,847)	
Capital Outlays	14,449,346	13,036,499
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.		28,265
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		2,527,596
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.		33,783
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.		31,939
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.		$ 9,366

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, 2008

The governmental funds follow the purchase method of inventory, however, the statement of net assets uses the consumption method to record inventory.	$	1,242
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.		378,434
CHANGES in NET ASSETS of GOVERNMENTAL ACTIVITIES	**$**	**3,941,340**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET ASSETS -
PROPRIETARY FUNDS
June 30, 2008

	Enterprise Funds	
	Food Service	Internal Service Funds
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 94,431	$ 18,305
Investments	14,830	529,531
Due from Other Funds	160	500,000
Due from Other Governments	46,594	-0-
Other Receivables	823	-0-
Inventories	51,417	-0-
Other Current Assets	-0-	22,769
Total Current Assets	**208,255**	**1,070,605**
Noncurrent Assets		
Machinery and Equipment, net of Accumulated Depreciation	**181,216**	**-0-**
TOTAL ASSETS	**389,471**	**1,070,605**
LIABILITIES		
Current Liabilities		
Accounts Payable	301	-0-
Due to Other Funds	34,661	-0-
Due to Other Governments	3,274	-0-
Other Current Liabilities	-0-	318,422
Deferred Revenue	7,338	-0-
TOTAL LIABILITIES	**45,574**	**318,422**
NET ASSETS		
Invested in Capital Assets, net of Related Debt	181,216	-0-
Unrestricted	162,681	752,183
TOTAL NET ASSETS	**$ 343,897**	**$ 752,183**

See notes to financial statements.

Pequea Valley School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS -
PROPRIETARY FUNDS
Year Ended June 30, 2008

	Enterprise Funds	
	Food Service	Internal Service Funds
OPERATING REVENUES		
Food Service Revenue	$ 526,489	$ -0-
Charges for Services	-0-	2,650,975
Total Operating Revenues	**526,489**	**2,650,975**
OPERATING EXPENSES		
Salaries	274,504	-0-
Employee Benefits	75,808	2,297,401
Purchased Professional and Technical Services	42,833	-0-
Other Purchased Services	21,536	-0-
Supplies	453,724	-0-
Depreciation	30,184	-0-
Total Operating Expenses	**898,589**	**2,297,401**
OPERATING INCOME (LOSS)	**(372,100)**	**353,574**
NONOPERATING REVENUES		
Investment Earnings	4,034	24,861
State Sources	57,216	-0-
Federal Sources	303,294	-0-
Net Nonoperating Revenues	**364,544**	**24,861**
CHANGES in NET ASSETS	**(7,556)**	**378,435**
NET ASSETS		
Beginning	351,453	373,748
Ending	**$ 343,897**	**$ 752,183**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2008

	Enterprise Funds	
	Food Service	Internal Service Funds
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	$ 527,157	$ -0-
Cash Received from Assessments Made to Other Funds	-0-	2,128,206
Cash Payments to Employees for Services	(350,312)	-0-
Cash Payments for Insurance Service	-0-	(2,112,401)
Cash Payments to Suppliers for Goods and Services	(473,947)	-0-
Net Cash Provided (Used) by Operating Activities	**(297,102)**	**15,805**
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Purchase of Capital Acquisitions	-0-	-0-
CASH FLOWS from NON-CAPITAL FINANCING ACTIVITIES		
State Sources	55,238	-0-
Federal Sources	256,636	-0-
Net Cash Provided by Non-Capital Financing Activities	**311,874**	**-0-**
CASH FLOWS from INVESTING ACTIVITIES		
Investment Earnings	4,034	24,861
Sale (Purchase) of Investments	38,420	(24,861)
Net Cash Provided by Investing Activities	**42,454**	**-0-**
INCREASE in CASH and CASH EQUIVALENTS	**57,226**	**15,805**
CASH and CASH EQUIVALENTS		
Beginning of Year	37,205	2,500
End of Year	**$ 94,431**	**$ 18,305**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
(Continued)
Year Ended June 30, 2008

	Enterprise Funds	
	Food Service	Internal Service Funds
RECONCILIATION of OPERATING INCOME (LOSS) to NET CASH PROVIDED by OPERATING ACTIVITIES		
Operating Income (Loss)	$ (372,100)	$ 353,574
ADJUSTMENTS to RECONCILE OPERATING INCOME (LOSS) to NET CASH PROVIDED by OPERATING ACTIVITIES		
Depreciation	30,184	-0-
Donated Commodities Used	40,197	-0-
Increase in Accounts Receivable	723	(22,764)
Increase in Inventory	2,809	-0-
Increase (Decrease) in Accounts Payable	(3,302)	184,995
Increase in Interfund Receivable	4,442	(500,000)
Increase (Decrease) in Deferred Revenue	(55)	-0-
Total Adjustments	74,998	337,769
Net Cash Provided (Used) by Operating Activities	$ (297,102)	$ 15,805

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET ASSETS -
FIDUCIARY FUNDS
June 30, 2008

	Private Purpose Trust	Agency Fund
ASSETS		
Cash and Cash Equivalents	$ -0-	$ 10,086
Investments	112,343	56,590
TOTAL ASSETS	112,343	66,676
LIABILITIES		
Accounts Payable	-0-	7,604
Other Current Liabilities	5,800	59,072
TOTAL LIABILITIES	5,800	66,676
NET ASSETS		
Restricted for Scholarships	$ 106,543	$ -0-

See notes to financial statements.

Pequea Valley School District

STATEMENT of CHANGES in NET ASSETS -
FIDUCIARY FUNDS
Year Ended June 30, 2008

	Private Purpose Trust
ADDITIONS	
Investment Earnings	$ 4,393
Gifts and Contributions	-0-
Total Additions	4,393
DEDUCTIONS	
Scholarships Awarded	5,900
CHANGES in NET ASSETS	(1,507)
NET ASSETS	
Beginning	108,050
Ending	$ 106,543

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 1,864 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, 2008, was approximately $340,875. 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, 2008, was $148,243. The School District's lease payment to the Authority for the year ended June 30, 2008, was $78,475, 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, 2008. 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, 2008, was approximately $1,015,933. 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, 2008, was $50,709. 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 15 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 $150,000. The pool has commercial insurance for claims greater than $150,000.

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, 2008, which are not intended to finance fiscal 2008 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, 2008. 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, 2008, 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, 2008, 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, 2008, 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. Neither type of transaction occurred during fiscal year 2008.

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, 2008, $7,169,658 of the School District's bank balance of $7,569,658 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	7,169,658
	7,169,658

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	7,169,658
Insured Amount	400,000
Bank Balance	7,569,658
Outstanding Checks	(138,694)
Carrying Amount - Bank Balances	7,430,964
Petty Cash	2,300
Certificates of Deposit Classified as Investments on the Balance Sheet	(5,862,000)
Total Cash and Cash Equivalents Per Financial Statements	**1,571,264**

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

Investments

As of June 30, 2008, the School District had the following investments:

Investments	Maturity	Fair Value
PSDMAX		4,497,615
PLGIT PLUS		3,027,073
PLGIT TERM		529,121
PLGIT		94,933
U S Treasury MMF		97
Certificates of Deposit	0 - 12 Months	5,862,000
		14,010,839

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, 2008, the School District investments were rated as:

Investments	Standard & Poor's
PSLDAF	AAAm
PLGIT	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:	
PSDMAX	56%
PLGIT PLUS	37%
PLGIT TERM	7%
Business-Type Activities and Food Service Fund:	
PLGIT	100%

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

Concentration of Credit Risk (Continued)

General Fund:	
PSDMAX	10%
PLGIT PLUS	86%
Capital Reserve Fund:	
PLGIT PLUS	72%
PSDLAF	12%
PLGIT TERM	16%
Capital Project Fund:	
PSDMAX	100%
Debt Service Fund:	
PSDMAX	100%
Other Funds:	
PLGIT PLUS	87%
PLGIT	13%

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, 2008, was 14.6 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2008, 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, 2008, are as follows:

	Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	625,755	203,817	421,938
Realty Transfer Taxes	35,925	35,925	-0-
Earned Income Taxes	515,852	515,852	-0-
	1,177,532	**755,594**	**421,938**

NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2008, the following amounts are due from other governmental units:

Due From	General Fund	Enterprise Fund	Total
Federal Grants	105,672	40,209	145,881
State Match for Lunch Program	-0-	6,385	6,385
State Retirement Subsidy	107,250	-0-	107,250
State Social Security Subsidy	31,222	-0-	31,222
Other State Subsidies	128,676	-0-	128,676
Due from Intermediate Unit	86,776	-0-	86,776
Local	128,239	-0-	128,239
	587,835	**46,594**	**634,429**

NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2008, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	84,478	1,504,614
Enterprise Fund - Cafeteria	160	34,661
Internal Service	500,000	
Capital Reserve Fund	1,004,454	36,417
Capital Projects		13,383
Athletic Fund	-0-	17
	1,589,092	1,589,092

Interfund transfers for the year ended June 30, 2008, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	5,147,174
Capital Reserve Fund	1,400,899	103,680
Athletic Fund	117,220	-0-
Debt Service Fund	4,033,634	300,899
	5,551,753	5,551,753

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

Transfers are made from the general fund to the capital reserve fund for equipment purchases.

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

Transfers from the debt service fund to the capital reserve fund for equipment purchase.

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2008, is as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Historical Cost:				
Capital Assets not Being Depreciated:				
Construction in Progress	1,236,856	14,169,462	-0-	15,406,318
Land	651,861	-0-	-0-	651,861
Total Cost	**1,888,717**	**14,169,462**	**-0-**	**16,058,179**
Capital Assets Being Depreciated:				
Site Improvements	2,791,747	-0-	-0-	2,791,747
Building and Building Improvements	44,961,045	-0-	-0-	44,961,045
Furniture and Equipment	1,845,727	285,974	(6,090)	2,125,611
Vehicles	131,039	-0-	-0-	131,039
Total Cost	**49,729,558**	**285,974**	**(6,090)**	**50,009,442**
Accumulated Depreciation:				
Site Improvements	1,108,086	109,511	-0-	1,217,597
Building and Building Improvements	16,539,188	1,077,324	-0-	17,616,512
Furniture and Equipment	1,058,521	218,288	(5,175)	1,271,634
Vehicles	73,687	12,899	-0-	86,586
Total Accumulated Depreciation	**18,779,482**	**1,418,022**	**(5,175)**	**20,192,329**
Net Capital Assets Being Depreciated	**30,950,076**	**(1,132,048)**	**(915)**	**29,817,113**
Net Capital Assets	**32,838,793**	**13,037,414**	**(915)**	**45,875,292**

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2008, is as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	590,317	-0-	-0-	590,317
Accumulated Depreciation:				
Equipment	378,917	30,184	-0-	409,101
Net Capital Assets	**211,400**	**(30,184)**	**-0-**	**181,216**

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	1,123,509
Instructional Student Support	86,026
Administration and Financial Support Services	164,914
Operation and Maintenance of Plant Services	38,398
	1,412,847

NOTE 8 - DEFERRED REVENUE

Deferred revenue consists of the following as of June 30, 2008:

	General Fund	Enterprise Fund	Total
Deferred Taxes	421,938	-0-	421,938
Prepaid Lunch Sales	-0-	7,338	7,338
	421,938	**7,338**	**429,276**

NOTE 9 - LONG-TERM DEBT

General Obligation Debt

The School District issues general obligation bonds to provide funds for major capital improvements. These bonds are direct obligations and pledge the full faith and credit of the School District. Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2008, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2008	Due Within One Year
Series of 2002	02/15/2013	2.00% - 3.85%	2,760,000	510,000
GON Series of 2003	04/01/2019	Wkly Variable Rate Max 15%	1,340,000	105,000
Series of 2003	04/01/2019	1.10% - 3.70%	7,235,000	570,000
Series A of 2003	05/15/2010	1.40% - 3.25%	1,190,000	585,000
Series of 2005	05/15/2021	3.00% - 4.10%	5,930,000	805,000
Series of 2006	02/01/2020	3.50% - 4.75%	17,955,000	60,000
			36,410,000	**2,635,000**

The variable rate for the GON Series of 2003 is determined weekly by the program administrator (Delaware Valley Regional Financing Authority). The rate in effect at June 30, 2008, is 1.55%.

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
General Obligation Debt	38,980,000	-0-	2,570,000	36,410,000
Bond Premium	352,028	-0-	37,710	314,318
Bond Discount	(46,703)	-0-	(9,687)	(37,016)
Accrued Retirement Bonuses	559,333	-0-	9,365	549,968
Estimated Liability for Compensated Absences	804,657	-0-	31,939	772,718
	40,649,315	**-0-**	**2,639,327**	**38,009,988**

NOTE 9 - LONG-TERM DEBT (Continued)

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

	Interest	Principal	Total
2009	1,373,794	2,635,000	4,008,794
2010	1,303,437	2,710,000	4,013,437
2011	1,224,215	2,725,000	3,949,215
2012	1,121,517	2,810,000	3,931,517
2013	1,046,756	2,915,000	3,961,756
2014 - 2018	3,380,775	16,440,000	19,820,775
2019 - 2021	393,393	6,175,000	6,568,393
	9,843,887	**36,410,000**	**46,253,887**

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, 2008:

Accumulated Sick Leave	608,063
Accumulated Vacation Leave	40,899
Accumulated Personal Days	68,844
Employer Social Security and Medicare on Leave Amounts Above	54,912
	772,718

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. A summary of the amount recorded as a liability in the governmental activities for this supplemental retirement benefit is as follows for June 30, 2008:

NOTE 11 - ACCRUED RETIREMENT BONUSES (Continued)

	Governmental Activities
Estimated Accrued Retirement Bonus	510,885
Employer Social Security and Medicare Share on Above	39,083
	549,968

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.

Minimum future rental payments under this operating lease having remaining terms in excess of one year as of June 30, 2008, are as follows:

2009	79,523
2010	79,564
Total Minimum Future Rental Payments	**159,087**

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 is 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, 2008, the rate of employer contribution was 7.13 percent of covered payroll. The 7.13 percent rate is comprised of a pension contribution rate of 6.44 percent for pension benefits and .69 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, 2008, 2007, and 2006 were $785,458, $669,292, and $491,922, 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 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 $2,456,775 in total per year.

A liability for claims incurred prior to June 30, 2008, and subsequently paid is recorded in the amount of $318,422 in other current liabilities in the internal service fund.

Changes in the School District's claims liability amount in fiscal years 2008 and 2007 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2007-2008	133,422	2,297,401	2,112,401	318,422
2006-2007	112,121	2,615,219	2,593,918	133,422

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, 2008, 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, 2008, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 15 - POST-EMPLOYMENT HEALTH CARE BENEFITS

The School District permits any professional employee who retires at age 50 or later to continue group insurance coverage to age 65 by remitting the monthly premium to the School District. The retiree's cost of group insurance is calculated by the Plan Administrator and is based on projected expenditures for the year. The retiree's premium for the group insurance is payable in advance on a monthly basis. The School District has elected to finance post employment benefits on a pay-as-you-go basis. The School District recognizes expenditures for post employment group insurance when claims are filed with the Plan Administrator. The School District is responsible for all claims in excess of the premiums received by the qualified retirees. Currently, there are 27 participants receiving benefits. The total claims paid on behalf of these participants and premiums paid by the participants to the School District for the year ended June 30, 2008, were $272,129 and $179,036, respectively.

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, 2008, the School District has included the following amounts as specific reserved fund balances:

Debt Service Funds - Reserve for Debt Service Expenditures	97

Pequea Valley School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
Year Ended June 30, 2008

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Local Sources:				
Real Estate Taxes	$ 17,233,059	$ 17,233,059	$ 17,362,604	$ 129,545
Other Taxes	1,690,298	1,690,298	1,996,068	305,770
Investment Earnings	150,000	150,000	363,591	213,591
Other Revenue	53,500	53,500	146,835	93,335
Total Local Sources	19,126,857	19,126,857	19,869,098	742,241
State Sources	5,798,433	5,798,433	5,868,803	70,370
Federal Sources	1,472,736	1,472,736	1,492,109	19,373
Total Revenues	**26,398,026**	**26,398,026**	**27,230,010**	**831,984**
EXPENDITURES				
Instructional Services:				
Regular Programs	10,452,477	10,406,561	10,290,231	116,330
Special Programs	2,500,249	2,500,249	2,437,699	62,550
Vocational Programs	524,082	524,082	519,511	4,571
Other Instructional Programs	79,909	125,825	125,825	-0-
Total Instructional Services	**13,556,717**	**13,556,717**	**13,373,266**	**183,451**
Support Services:				
Pupil Personnel Services	739,994	739,994	692,081	47,913
Instructional Staff Services	1,413,928	1,501,261	1,501,261	-0-
Administrative Services	1,355,144	1,343,152	1,328,635	14,517
Pupil Health	184,617	184,617	184,976	(359)
Business Services	377,376	377,376	358,360	19,016
Operation of Plant and Maintenance Services	2,209,674	2,092,341	2,084,164	8,177
Student Transportation Services	1,620,419	1,620,419	1,560,311	60,108
Central and Other Business Services	213,743	255,735	255,735	-0-
Other Support Services	25,500	25,500	23,957	1,543
Total Support Services	**8,140,395**	**8,140,395**	**7,989,480**	**150,915**
Noninstructional Services:				
Student Activities	381,636	367,527	357,279	10,248
Community Services	1,000	15,109	15,109	-0-
Total Noninstructional Services	**382,636**	**382,636**	**372,388**	**10,248**
Total Expenditures	**22,079,748**	**22,079,748**	**21,735,134**	344,614
OTHER FINANCING SOURCES (USES)				
Debt Service Fund Transfer	-0-	-0-	(3,929,954)	(3,929,954)
Other Fund Transfers	(4,718,279)	(4,718,279)	(1,217,220)	3,501,059
Proceeds from Sale of Capital Assets	-0-	-0-	91	91
Net Other Financing Uses	**$ (4,718,279)**	**$ (4,718,279)**	**$ (5,147,083)**	**$ (428,804)**

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, 2008

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
NET CHANGES in FUND BALANCES	**$ (400,001)**	**$ (400,001)**	**$ 347,793**	**$ 747,794**
FUND BALANCES				
Beginning			1,870,064	
Change in Inventory			1,242	
Ending			**$ 2,219,099**	

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, 2008.

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, 2008

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2007	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2008
U.S. Department of Agriculture									
Passed Through the Pennsylvania Department of Education:									
School Breakfast Program***	I/F	10.553	N/A	07/01/07 - 06/30/08	N/A	$ -0-	$ 33,964	$ 40,170	$ 6,206
	S	N/A	N/A	07/01/07 - 06/30/08	N/A	-0-	3,992	4,724	732
School Breakfast Program***	I/F	10.553	N/A	07/01/06 - 06/30/07	N/A	4,778	4,778	-0-	-0-
	S	N/A	N/A	07/01/06 - 06/30/07	N/A	548	548	-0-	-0-
National School Lunch Program***	I/F	10.555	N/A	07/01/07 - 06/30/08	N/A	-0-	183,120	217,123	34,003
	S	N/A	N/A	07/01/07 - 06/30/08	N/A	-0-	27,004	32,657	5,653
National School Lunch Program***	I/F	10.555	N/A	07/01/06 - 06/30/07	N/A	28,970	28,970	-0-	-0-
	S	N/A	N/A	07/01/06 - 06/30/07	N/A	3,859	3,859	-0-	-0-
Total Passed Through the Pennsylvania Department of Education						**38,155**	**286,235**	**294,674**	**46,594**
Passed Through the Pennsylvania Department of Agriculture:									
Food Donation (Note 2)	I/F	10.550	N/A	07/01/07 - 06/30/08	N/A	-0-	46,000	46,000	-0-
Total U.S. Department of Agriculture						**$ 38,155**	**$ 332,235**	**$ 340,674**	**$ 46,594**

See auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2008

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2007	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2008
U.S. Department of Education Passed Through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	I/F	84.010	013-080332	07/01/07 - 09/30/08	1,000,878	$ -0-	$ 600,209	$ 675,050	$ 74,841
Title I Grants to Local Educational Agencies	I/F	84.010	013-070332	07/01/06 - 09/30/07	772,491	(16,416)	258,620	275,036	-0-
Title I Grants to Local Educational Agencies	I/F	84.010	077-070332	07/01/06 - 09/30/07	6,228	-0-	6,228	6,228	-0-
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-080332	07/01/07-09/30/08	13,286	-0-	10,629	13,286	2,657
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-070332	07/01/06 - 09/30/07	13,780	1,837	1,837	-0-	-0-
State Grants for Innovative Programs	I/F	84.298	011-080332	07/01/07 - 09/30/08	1,847	-0-	1,847	1,847	-0-
Improving Teacher Quality State Grants	I/F	84.367	020-080332	07/01/07 - 09/30/08	200,120	-0-	173,437	200,120	26,683
Improving Teacher Quality State Grants	I/F	84.367	020-070332	07/01/06 - 09/30/07	199,357	39,828	39,828	-0-	-0-
Total Passed Through the Pennsylvania Department of Education						**$ 25,249**	**$ 1,092,635**	**$ 1,171,567**	**$ 104,181**

See auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2008

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2007	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2008
U.S. Department of Education (Continued) Passed Through the Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States	I/F	84.027	062-080013	07/01/07 - 06/30/08	317,320	$ -0-	$ 317,320	$ 317,320	$ -0-
Special Education - Grants to States (Note 3)	I/F	84.027	062-070013	07/01/06 - 06/30/07	305,250	5,313	5,313	-0-	-0-
Total Passed Through the Lancaster-Lebanon Intermediate Unit #13						5,313	322,633	317,320	-0-
Total U.S. Department of Education						30,562	1,415,268	1,488,887	104,181
U.S. Department of Health and Human Services Passed Through the Lancaster County Workforce Investment Board:									
Temporary Assistance for Needy Families	I/F	93.558	N/A	07/01/07 - 06/30/08	1,150	-0-	993	993	-0-
Passed Through the Lancaster-Lebanon Intermediate Unit #13:									
Medical Assistance Program	I/F	93.778	N/A	07/01/07 - 06/30/08	1,732	-0-	1,732	1,732	-0-
Total U.S. Department of Health and Human Services						-0-	2,725	2,725	-0-
TOTAL EXPENDITURES of FEDERAL AWARDS						$ 68,717	$ 1,750,228	$ 1,832,286	$ 150,775

See auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2008

Legend
I = Indirect funding
F = Federal share
S = State share
CFDA = Catalog of Federal Domestic Assistance
*** = Component of Child Nutrition Cluster

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

NOTE 3 - ADJUSTMENT

No receivable was shown at June 30, 2007; however, this was in error. A receivable of $5,313 should have been shown.

See auditors' report.

Pequea Valley School District

SCHEDULE of FINDINGS and QUESTIONED COSTS

Year Ended June 30, 2008

A. Summary of Audit Results

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

2. Sixteen 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 programs are reported in the Report on Compliance with Requirements Applicable to 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: School Breakfast Program - CFDA #10.553, National School Lunch Program - CFDA #10.555, Title I Grants to Local Educational Agencies - CFDA #84.010, and Special Education - Grants to States - CFDA #84.027.

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

Significant Deficiencies

#2008-1 - Budget

In comparing the budget filed with the state and the budget in the general ledger it was discovered that the incorrect budget was filed with the State. When reviewing the budget filed with the state it should be compared to the budget entered into the general ledger to ensure reporting accuracy.

B. Findings - Financial Statements Audit (Continued)

Significant Deficiencies (Continued)

School District Response - Due to a computer error, expenses from the previous year were uploaded to PDE. Upon notification of such error, the School District contacted the PDE and was instructed not to resubmit the budget. The error was corrected and procedures have been established to review the budget prior to the upload to PDE.

#2008-2 - Interfund Balances

During our audit we noted that the School District's interfund accruals and transfers did not balance for the year ended June 30, 2008. These accounts record the transactions that occur between funds. The interfund accounts should be reviewed periodically to ensure that the transactions are being properly accounted for in each fund.

School District Response - Procedures have been developed to review interfund balances on a monthly basis.

#2008-3 - Personnel Files

During our review of School District personnel files it was noted that two personnel files did not have the required criminal background checks. The School District should complete an internal audit on all personnel files to determine that all required documents are completed and located in the personnel files.

School District Response - Procedure has been established to monitor all files for which documentation is needed.

#2008-4 - Athletic Fund Petty Cash

The athletic fund has petty cash listed on the general ledger at year end. Petty cash should be reconciled by removing the balance in the general ledger, or deposit the funds into the checking account if there is cash on hand. This will allow for any discrepancies with petty cash to be handled in a timely manner.

School District Response - Procedures have been established to reconcile athletic fund petty cash.

B. Findings - Financial Statements Audit (Continued)

Significant Deficiencies (Continued)

#2008-5 - Year-End Cutoff Procedures

There were several items which were purchased and received by the athletic department prior to June 30, 2008, but which were not paid for until after June 30 and the expenses were not recorded in accounts payable at the end of the school year. There was a substantial delay between the invoice date and the date the invoice was received in the business office for processing and payment. Invoices should be forwarded to the business office for payment on a timely basis. Expenses should be recorded in the period that the goods or services were received, regardless of payment date.

School District Response - Year-end procedures were reviewed with the athletic director, high school principal and the athletic fund accounts payable clerk.

#2008-6 - Bank Reconciliations

The School District completed monthly bank reconciliations for the scholarship funds; however monthly bank reconciliations were not reviewed by management. The business manager should review monthly reconciliations for accuracy.

School District Response - The one bank reconciliation that was not reviewed by the business manager was for the scholarship funds. This account will now be reviewed by the business manager.

#2008-7 - Overspent Grant

The School District overspent the Title I grant. A journal entry was completed to move expenses out of the grant expense account and into a general expense account. The School District needs to closely monitor the grant spending to ensure the grants are not overspent.

School District Response - Procedures were established to monitor all grants.

#2008-8 - Food Service Fund Disbursements

The food service secretary currently pays invoices, prints and mails checks. The checks have printed endorsements. The food service director and the assistant to the business manager review the checks and invoices; however checks can be written and mailed because there isn't a segregation of duties between paying invoices, printing, and mailing checks. The School District should either segregate the duties regarding paying food service invoices or note the beginning and ending check numbers for each check run.

B. Findings - Financial Statements Audit (Continued)

Significant Deficiencies (Continued)

School District Response - Procedure was established and implemented to segregate duties regarding all accounts payable processes.

#2008-9 - Food Service Meal Reimbursements

During our audit it was noted that the School District did not request reimbursement from the Department of Education for one month and that the reconciliation completed did not reconcile the number of meals sold to the number of meals requested for reimbursement. The School District should create internal controls to ensure that all monthly meal reimbursements are filed and received. The internal controls created should include the review of the reimbursement/revenue reconciliation to the general ledger.

School District Response - The School District was aware of the non filing and determined this was a one time situation. Additionally the School District did file for reimbursement at a later date and received those reimbursements that were due.

#2008-10 - Scholarship Fund

Currently the Scholarship Fund is accounted for by using an excel spreadsheet. Using an excel spreadsheet does not ensure efficient, accurate communication of information. The School District should account for the Scholarship Funds using CSIU.

School District Response - The School District has decided to place the scholarship fund on the CSIU system.

#2008-11 - Purchasing Policy

The School District only has purchasing requirements for purchases made at the building level. Creating a district-wide purchasing policy will allow the Business Office to have an increased knowledge of the departmental spending that occurs during the year. The School District should develop a purchasing policy that details the needs for a purchase order and the proper approvals that are needed to order and pay for purchases.

School District Response - Procedures have been implemented to have signature approval on all purchases.

B. Findings - Financial Statements Audit (Continued)

Significant Deficiencies (Continued)

#2008-12 - Disbursements

The School District has a lack of segregation of duties involving the payment of invoices. At this time invoices are processed and mailed by the same individual. The lack of segregation of duties provides the opportunity for fraudulent disbursements. Also, checks should not be mailed prior to the approval of the Business Administrator. Checks should be reviewed along with the paid invoices. The School District should either segregate the duties of processing and mailing or the individual that reviews the checks and invoices should match the beginning and ending check numbers to ensure fraudulent checks have not been issued.

School District Response - Procedures were established and implemented to segregate duties regarding all accounts payable processes.

#2008-13 - Credit Card Transactions

The School District has nine credit cards that are held by employees. These cards are used to facilitate purchases and to earn back a percentage of purchases for the School District. During our review we noted that six of the nine credit card holders are approving their own charges for payment. This may facilitate fraudulent use. The School District should require the Business Administrator to review the credit card charges prior to payment. The Superintendent should review the Business Administrator purchases. This will prevent fraudulent use by employees.

School District Response - Procedures have been implemented to have signature approval on all purchases.

Material Weaknesses

#2008-14 - Closing and Reversing Entries

The School District incorrectly posted prior year closing entries and did not reverse all of the prior year accrual entries prior to the start of the audit for the following funds: General, Capital Reserve, Athletic, Food Service and Capital Projects. Without having the prior year accruals reversed, preliminary analytics is ineffective.

School District Response - These responsibilities were assigned to business office staff. Training was provided to all staff responsible for posting closing entries and reversing prior year accrual entries. Additional training will be provided in the spring of 2008 to review the process.

B. Findings - Financial Statements Audit (Continued)

Material Weaknesses (Continued)

#2008-15 - 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.

School District Response - Every effort will be made to ensure adjusting journal entries necessary for the financial statements be prepared in conformity with generally accepted accounting principles are made to all funds prior to the year-end audit. The business administrator will oversee this process.

#2008-16 - 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.

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

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

None

Pequea Valley School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2008

DEPARTMENT OF EDUCATION

#2007-8 - Special Education - Grants to States - CFDA #84.027; Grant Period - Year Ended June 30, 2007

Statement of Condition - The School District was unaware of the compliance requirement regarding the maintenance of effort calculation. We performed the required calculation and the School District was in compliance.

Recommendation - We recommended that procedures should be established to ensure that the required maintenance of effort calculation is performed on an annual basis.

Current Status - The School District performed the required maintenance of effort calculation for the year ended June 30, 2008.

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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, 2008, which collectively comprise **Pequea Valley School District**'s basic financial statements and have issued our report thereon dated November 24, 2008. 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 the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Pequea Valley School District's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Pequea Valley School District**'s financial statements that is more than inconsequential will not be prevented or detected by **Pequea Valley School District**'s internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2008-1, #2008-2, #2008-3, #2008-4, #2008-5, #2008-6, #2008-7, #2008-8, #2008-9, #2008-10, #2008-11, #2008-12, #2008-13, #2008-14, #2008-15, and #2008-16 to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **Pequea Valley School District's** internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items #2008-14, #2008-15, and #2008-16 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Pequea Valley School District's** financial statements are free 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 matters that we reported to management of **Pequea Valley School District** in a separate letter dated November 24, 2008.

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 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 24, 2008
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

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REPORT on COMPLIANCE with REQUIREMENTS APPLICABLE to 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 the compliance of **Pequea Valley School District** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. **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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

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Internal Control Over Compliance

The 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 our auditing procedures for the purpose of expressing an opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of 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 24, 2008
Lancaster, Pennsylvania

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PEQUEA VALLEY School District

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Corrective Action Plan
December 8, 2008

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, 2008.

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, 2007, through June 30, 2008

The findings from the June 30, 2008, 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

Significant Deficiencies

#2008-1 – Budget

In comparing the budget filed with the state and the budget in the general ledger it was discovered that the incorrect budget was filed with the State.

Recommendation: When reviewing the budget filed with the state it should be compared to the budget entered into the general ledger to ensure reporting accuracy.

School District Response
Due to a computer error, expenses from the previous year were uploaded to PDE. Upon notification of such error, the district contacted PDE and was instructed not to resubmit the budget. The error was corrected and procedures have been established to review the budget prior to the upload to PDE.

#2008-2 – Interfund Balances

During our audit we noted that the School District's interfund accruals and transfers did not balance for the year ended June 30, 2008. These accounts record the transactions that occur between funds.

Recommendation: The interfund accounts should be reviewed periodically to ensure that the transactions are being properly accounted for in each fund.

School District Response
Procedures have been developed to review interfund balances on a monthly basis.

#2008-3 – Personnel Files

During our review of School District personnel files it was noted that two personnel files did not have the required criminal background checks.

Recommendation: The district should complete an internal audit on all personnel files to determine that all required documents are completed and located in the personnel files.

School District Response
Procedures has been established to monitor all files for which documentation is needed.

#2008-4 – Athletic Fund Petty Cash

The Athletic Fund has petty cash listed on the general ledger at year end.

Recommendation: Petty cash should be reconciled by removing the balances in the general ledger, or deposit the funds into the checking account if there is cash on hand. This will allow for any discrepancies with petty cash to be handled in a timely manner.

School District Response:
Procedures have been established to reconcile Athletic Fund petty cash.

#2008-5 – Year-End Cutoff Procedure

There were several items which were purchased and received by the athletic department prior to June 30, 2008, but which were not paid for until after June 30 and the expenses were not recorded in accounts payable at the end of the school year. There was a substantial delay between the invoice date and the date the invoice was received in the business office for processing and payment.

Recommendation: We recommend that invoices are forwarded to the business office for payment on a timely basis. Expenses should be recorded in the period that the goods or services were received regardless of payment date.

School District Response:
Year end procedures were reviewed with the Athletic Director, High School Principal and the Athletic Fund accounts payable clerk.

#2008-6 – Bank Reconciliations

The School District completed monthly bank reconciliations; however not all monthly bank reconciliations were reviewed by management.

Recommendation: The business manger should review every monthly reconciliation for accuracy.

School District Response
The one bank reconciliation that was not reviewed by the business manager was for the scholarship funds. This account will now be reviewed by the business manager.

#2008-7 – Overspent Grant

The school District over spent the Title I grant. A journal entry was completed to move expenses out of the grant expense account and into the general expense account.

Recommendation: The School District needs to closely monitor the grant spending to ensure the grants are not overspent.

School District Response
Procedures were established to monitor all grants.

#2008-8 – Food Service Fund Disbursements

The food service secretary currently pays invoices, prints and mails checks. The checks have printed endorsements. The food service director and the assistant to the business manager review the checks and invoices, however checks can be written and mailed because there isn't a segregation of duties between paying invoices, printing, and mailing checks.

Recommendation: The School District should either segregate the duties regarding paying food service invoices or note the beginning and ending check numbers for each check run.

School District Response
Procedures were established and implemented to segregate duties regarding all accounts payable processes.

#2008-9 – Food Service Meal Reimbursement

During our audit it was noted that the School District did not request reimbursement from the Department of Education for one month and that the reconciliation completed did not reconcile the number of meals sold to the number of meals requested for reimbursement.

Recommendation: The School District should create internal controls to ensure that all monthly meal reimbursements are filed and received. The internal controls created should include the review of the reimbursement/revenue reconciliation to the general ledger.

School District Response
The district was aware of the non filing and determined this was a one time situation. Additionally the district did file for reimbursement at a later date and received those reimbursements that were due.

#2008-10 – Scholarship Fund

Currently the scholarship fund is accounted for by using an excel spreadsheet. Using an excel spreadsheet does not ensure efficient, accurate communication of information.

Recommendation: The School District should account for the scholarship funds using CSIU.

School District Response
The district has decided to place the scholarship fund on the CSIU system.

#2008-11 – Purchasing Policy

The School District only has purchasing requirements for purchases made at the building level. Creating a district-wide purchasing policy will allow the Business Office to have an increased knowledge of the departmental spending that occurs during the year.

Recommendation: The School District should develop a purchasing policy that details the needs for a purchase order and the proper approvals that are needed to order and pay for purchases.

School District Response
Procedures have been implemented to have signature approval on all purchases.

#2008-12 – Disbursements

The School District has a lack of segregation of duties involving the payment of invoices. At this time invoices are processed and mailed by the same individual. The lack of segregation of duties provides the opportunity for fraudulent disbursements. Also, checks should not be mailed prior to the approval of the Business Administrator. Checks should be reviewed along with the paid invoices.

Recommendation: The School District should either segregate the duties of processing and mailing or the individual that reviews the checks and invoices should match the beginning and ending check numbers to ensure fraudulent checks have not been issued.

School District Response
Procedures were established and implemented to segregate duties regarding all accounts payable processes.

#2008-13 – Credit Card Transactions

The School District has nine credit cards that are held by employees. These cards are used to facilitate purchases and to earn back a percentage of purchases for the School District. During our review we noted that six of the nine credit card holders are approving their own charges for payment. This may facilitate fraudulent use.

Recommendation: The School District should require the Business Administrator to review the credit card charges prior to payment. The Superintendent should review the Business Administrator purchases. This will prevent fraudulent use by employees.

School District Response
Procedures have been implemented to have signature approval on all purchases.

Material Weaknesses

#2008-14 – Closing and Reversing Entries

The School District incorrectly posted prior year closing entries and did not reverse all of the prior year accrual entries prior to the start of the audit for the following funds: general, capital reserve, athletic, food service and capital projects. Without having the prior year accruals reversed preliminary analytics is ineffective.

School District Response
These responsibilities were assigned to business office staff. Training was provided to all staff responsible for posting closing entries and reversing prior year accrual entries. Additional training will be provided in the spring of 2009 to review the process.

#2008-15 – 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 principals. 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:

- Accounts payable had to be corrected for the athletic and general fund,
- Accrued interest income had to be recorded for the capital reserve fund and capital projects fund,
- Accrue receivable for retirement and social security revenue,
- Asset donation for the athletic fund had to be recorded,
- Grant receivables or deferrals had to be recorded to properly reflect the correct amount of revenue earned in 2007-2008, and
- Taxes receivable had to be corrected.

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 are made to all funds prior to the year-end audit. The Business Administrator will oversee this process.

#2008-16 – 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 Untied States of America

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.

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

Sincerely Yours,

John A. Bowden

John A. Bowden
Business Administrator
Pequea Valley School District