PEQUEA VALLEY
SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2007

Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2007

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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2007

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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, 2007, 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, 2007, 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 13, 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 28, 2007, 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. 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

December 4, 2007
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, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the transmittal letter, notes to the basic financial statements, and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Overall expenditures for the 2006-07 fiscal year were expected to grow by about 10.0% from the previous year. Areas that varied from that average are highlighted below.

The 2006-07 budget anticipated expenditure increases for health care coverage and retirement contributions which resulted in an overall increase in benefit expenditures by $471,460 or 14.5% from the previous year. Utility costs were expected to increase by $64,450 or 9.8% due to the rising costs of oil. Expenditures for the curriculum review cycle increased by $38,004 or 37.4%. Debt Service increased by $641,970 or 19.6% which fully funds all debt. No additional millage is required in the current debt structure. Tuition to other agencies increased by $533,346 or 37.4% due to the increase in students with special needs and students enrolled in charter/cyber schools.

In the 2006-07 school year, the district partnered with Eastern Lancaster County School District to provide special education services to approximated 12 Pequea Valley students. The cost of these services was much lower than what the district had been paying. Additionally, the district also saved on the cost of transportation for these students which resulted in an overall savings of approximately $300,000. Additionally, the administration evaluated all vacancies and restructured where possible in order to reduce personnel costs. This restructuring reduced the amount budgeted for salaries by 2.0%, and saved approximately $200,000.

There was an unanticipated increase in the interim real estate tax revenue and earned income tax revenue in the amounts of $284,000 and $220,000 respectively. Short term interest rates remained strong which increased investment income by $348,000 over of the budgeted amount.

The School District began the year with an unreserved/undesignated fund balance of $1,930,538, which was 7.7% of the total General Fund budget. Through evaluation and analysis of revenues and expenses it was determined that the District would need to transfer funds into the capital reserve prior to the end of the year in order to remain under the 8% maximum fund balance. The Board of School Directors (Board) decided to transfer $2,000,000 in the capital reserve from the general fund to be used for capital projects. The Board anticipates using some of these funds towards the soft costs of the building project, rather than incur additional debt. The unreserved/undesignated fund balance for 2006-007 was $1,870,064.

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.

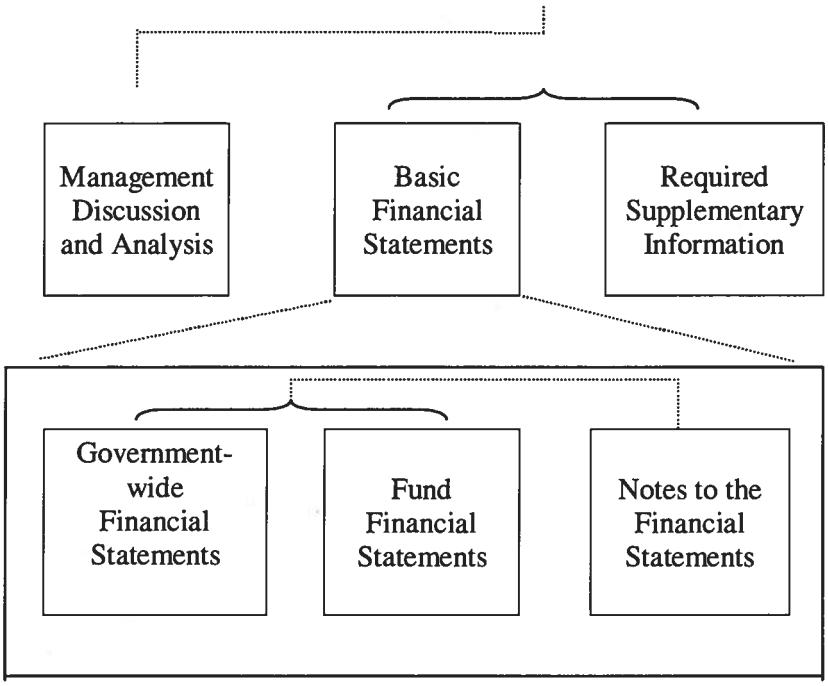
The first two statements are government-wide financial statements - the statement of net assets and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

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 it 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 $17,127,029 as of June 30, 2007.

Table A-1
Fiscal Years Ended June 30, 2007 and 2006
Net Assets

	2007			2006		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and Other Assets	26,775,558	151,049	26,926,607	24,652,864	138,095	24,790,959
Capital Assets	33,324,313	211,400	33,535,713	33,481,911	242,984	33,724,895
Total Assets	**60,099,871**	**362,449**	**60,462,320**	**58,134,775**	**381,079**	**58,515,854**
Current and Other Liabilities	5,424,154	10,996	5,435,150	4,595,960	8,146	4,604,106
Long-Term Liabilities	37,900,141	-0-	37,900,141	40,503,050	-0-	40,503,050
Total Liabilities	**43,324,295**	**10,996**	**43,335,291**	**45,099,010**	**8,146**	**45,107,156**
Net Assets:						
Invested in Capital Assets, net of Related Debt	9,548,335	211,400	9,759,735	9,780,993	242,984	10,023,977
Restricted	179	-0-	179	4,549	-0-	4,549
Unrestricted	7,227,062	140,053	7,367,115	3,250,223	129,949	3,380,172
Total Net Assets	**16,775,576**	**351,453**	**17,127,029**	**13,035,765**	**372,933**	**13,408,698**

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 16 and 17. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues. The two largest general revenues are the local real estate taxes assessed to community taxpayers, and basic education subsidy provided by the State of Pennsylvania.

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

Table A-2 takes the information from that statement and rearranges it slightly so that you can see our total revenues for the year.

Table A-2
Fiscal Years Ended June 30, 2007 and 2006
Changes in Net Assets

	2007			2006		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues						
Program Revenues:						
Charges for Services	161,258	514,406	675,664	120,951	541,460	662,411
Operating Grants and Contributions	4,135,310	329,562	4,464,872	3,698,775	322,708	4,021,483
Capital Grants and Contributions	397,026	-0-	397,026	608,476	-0-	608,476
General Revenues						
Property Taxes	16,561,287	-0-	16,561,287	14,326,470	-0-	14,326,470
Other Taxes	1,989,936	-0-	1,989,936	2,100,209	-0-	2,100,209
Grants, Subsidies, and Contributions, Unrestricted	2,360,442	-0-	2,360,442	2,280,776	-0-	2,280,776
Other	1,311,707	5,844	1,317,551	465,651	21,404	487,055
Total Revenues	**26,916,966**	**849,812**	**27,766,778**	**23,601,308**	**885,572**	**24,486,880**
Expenses						
Instructional Programs	13,076,707	-0-	13,076,707	12,225,265	-0-	12,225,265
Instructional Student Support	2,054,267	-0-	2,054,267	2,081,435	-0-	2,081,435
Administrative and Financial Support	2,033,028	-0-	2,033,028	1,879,082	-0-	1,879,082
Operation and Maintenance of Plant	2,033,666	-0-	2,033,666	1,841,987	-0-	1,841,987
Pupil Transportation	1,470,090	-0-	1,470,090	1,536,795	-0-	1,536,795
Student Activities	462,969	-0-	462,969	477,403	-0-	477,403
Community Services	6,610	-0-	6,610	7,968	-0-	7,968
Interest on Long-Term Debt	1,595,662	-0-	1,595,662	987,357	-0-	987,357
Food Services	-0-	871,292	871,292	-0-	913,460	913,460
Total Expenses	**22,732,999**	**871,292**	**23,604,291**	**21,037,292**	**913,460**	**21,950,752**
Increase (Decrease) in Net Assets	**4,183,967**	**(21,480)**	**4,162,487**	**2,564,016**	**(27,888)**	**2,536,128**

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

Table A-3 shows the School District's eight largest functions - instructional programs, instructional student support, administrative and financial support, operation and maintenance of plant, pupil transportation, student activities, community services, interest on long-term debt, and food services 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, subsides and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Fiscal Years Ended June 30, 2007 and 2006
Governmental Activities

	2007		2006	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional Programs	13,076,707	10,266,868	12,225,265	9,900,362
Instructional Student Support	2,054,267	1,801,245	2,081,435	1,810,754
Administrative and Financial Support	2,033,028	1,917,769	1,879,082	1,780,071
Operation and Maintenance of Plant	2,033,666	1,988,231	1,841,987	1,798,381
Pupil Transportation	1,470,090	477,313	1,536,795	527,274
Student Activities	462,969	382,733	477,403	414,343
Community Services	6,610	6,610	7,968	(976)
Interest on Long-Term Debt	1,595,662	1,198,636	987,357	378,881
Total Governmental Activities	**22,732,999**	**18,039,405**	**21,037,292**	**16,609,090**
Less: Unrestricted Grants, Subsidies		2,360,442		2,280,776
Total Needs from Local Taxes and Other Revenues		**15,678,963**		**14,328,314**

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, 2007 and 2006
Business-type Activities

	2007		2006	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Functions/Programs:				
Food Services	871,292	27,324	913,460	49,292
Less: Investment Earnings	5,844	5,844	1,310	1,310
Total Business-type Activities	**865,448**	**21,480**	**912,150**	**47,982**

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, 2007, the School District governmental funds reported a combined fund balance of $23,819,802, which is an increase of $1,601,079. The primary reasons for this increase are explained below:

General Fund:

The District exceeded budgeted earned income tax revenue by approximately $221,000, and exceeded interim real estate taxes by $284,000. Additionally, revenues also exceeded budgeted amounts in transfer taxes by $87,000, and interest on investments by $348,000. Overall, local revenues exceeded budget by approximately $1,200,000. The District decreased expenses over budget by approximately $900,000.

Capital Reserve Fund:

The District made a decision to transfer $2,000,000 from the general fund into the capital reserve fund in order to fund capital expenditures. This transfer keeps the district below the 8% maximum of undesignated fund balance to total budget. It is anticipated that the School Board will utilize some of these funds to cover the soft costs of Paradise Elementary School building project.

General Fund Budget

During the fiscal year, the 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.

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, 2007, the School District had $32,838,793 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deletions, and depreciation) of $86,941.

Capital Asset and Debt Administration (Continued)

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

	2007	2006
Land and Land Improvements	2,335,522	2,352,215
Buildings and Building Improvements	28,421,857	29,726,705
Furniture and Equipment	787,206	796,447
Vehicles	57,352	50,367
New Construction in Progress	1,236,856	-0-
	32,838,793	**32,925,734**

Debt Administration - As of July 1, 2006, the School District had total outstanding bond principal of $41,445,000. During the year, the School District made payments against principal of $2,465,000 resulting in ending outstanding debt as of June 30, 2007, of $38,980,000.

Table A-6
Outstanding Debt

	2007	2006
Series of 2002	3,260,000	3,745,000
General Obligation Note of 2003	1,440,000	1,535,000
Series of 2003	7,795,000	8,345,000
Series A of 2003	1,775,000	2,335,000
Series of 2006	6,710,000	7,485,000
Series 2007	18,000,000	18,000,000
	38,980,000	**41,445,000**

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.

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

Construction bids for the New Paradise Elementary School were opened on May 11, 2007 and were awarded on May 15, 2007. The total construction cost of the new school is $17,477,736. The total project costs including soft costs are estimated at $20,879,972. Official ground breaking for the new school was on June 28, 2007. As a result of the increased cost of the building, additional debt was budgeted as part of the 2007-08 budget that increase the debt service by approximately $45,000 or 1%. It is the intent of the District to defer the soft costs of the project by using the capital reserve fund. The Local Government Unit Debt Act allows non-electoral debt equal to 225% of the three year average revenues for a school district. For this School District, that debt limit would be approximately $53,893,717. The current outstanding principal at June 30, 2007, was $38,980,000.

Budgeted revenue for the 2007-08 school year is 6.7% higher than the previous fiscal year. The majority of this is due to a 3.4% increase in the millage rate which the Board assessed in order to provide a balanced budget. An increase of 2.2% 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 this page, with property taxes making up slightly over 62% of total projected revenue from all sources.

The comparison of revenue and expenditure categories is as follows:

Table A-7
Budgeted Revenues

	2007-08	2006-007
Local Sources	73.4%	73.5%
State Sources	21.9%	22.6%
Federal/Other Sources	4.7%	3.9%

Budgeted Expenditures

	2007-08	2006-007
Instruction	56.7%	50.9%
Support Services	25.5%	30.4%
Non-Instruction/Community	1.4%	1.4%
Fund Transfers/Debt	16.4%	17.3%

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, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Equivalents	$ 1,462,077	$ 37,205	$ 1,499,282
Investments	22,630,729	53,250	22,683,979
Taxes Receivable, net	1,039,867	-0-	1,039,867
Internal Balances	31,787	(31,787)	-0-
Due from Other Governments	580,532	38,155	618,687
Other Receivables	985,237	-0-	985,237
Inventories	35,448	54,226	89,674
Other Assets	9,881	-0-	9,881
Total Current Assets	**26,775,558**	**151,049**	**26,926,607**
Noncurrent Assets			
Land	651,861	-0-	651,861
Building and Building Improvements, net of Accumulated Depreciation	28,421,857	-0-	28,421,857
Site Improvements, net of Accumulated Depreciation	1,683,661	-0-	1,683,661
Furniture and Equipment, net of Accumulated Depreciation	787,206	211,400	998,606
Vehicles, net of Accumulated Depreciation	57,352	-0-	57,352
Construction in Progress	1,236,856	-0-	1,236,856
Deferred Bond Issue Costs, net of Accumulated Amortization	485,520	-0-	485,520
Total Noncurrent Assets	**33,324,313**	**211,400**	**33,535,713**
TOTAL ASSETS	**$ 60,099,871**	**$ 362,449**	**$ 60,462,320**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET ASSETS

(Continued)

June 30, 2007

	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	$ 392,264	$ 3,603	$ 395,867
Current Portion of Long-term Debt	2,570,000	-0-	2,570,000
Accrued Salaries and Benefits	1,230,103	-0-	1,230,103
Compensated Absences Due Within One Year	147,202	-0-	147,202
Accrued Retirement Bonus Due Within One Year	31,972	-0-	31,972
Accrued Interest on Long-term Debt	486,645	-0-	486,645
Payroll Deductions and Withholdings	116,916	-0-	116,916
Deferred Revenues	-0-	7,393	7,393
Due to Other Governments	287,625	-0-	287,625
Other Current Liabilities	161,427	-0-	161,427
Total Current Liabilities	**5,424,154**	**10,996**	**5,435,150**
Noncurrent Liabilities			
Bonds Payable, net of Amortized Discount	36,715,325	-0-	36,715,325
Accrued Retirement Bonus	527,361	-0-	527,361
Long-term Portion of Compensated Absences	657,455	-0-	657,455
Total Noncurrent Liabilities	**37,900,141**	**-0-**	**37,900,141**
TOTAL LIABILITIES	**43,324,295**	**10,996**	**43,335,291**
NET ASSETS			
Invested in Capital Assets, net of Related Debt	9,548,335	211,400	9,759,735
Restricted for:			
Debt Service	179	-0-	179
Unrestricted	7,227,062	140,053	7,367,115
TOTAL NET ASSETS	**$ 16,775,576**	**$ 351,453**	**$ 17,127,029**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Instruction	$ 13,076,707	$ 87,558	$ 2,722,281	$ -0-	$ (10,266,868)	$ -0-	$ (10,266,868)
Instructional Student Support	2,054,267	-0-	253,022	-0-	(1,801,245)	-0-	(1,801,245)
Administrative and Financial Support Services	2,033,028	29,399	85,860	-0-	(1,917,769)	-0-	(1,917,769)
Operation and Maintenance of Plant Services	2,033,666	4,800	40,635	-0-	(1,988,231)	-0-	(1,988,231)
Pupil Transportation	1,470,090	-0-	992,777	-0-	(477,313)	-0-	(477,313)
Student Activities	462,969	39,501	40,735	-0-	(382,733)	-0-	(382,733)
Community Services	6,610	-0-	-0-	-0-	(6,610)	-0-	(6,610)
Interest on Long-term Debt	1,595,662	-0-	-0-	397,026	(1,198,636)	-0-	(1,198,636)
Total Governmental Activities	**22,732,999**	**161,258**	**4,135,310**	**397,026**	**(18,039,405)**	**-0-**	**(18,039,405)**
Business-type Activities:							
Food Services	871,292	514,406	329,562	-0-	-0-	(27,324)	(27,324)
Total Primary Government	**$ 23,604,291**	**$ 675,664**	**$ 4,464,872**	**$ 397,026**	**$ (18,039,405)**	**$ (27,324)**	**$ (18,066,729)**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2007

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					$ 16,561,287	$ -0-	$ 16,561,287
Public Utility Realty, Earned Income, Occupation and Per Capita Taxes Levied for General Purposes, net					1,989,936	-0-	1,989,936
Unrestricted Grants and Subsidies					2,360,442	-0-	2,360,442
Unrestricted Investment Earnings					1,311,556	5,844	1,317,400
Miscellaneous Income					151	-0-	151
Total General Revenues					22,223,372	5,844	22,229,216
CHANGES in NET ASSETS					4,183,967	(21,480)	4,162,487
NET ASSETS							
Beginning, as Originally Reported					13,035,765	372,933	13,408,698
Prior Period Adjustment					(444,156)	-0-	(444,156)
Beginning, as Amended					12,591,609	372,933	12,964,542
Ending					$ 16,775,576	$ 351,453	$ 17,127,029

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	Major Funds					
	General Fund	Capital Reserve	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	$ 1,446,602	$ -0-	$ -0-	$ -0-	$ 12,975	$ 1,459,577
Investments	2,390,916	2,506,817	17,124,528	105,335	-0-	22,127,596
Taxes Receivable, net	1,039,867	-0-	-0-	-0-	-0-	1,039,867
Due from Other Funds	88,604	1,500,000	-0-	-0-	-0-	1,588,604
Due From Other Governments	580,532	-0-	-0-	-0-	-0-	580,532
Other Receivables	2,324	44,617	936,755	-0-	-0-	983,696
Inventories	35,448	-0-	-0-	-0-	-0-	35,448
Prepaid Expenses	9,881	-0-	-0-	-0-	-0-	9,881
TOTAL ASSETS	5,594,174	4,051,434	18,061,283	105,335	12,975	27,825,201
LIABILITIES and FUND BALANCES						
LIABILITIES						
Accounts Payable	327,635	-0-	63,709	-0-	920	392,264
Due to Other Funds	1,501,706	54,249	-0-	-0-	862	1,556,817
Accrued Salaries and Benefits	1,230,103	-0-	-0-	-0-	-0-	1,230,103
Payroll Deductions and Withholdings	116,916	-0-	-0-	-0-	-0-	116,916
Payable to Other Governments	126,076	-0-	161,549	-0-	-0-	287,625
Deferred Revenue	393,673	-0-	-0-	-0-	-0-	393,673
Other Current Liabilities	28,001	-0-	-0-	-0-	-0-	28,001
TOTAL LIABILITIES	$ 3,724,110	$ 54,249	$ 225,258	$ -0-	$ 1,782	$ 4,005,399

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS

(Continued)

June 30, 2007

	Major Funds					
	General Fund	Capital Reserve	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
FUND BALANCES						
Reserved for:						
Inventories	$ 35,448	$ -0-	$ -0-	$ -0-	$ -0-	$ 35,448
Reserve for Debt Service	-0-	-0-	-0-	179	-0-	179
Unreserved - Designated	149,475	-0-	-0-	-0-	-0-	149,475
Unreserved - Undesignated:						
General Fund	1,685,141	-0-	-0-	-0-	-0-	1,685,141
Special Revenue Funds	-0-	3,997,185	-0-	-0-	-0-	3,997,185
Capital Projects Funds	-0-	-0-	17,836,025	-0-	-0-	17,836,025
Debt Service Fund	-0-	-0-	-0-	105,156	11,193	116,349
TOTAL FUND BALANCES	1,870,064	3,997,185	17,836,025	105,335	11,193	23,819,802
TOTAL LIABILITIES and FUND BALANCES	$ 5,594,174	$ 4,051,434	$ 18,061,283	$ 105,335	$ 12,975	$ 27,825,201

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET ASSETS
June 30, 2007

Total fund balance - governmental funds	$	23,819,802
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 $51,618,275 and the accumulated depreciation is $18,779,482.		32,838,793
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		373,748
Property taxes receivable are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		393,673
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable		(38,980,000)
Accrued Interest on Long-term Debt		(486,645)
Bond Issue Costs, net of Amortization		485,520
Bond Premium, net of Amortization		(352,028)
Bond Discount, net of Amortization		46,703
Accrued Retirement Bonuses		(559,333)
Compensated Absences		(804,657)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	**$**	**16,775,576**

See notes to financial statements.

Pequea Valley School District

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

Year Ended June 30, 2007

	Major Funds					
REVENUES	General Fund	Capital Reserve	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
Local Sources:						
Real Estate Taxes	$ 16,533,453	$ -0-	$ -0-	$ -0-	$ -0-	$ 16,533,453
Other Taxes	1,989,936	-0-	-0-	-0-	-0-	1,989,936
Investment Earnings	428,449	110,198	767,144	5,222	543	1,311,556
Other Revenue	120,271	6,886	-0-	-0-	39,501	166,658
Total Local Sources	19,072,109	117,084	767,144	5,222	40,044	20,001,603
State Sources	5,648,737	-0-	-0-	-0-	-0-	5,648,737
Federal Sources	1,238,641	-0-	-0-	-0-	-0-	1,238,641
Total Revenues	**25,959,487**	**117,084**	**767,144**	**5,222**	**40,044**	**26,888,981**
EXPENDITURES						
Instructional Services	12,136,280	-0-	-0-	-0-	-0-	12,136,280
Support Services	7,406,153	222,330	-0-	-0-	-0-	7,628,483
Noninstructional Services	337,248	-0-	-0-	-0-	132,331	469,579
Capital Outlay	-0-	10,000	999,802	-0-	-0-	1,009,802
Debt Service	-0-	-0-	-0-	3,831,748	-0-	3,831,748
Refund of Prior Year Expenditures	2,221	-0-	-0-	-0-	-0-	2,221
Total Expenditures	**19,881,902**	**232,330**	**999,802**	**3,831,748**	**132,331**	**25,078,113**
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	**6,077,585**	**(115,246)**	**(232,658)**	**(3,826,526)**	**(92,287)**	**1,810,868**
OTHER FINANCING SOURCES (USES)						
Debt Service Fund Transfer	(3,827,272)	-0-	-0-	3,827,272	-0-	-0-
Other Fund Transfers	(2,100,998)	2,000,000	-0-	-0-	100,998	-0-
Proceeds from Sale of Capital Assets	160	-0-	-0-	-0-	-0-	160
Net Other Financing Sources (Uses)	**(5,928,110)**	**2,000,000**	**-0-**	**3,827,272**	**100,998**	**160**
NET CHANGES in FUND BALANCES	**149,475**	**1,884,754**	**(232,658)**	**746**	**8,711**	**1,811,028**
FUND BALANCES						
Beginning, as Originally Stated	1,930,538	2,112,431	18,068,683	104,589	2,482	22,218,723
Prior Period Adjustment	(211,145)	-0-	-0-	-0-	-0-	(211,145)
Beginning, Restated	1,719,393	2,112,431	18,068,683	104,589	2,482	22,007,578
Change in Inventory	1,196	-0-	-0-	-0-	-0-	1,196
Ending	**$ 1,870,064**	**$ 3,997,185**	**$ 17,836,025**	**$ 105,335**	**$ 11,193**	**$ 23,819,802**

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, 2007

Net changes in fund balances - total governmental funds		$ 1,811,028
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:		
Remaining Basis of Capital Assets Sold or Retired	(637)	
Depreciation Expense	(1,420,879)	
Capital Outlays	1,334,575	(86,941)
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.		27,833
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		2,413,619
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.		(175,326)
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.		164,808
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.		$ 28,275

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, 2007

The governmental funds follow the purchase method of inventory, however, the statement of net assets uses the consumption method to record inventory.	$ 1,196
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.	(525)
CHANGES in NET ASSETS of GOVERNMENTAL ACTIVITIES	**$ 4,183,967**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET ASSETS -
PROPRIETARY FUNDS
June 30, 2007

	Enterprise Funds	
	Food Service	Internal Service Funds
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 37,205	$ 2,500
Investments	53,250	503,133
Due from Other Funds	1,706	-0-
Due from Other Governments	38,155	-0-
Inventories	54,226	-0-
Other Current Assets	-0-	1,541
Total Current Assets	**184,542**	**507,174**
Noncurrent Assets		
Machinery and Equipment, net of Accumulated Depreciation	211,400	-0-
TOTAL ASSETS	**395,942**	**507,174**
LIABILITIES		
Current Liabilities		
Accounts Payable	3,603	-0-
Due to Other Funds	33,493	-0-
Other Current Liabilities	-0-	133,426
Deferred Revenue	7,393	-0-
TOTAL LIABILITIES	**44,489**	**133,426**
NET ASSETS		
Invested in Capital Assets, net of Related Debt	211,400	-0-
Unrestricted	140,053	373,748
TOTAL NET ASSETS	**$ 351,453**	**$ 373,748**

See notes to financial statements.

Pequea Valley School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS -
PROPRIETARY FUNDS
Year Ended June 30, 2007

	Enterprise Funds	
	Food Service	Internal Service Funds
OPERATING REVENUES		
Food Service Revenue	$ 514,406	$ -0-
Charges for Services	-0-	2,590,039
Total Operating Revenues	**514,406**	**2,590,039**
OPERATING EXPENSES		
Salaries	296,398	-0-
Employee Benefits	83,636	2,615,219
Purchased Professional and Technical Services	26,244	-0-
Other Purchased Services	21,995	-0-
Supplies	411,435	-0-
Depreciation	31,584	-0-
Total Operating Expenses	**871,292**	**2,615,219**
OPERATING (LOSS)	**(356,886)**	**(25,180)**
NONOPERATING REVENUES		
Investment Earnings	5,844	24,655
State Sources	52,004	-0-
Federal Sources	277,558	-0-
Net Nonoperating Revenues	**335,406**	**24,655**
CHANGES in NET ASSETS	**(21,480)**	**(525)**
NET ASSETS		
Beginning	372,933	374,273
Ending	**$ 351,453**	**$ 373,748**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2007

	Enterprise Funds	
	Food Service	Internal Service Funds
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	$ 512,767	$ -0-
Cash Received from Assessments Made to Other Funds	-0-	2,590,039
Cash Payments to Employees for Services	(296,398)	-0-
Cash Payments for Insurance Service	-0-	(2,593,918)
Cash Payments to Suppliers for Goods and Services	(485,291)	-0-
Net Cash Used by Operating Activities	**(268,922)**	**(3,879)**
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Purchase of Capital Acquisitions	-0-	-0-
CASH FLOWS from NON-CAPITAL FINANCING ACTIVITIES		
State Sources	52,299	-0-
Federal Sources	237,433	-0-
Net Cash Provided by Non-capital Financing Activities	**289,732**	**-0-**
CASH FLOWS from INVESTING ACTIVITIES		
Investment Earnings	5,844	24,655
Purchase of Investments	(2,638)	24,655
Net Cash Provided by Investing Activities	**3,206**	**-0-**
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	**24,016**	**(3,879)**
CASH and CASH EQUIVALENTS		
Beginning of Year	13,189	6,379
End of Year	**$ 37,205**	**$ 2,500**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
(Continued)
Year Ended June 30, 2007

	Enterprise Funds	
	Food Service	Internal Service Funds
RECONCILIATION of OPERATING LOSS to NET CASH PROVIDED by OPERATING ACTIVITIES		
Operating Loss	$ (356,886)	$ (25,180)
ADJUSTMENTS to RECONCILE OPERATING LOSS to NET CASH PROVIDED by OPERATING ACTIVITIES		
Depreciation	31,584	-0-
Donated Commodities Used	40,197	-0-
Increase in Accounts Receivable	(1,623)	-0-
Increase in Inventory	(18,537)	-0-
Increase in Accounts Payable	3,010	21,301
Increase in Interfund Payable	33,349	-0-
Increase in Deferred Revenue	(16)	-0-
Total Adjustments	**87,964**	**21,301**
Net Cash Used by Operating Activities	**$ (268,922)**	**$ (3,879)**
NON-CASH CAPITAL and RELATED FINANCING ACTIVITIES		
Equipment Transferred from Other Fund	-0-	-0-

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET ASSETS -
FIDUCIARY FUNDS
June 30, 2007

	Private Purpose Trust	Agency Fund
ASSETS		
Cash and Cash Equivalents	$ -0-	$ 14,262
Investments	110,890	64,343
TOTAL ASSETS	**110,890**	**78,605**
LIABILITIES		
Accounts Payable	-0-	325
Other Current Liabilities	2,840	78,280
TOTAL LIABILITIES	**2,840**	**78,605**
NET ASSETS		
Restricted for Scholarships	**$ 108,050**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CHANGES in NET ASSETS -
FIDUCIARY FUNDS
Year Ended June 30, 2007

	Private Purpose Trust
ADDITIONS	
Investment Earnings	$ 5,379
Gifts and Contributions	4,594
Total Additions	**9,973**
DEDUCTIONS	
Scholarships Awarded	2,840
CHANGES in NET ASSETS	**7,133**
NET ASSETS	
Beginning	100,917
Ending	**$ 108,050**

See notes to financial statements.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Pequea Valley School District, located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Leacock, Paradise, and Salisbury Townships. These include regular, advanced academic, vocational education programs, and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of two elementary schools, one middle school, and one high school, serving approximately 1,863 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, 2007, was approximately $295,395. 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, 2007, was $216,157. The School District's lease payment to the Authority for the year ended June 30, 2007, was $79,495, 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, 2007. 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, 2007, was approximately $943,972. 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, 2007, was $103,143. 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 changes in fund 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, 2007, which are not intended to finance fiscal 2007 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, 2007. 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, 2007, 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, 2007, 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, 2007, 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 2007.

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, 2007, $18,445,931 of the School District's bank balance of $18,927,931 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	18,445,931
	18,445,931

Reconciliation of Cash and Cash Equivalents to the Balance Sheet

Uninsured Amount Above	18,445,931
Plus: Insured Amount	482,000
Bank Balance	18,927,931
Less: Outstanding Checks	(75,681)
Carrying Amount - Bank Balances	18,852,250
Plus: Petty Cash	4,294
Less: Certificates of Deposit Classified as Investments on the Balance Sheet	(17,343,000)
Total Cash and Cash Equivalents Per Financial Statements	1,513,544

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

Investments

As of June 30, 2007, the School District had the following investments:

Investments	Maturity	Fair Value
PSDMAX		2,769,574
PLGIT PLUS		1,414,533
PLGIT TERM		683,338
PLGIT		648,588
U S Treasury MMF		179
Certificates of Deposit	0 - 12 Months	17,343,000
		22,859,212

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, 2007, 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	52%
PLGIT PLUS	25%
PLGIT TERM	13%
PLGIT	10%
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	75%
PLGIT PLUS	25%
Capital Reserve Fund:	
PLGIT PLUS	42%
PLGIT TERM	29%
PLGIT	29%
Capital Project Fund:	
PSDMAX	100%
Debt Service Fund:	
PSDMAX	100%
Other Funds:	
PLGIT PLUS	38%
PLGIT TERM	45%
PLGIT	17%

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, 2007, 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, 2007, 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, 2007, are as follows:

	Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	563,102	169,429	393,673
Realty Transfer Taxes	33,897	33,897	-0-
Earned Income Taxes	442,868	442,868	-0-
	1,039,867	**646,194**	**393,673**

NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2007, the following amounts are due from other governmental units:

Due From	General Fund	Enterprise Fund	Total
Federal Grants	25,249	33,748	58,997
State Match for Lunch Program	-0-	4,407	4,407
State Retirement Subsidy	95,051	-0-	95,051
State Social Security Subsidy	41,268	-0-	41,268
Other State Subsidies	2,596	-0-	2,596
Due from Intermediate Unit	246,899	-0-	246,899
Local	169,469	-0-	169,469
	580,532	**38,155**	**618,687**

NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2007, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	88,604	1,501,706
Enterprise Fund - Cafeteria	1,706	33,493
Capital Reserve Fund	1,500,000	54,249
Athletic Fund	-0-	862
	1,590,310	**1,590,310**

Interfund transfers for the year ended June 30, 2007, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	5,928,270
Capital Reserve Fund	2,000,000	-0-
Activity Fund	100,998	-0-
Debt Service Fund	3,827,272	-0-
	5,928,270	**5,928,270**

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 and the capital reserve fund consisting of equipment purchases for cafeteria use.

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

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2007, is as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Historical Cost:				
Capital Assets not Being Depreciated:				
Construction in Progress	237,054	999,802	-0-	1,236,856
Land	651,861	-0-	-0-	651,861
Total Cost	**888,915**	**999,802**	**-0-**	**1,888,717**
Capital Assets Being Depreciated:				
Site Improvements	2,701,193	90,554	-0-	2,791,747
Building and Building Improvements	44,930,007	31,038	-0-	44,961,045
Furniture and Equipment	1,658,380	191,087	(3,740)	1,845,727
Vehicles	108,945	22,094	-0-	131,039
Total Cost	**49,398,525**	**334,773**	**(3,740)**	**49,729,558**
Accumulated Depreciation:				
Site Improvements	1,000,840	107,246	-0-	1,108,086
Building and Building Improvements	15,440,356	1,098,832	-0-	16,539,188
Furniture and Equipment	861,932	199,692	(3,103)	1,058,521
Vehicles	58,578	15,109	-0-	73,687
Total Accumulated Depreciation	**17,361,706**	**1,420,879**	**(3,103)**	**18,779,482**
Net Capital Assets Being Depreciated	**32,036,819**	**(1,086,106)**	**(637)**	**30,950,076**
Net Capital Assets	**32,925,734**	**(86,304)**	**(637)**	**32,838,793**

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2007, is as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	590,317	-0-	-0-	590,317
Accumulated Depreciation:				
Equipment	347,333	31,584	-0-	378,917
Net Capital Assets	**242,984**	**(31,584)**	**-0-**	**211,400**

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	1,134,175
Instructional Student Support	86,219
Administration and Financial Support Services	166,604
Operation and Maintenance of Plant Services	33,881
	1,420,879

NOTE 8 - DEFERRED REVENUE

Deferred revenue consists of the following as of June 30, 2007:

	General Fund	Enterprise Fund	Total
Deferred Taxes	393,673	-0-	393,673
Prepaid Lunch Sales	-0-	7,393	7,393
	393,673	7,393	401,066

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, 2007, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2007	Due Within One Year
Series of 2002	02/15/2013	2.00% - 3.85%	3,260,000	500,000
GON Series of 2003	04/01/2019	Wkly Variable Rate Max 15%	1,440,000	100,000
Series of 2003	04/01/2019	1.10% - 3.70%	7,795,000	560,000
Series A of 2003	05/15/2010	1.40% - 3.25%	1,775,000	585,000
Series of 2005	05/15/2021	3.00% - 4.10%	6,710,000	780,000
Series of 2006	02/01/2020	3.50% - 4.75%	18,000,000	45,000
			38,980,000	**2,570,000**

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, 2007, is 3.73%.

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
General Obligation Debt	41,445,000	-0-	2,465,000	38,980,000
Bond Premium	381,978	-0-	29,950	352,028
Bond Discount	(57,377)	-0-	(10,674)	(46,703)
Accrued Retirement Bonuses	635,738	-0-	76,405	559,333
Estimated Liability for Compensated Absences	921,345	-0-	116,688	804,657
	43,326,684	**-0-**	**2,677,369**	**40,649,315**

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
2008	1,452,661	2,570,000	4,022,661
2009	1,386,038	2,635,000	4,021,038
2010	1,385,768	2,710,000	4,095,768
2011	1,248,739	2,725,000	3,973,739
2012	1,163,536	2,810,000	3,973,536
2013-2017	4,079,280	15,790,000	19,869,280
2018-2021	811,947	9,740,000	10,551,947
	11,527,969	**38,980,000**	**50,507,969**

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, 2007:

Accumulated Sick Leave	655,724
Accumulated Vacation Leave	23,149
Accumulated Personal Days	68,602
Employer Social Security and Medicare on Leave Amounts Above	57,182
	804,657

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, 2007:

NOTE 11 - ACCRUED RETIREMENT BONUSES (Continued)

	Governmental Activities
Estimated Accrued Retirement Bonus	519,585
Employer Social Security and Medicare Share on Above	39,748
	559,333

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, 2007, are as follows:

2008	79,472
2009	79,523
2010	79,564
Total Minimum Future Rental Payments	**238,559**

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, 2007, the rate of employer contribution was 6.46 percent of covered payroll. The 6.46 percent rate is comprised of a pension contribution rate of 5.72 percent for pension benefits and .74 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 ending June 30, 2007, 2006, and 2005 were $669,292, $491,922, and $427,852, 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 No. 13 to provide for the medical care for eligible employees and their dependents. The School District remits funds to the Intermediate Unit. The Intermediate Unit 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 $2,302,522 in total per year.

A liability for claims incurred prior to June 30, 2007, and subsequently paid is recorded in the amount of $133,426 in other current liabilities in the internal service fund.

Changes in the School District's claims liability amount in fiscal years 2007 and 2006 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2006-07	112,129	2,615,214	2,593,908	133,425
2005-06	142,755	1,397,915	1,428,541	112,129

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 19 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, 2007, 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, 2007, 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 22 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, 2007, were $104,498 and $152,934, 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, 2007, the School District has included the following amounts as specific reserves fund balances:

Debt Service Funds - Reserve for Debt Service Expenditures	179

NOTE 18 - INTEREST RATE MANAGEMENT PLAN

On June 20, 2006, the School District entered into a Basis Swap agreement with an effective date of August 7, 2007 to manage interest costs on the General Obligation Bonds, Series of 2006. The Swap will have a notional amount of $18,000,000. The School District entered into this contract with the Royal Bank of Canada (the "Counterparty"). The School District will pay the Counterparty 100% of 1 month LIBOR while the Counterparty will pay to the School District the 10 year Constant Maturity Swap Rate ("CMS") less a fixed margin of 58 basis points. The Swap is structured such that the notional principal schedule will match the amortization of the Bonds. The Swap has a termination date of February 1, 2020, the final maturity date of the Bonds.

Fair Value - Due to interest rate fluctuations, the swap had a negative fair value as of June 30, 2007, of $127,176 (in United States dollars). This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was based upon mid-market quotations for the transactions. Mid-market quotations are based on bid/ask quotations shown on reliable electronic information screens as of close of business on the date specified.

Credit Risk - The Swap's fair value represents the School District's credit exposure to the Counterparty should the Counterparty to this transaction fail to perform according to the terms of the contract. As of June 30, 2006, the Counterparty was rated Aa2 by Moody's Investors Service, AA - by Standard & Poor's, and AA by Fitch ratings.

Interest Rate Risk - The swap increases the School District's exposure to variable interest rates. If the 1 month LIBOR rate exceeds the CMS, the School District's net payment on the swap increases.

Foreign Currency Risk - The interest rate swap is denominated in Canadian dollars. Therefore, the School District is exposed to foreign currency risk. The foreign currency risk is defined as any investment that is denominated in a foreign currency which is subject to the risk that changes in the exchange rates will adversely affect the fair value of an investment.

Termination Risk - The School District or the Counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the School District would be liable to the counterparty for that payment.

NOTE 19 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment was needed to properly reflect the net assets for the year ending June 30, 2006. A summary of the adjustments is as follows:

Compensated Absences not Recorded as a Liability	233,011
Receivable not Earned for the Year Ended June 30, 2006	211,145
	444,156

Pequea Valley School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
Year Ended June 30, 2007

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Local Sources:				
Real Estate Taxes	$ 15,983,343	$ 15,983,343	$ 16,533,453	$ 550,110
Other Taxes	1,678,391	1,678,391	1,989,936	311,545
Investment Earnings	80,000	80,000	428,449	348,449
Other Revenue	81,000	81,000	120,271	39,271
Total Local Sources	17,822,734	17,822,734	19,072,109	1,249,375
State Sources	5,675,407	5,675,407	5,648,737	(26,670)
Federal Sources	1,205,513	1,205,513	1,238,641	33,128
Total Revenues	**24,703,654**	**24,703,654**	**25,959,487**	**1,255,833**
EXPENDITURES				
Instructional Services:				
Regular Programs	9,265,032	9,302,911	8,955,957	346,954
Special Programs	2,333,236	2,326,996	2,046,841	280,155
Vocational Programs	485,355	476,355	468,526	7,829
Other Instructional Programs	677,612	712,109	664,956	47,153
Total Instructional Services	12,761,235	12,818,371	12,136,280	682,091
Support Services:				
Pupil Personnel Services	657,470	650,670	619,426	31,244
Instructional Staff Services	1,449,805	1,448,914	1,304,701	144,213
Administrative Services	1,317,582	1,362,397	1,280,101	82,296
Pupil Health	174,665	175,815	155,479	20,336
Business Services	322,304	385,229	383,165	2,064
Operation of Plant and Maintenance Services	2,034,629	2,034,629	1,991,916	42,713
Student Transportation Services	1,449,732	1,473,732	1,470,090	3,642
Central and Other Business Services	215,396	217,396	177,156	40,240
Other Support Services	25,000	25,000	24,119	881
Total Support Services	7,646,583	7,773,782	7,406,153	367,629
Noninstructional Services:				
Student Activities	340,631	340,631	330,638	9,993
Community Services	8,924	8,924	6,610	2,314
Total Noninstructional Services	349,555	349,555	337,248	12,307
Refund of Prior Year Expenditures	-0-	-0-	2,221	(2,221)
Total Expenditures	**20,757,373**	**20,941,708**	**19,881,902**	**1,059,806**
OTHER FINANCING SOURCES (USES)				
Debt Service Fund Transfer	-0-	-0-	(3,827,272)	(3,827,272)
Other Fund Transfers	(4,346,287)	(4,161,947)	(2,100,998)	2,060,949
Sale of Fixed Assets	5	-0-	160	160
Net Other Financing Uses	**$ (4,346,282)**	**$ (4,161,947)**	**$ (5,928,110)**	**$ (1,766,163)**

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, 2007

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
NET CHANGES in FUND BALANCES	**$ (400,001)**	**$ (400,001)**	**$ 149,475**	**$ 549,476**
FUND BALANCES				
Beginning, as Originally Stated			1,930,538	
Prior Period Adjustment			(211,145)	
Beginning, Restated			1,719,393	
Change in Inventory			1,196	
Ending			**$ 1,870,064**	

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, 2007.

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, 2007

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, 2006	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
U.S. Department of Agriculture									
Passed Through the Pennsylvania Department of Education:									
School Breakfast Program***	I/F	10.553	N/A	07/01/06 - 06/30/07	N/A	$ -0-	$ 25,319	$ 30,097	$ 4,778
	S	N/A	N/A	07/01/06 - 06/30/07	N/A	-0-	2,926	3,474	548
School Breakfast Program***	I/F	10.553	N/A	07/01/05 - 06/30/06	N/A	4,974	4,974	-0-	-0-
	S	N/A	N/A	07/01/05 - 06/30/06	N/A	579	579	-0-	-0-
National School Lunch Program***	I/F	10.555	N/A	07/01/06 - 06/30/07	N/A	-0-	178,294	207,264	28,970
	S	N/A	N/A	07/01/06 - 06/30/07	N/A	-0-	24,391	28,250	3,859
National School Lunch Program***	I/F	10.555	N/A	07/01/05 - 06/30/06	N/A	28,846	28,846	-0-	-0-
(Note 2A)	S	N/A	N/A	07/01/05 - 06/30/06	N/A	4,122	4,122	-0-	-0-
Total Passed Through the Pennsylvania Department of Education						**38,521**	**269,451**	**269,085**	**38,155**
Passed Through the Pennsylvania Department of Agriculture:									
Food Donation (Note 3)	I/F	10.550	N/A	07/01/06 - 06/30/07	N/A	-0-	40,197	40,197	-0-
Total U.S. Department of Agriculture						**$ 38,521**	**$ 309,648**	**$ 309,282**	**$ 38,155**

See auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2007

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, 2006	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
U.S. Department of Education Passed Through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	I/F	84.010	013-070332	07/01/06 - 09/30/07	772,491	$ -0-	$ 513,871	$ 497,455	$ (16,416)
Title I Grants to Local Educational Agencies	I/F	84.010	013-060332	07/01/05 - 09/30/06	725,955	(12,292)	187,311	199,603	-0-
Safe and Drug-free Schools and Communities - State Grants	I/F	84.186	100-070332	07/01/06 - 09/30/07	13,780	-0-	11,943	13,780	1,837
Safe and Drug-free Schools and Communities - State Grants (Note 2B)	I/F	84.186	100-060332	07/01/05 - 09/30/06	18,219	8,409	8,409	-0-	-0-
State Grants for Innovative Programs	I/F	84.298	011-070332	07/01/06 - 09/30/07	1,851	-0-	1,851	1,851	-0-
State Grants for Innovative Programs	I/F	84.298	011-060332	07/01/05 - 09/30/06	3,722	1,737	1,737	-0-	-0-
Improving Teacher Quality State Grants	I/F	84.367	020-070332	07/01/06 - 09/30/07	199,357	-0-	159,529	199,357	39,828
Improving Teacher Quality State Grants	I/F	84.367	020-060332	07/01/05 - 09/30/06	200,659	13,377	13,377	-0-	-0-
Total Passed Through the Pennsylvania Department of Education						**$ 11,231**	**$ 898,028**	**$ 912,046**	**$ 25,249**

See auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2007

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, 2006	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
U.S. Department of Education (Continued)									
Passed Through the Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States	I/F	84.027	062-070013	07/01/06 - 06/30/07	305,250	$ -0-	$ 305,250	$ 305,250	$ -0-
Total U.S. Department of Education						**11,231**	**1,203,278**	**1,217,296**	**25,249**
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	07/01/06 - 06/30/07	15,000	-0-	14,214	14,214	-0-
Passed Through the Lancaster-Lebanon Intermediate Unit #13:									
Medical Assistance Program	I/F	93.778	N/A	07/01/06 - 06/30/07	7,131	-0-	7,131	7,131	-0-
Total U.S. Department of Health and Human Services						-0-	21,345	21,345	-0-
TOTAL EXPENDITURES of FEDERAL AWARDS						**$ 49,752**	**$ 1,534,271**	**$ 1,547,923**	**$ 63,404**

See auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2007

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 - ADJUSTMENTS

A) A receivable of $3,548 was shown at June 30, 2006; however, this was in error. A receivable of $4,122 should have been shown.
B) A receivable of $5,343 was shown at June 30, 2006; however, this was in error. A receivable of $8,409 should have been shown.

NOTE 3 - 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.

See auditors' report.

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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, 2007, which collectively comprise **Pequea Valley School District's** basic financial statements and have issued our report thereon dated December 4, 2007. 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 an opinion 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 the entity'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 the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2007-1, #2007-2, #2007-3, #2007-4, #2007-5, #2007-6, and #2007-7 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 the entity'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 #2007-4, #2007-5, #2007-6, and #2007-7 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 December 4, 2007.

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

This report is intended solely for the information and use of the School Board, management, 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

December 4, 2007
Lancaster, Pennsylvania

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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, 2007. **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 on **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, 2007.

TROUT, EBERSOLE & GROFF, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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LANCASTER, PENNSYLVANIA 17601
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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 our 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.

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item # 2007-8 to be a significant deficiency.

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. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

This report is intended solely for the information and use of the School Board, management, 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

December 4, 2007
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Pequea Valley School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2007

A. Summary of Audit Results

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

2. Seven 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. Four 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. One significant deficiency relating to the audit of the major federal programs is 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. The significant deficiency is not determined to be a material weakness.

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

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

7. The programs tested as major programs are: Title I Grants to Local Educational Agencies - CFDA #84.010, 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 determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

Significant Deficiencies

#2007-1 - 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, 2007. 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.

B. Findings - Financial Statements Audit (Continued)

School District Response - Procedures have been established beginning with the 2007-2008 fiscal year to review all interfund accounts monthly to ensure all transactions that occur between funds have been properly recorded.

#2007-2 - Bank Reconciliations

The School District completed monthly bank reconciliations; however we noted that the School District was reconciling the bank statement to the cash book and not the general ledger. This resulted in an error of the cash account balance on the general ledger. Furthermore, the monthly bank reconciliations were not reviewed by management.

Recommendation: Bank reconciliations should be between the general ledger and bank statement. The business manager should review each monthly reconciliation for accuracy. Use of the cash book should be reviewed for its necessity.

School District Response - All bank reconciliations will be between the general ledger and the bank statement. The Business Administrator will review each reconciliation on a monthly basis. The district will continue to use the cash book to determine district on hand-cash and the use of the cash book will be periodically evaluated as to its necessity.

#2007-3 - Overspent Grant

The School District had overspent the Title IIA grant. A journal entry was completed to move expenses out of the grant expense account and into a 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 are in place to ensure any grant that may be over/underspent be reviewed and addressed appropriately. Unfortunately, at the time of this audit, the journal entry had yet to be performed.

Material Weaknesses

#2007-4 - Fixed Assets

The School District did not record material fixed asset additions recorded in the repair and maintenance accounts. We recommend that the repair and maintenance accounts be reviewed on a periodic basis to determine if fixed assets were purchased to capture them for capitalization.

B. Findings - Financial Statements Audit (Continued)

School District Response - Procedures have been established to periodically review repair and maintenance accounts quarterly to determine if any fixed assets were purchased and to record such assets for capitalization.

#2007-5 - 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.

#2007-6 - Adjusting Journal Entries

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

- Accounts payable had to be recorded and/or corrected for all funds,
- Accrued interest income had to be recorded for the capital reserve and capital projects fund,
- Arbitrage earnings had to be recorded for the capital projects fund,
- Tuition receivable had to be recorded for the general fund,
- Retirement revenue had to be recorded for grant expenses with retirement expense,
- Grant receivables or deferrals had to be recorded to properly reflect the correct amount of revenue earned in 2006-2007, and
- Taxes receivable had to be recorded.

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.

B. Findings - Financial Statements Audit (Continued)

#2007-7 - 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 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.

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

Significant Deficiency

#2007-8 - Special Education - Grants to States - CFDA No. 84.027

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: Procedures should be established to ensure that the required maintenance of effort calculation is performed on an annual basis.

School District Response - Procedures have been established beginning with the 2007-2008 fiscal year to ensure that the required maintenance of effort calculation is performed on an annual basis and readily available for audit review. The Business Administrator will oversee this process.

Pequea Valley School District

SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS

Year Ended June 30, 2007

There are no prior audit findings.

PEQUEA VALLEY School District

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www.pvsd.k12.pa.us

Corrective Action Plan
November 30, 2007

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, 2007.

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, 2006, through June 30, 2007

The findings from the June 30, 2007, 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

#2007-1 – 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, 2007. 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 established beginning with the 2007-2008 fiscal year to review all interfund accounts monthly to ensure all transactions that occur between funds have been properly recorded.

#2007-2 – Bank Reconciliations

The School District completed monthly bank reconciliations; however, we noted that the School District was reconciling the bank statement to the cash book and not the general ledger. This resulted in an error of the cash account balance on the general ledger. Furthermore, the monthly bank reconciliations were not reviewed by management.

Recommendation: Bank reconciliations should be between the general ledger and the bank statement. The Business Manager should review each monthly reconciliation for accuracy. Use of the cash book should be reviewed for its necessity.

School District Response
All bank reconciliations will be between the general ledger and the bank statement. The Business Administrator will review each reconciliation on a monthly basis. The district will continue to use the cash book to determine district on hand-cash and the use of the cash book will be periodically evaluated as to its necessity.

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The School District had overspent the Title IIA grant. A journal entry was completed to move expenses out of the grant expenses account and into a 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 are in place to ensure any grant that may be over/underspent be reviewed and addressed appropriately. Unfortunately, at the time of this audit, the journal entry had yet to be performed.

Material Weaknesses

#2007-4 – Fixed Assets

The School District did not record material fixed asset additions recorded in the repair and maintenance accounts. We recommend that the repair and maintenance accounts be reviewed on a periodic basis to determine if fixed assets were purchased to capture them for capitalization.

School District Response
Procedures have been established to periodically review repair and maintenance accounts quarterly to determine if any fixed assets were purchased and to record such assets for capitalization.

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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.

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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:

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- Taxes receivable had to be recorded.

School District Response
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#2007-7 – 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.

Significant Deficiency

#2007-8 - Special Education – Grants to States - CFDA No. 84.027

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: Procedures should be established to ensure that the required maintenance of effort calculation is performed on an annual basis.

School District Response
Procedures have been established beginning with the 2007-2008 fiscal year to ensure that the required maintenance of effort calculation is performed on an annual basis and readily available for audit review. The Business Administrator will oversee this process.

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

Sincerely Yours,

John A. Bowden
Business Administrator
Pequea Valley School District