PEQUEA VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2006

Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2006

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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2006

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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, 2006, 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, 2006, 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 48 and 49, 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 September 19, 2006, 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

September 19, 2006
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, 2006. 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 2005-06 fiscal year were expected to grow by about 4.4% from the previous year. Areas that varied from that average are highlighted below.

The 2005-06 budget anticipated expenditure increases for health care coverage and retirement contribution which resulted in an overall increase in benefit expenditures by 12.2% from the previous year. It was a board decision to fund technology replacement through the general fund rather than the capital reserve as it had been done in the past which resulted in an increase of $141,024 or 125.9%. Utility costs were expected to increase by 14.1% due to the rising costs of oil. Expenditures for the curriculum review cycle decreased by $80,891 due to a large increase in the previous year which was an abnormally high year.

In the first quarter of 2005, expenditures for Charter School and Cyber Charter Students appeared to be double what was budgeted. This coupled with the increased enrollment in Special Education classes caused the School District to reevaluate the hiring of vacant positions and to decrease all budgets by 10.0%. This action was precipitated due to the lower than normal fund balance which was due to the $1,000,000 transfer to capital reserve the previous year.

There was an unanticipated increase in earned income tax revenue that was a result of Lancaster County Tax Claim Bureau changing the distribution method to close out old accounts. Short term interest rates remained strong which increased investment income by almost 200.0% of the budgeted amount. State funding increased 4.0% over the budgeted amount.

In April the School District issued General Obligation Bonds in the amount of $18,000,000 to finance the construction of a new elementary school. The bonds carry a fixed rate of 4.32% and mature on or after February 1, 2016. In June the School District entered into a constant maturity swap with the Royal Bank of Canada, tied to this bond issuance. This was an opportune time for the School District to enter into this type of transaction in order to enhance cash flow and more efficiently manage its debt portfolio.

The School District began the year with an unreserved/undesignated general fund balance of $491,439, which was abnormally low due to the transfer to capital reserve as mentioned above. With the mandatory cut back in expenses, a mild heating season, lower health care costs and the unanticipated increases in revenue, the School District maintained revenues in excess of expenditures in the amount of $1,438,102. The unreserved/undesignated fund balance for 2005-06 was $1,930,538.

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.

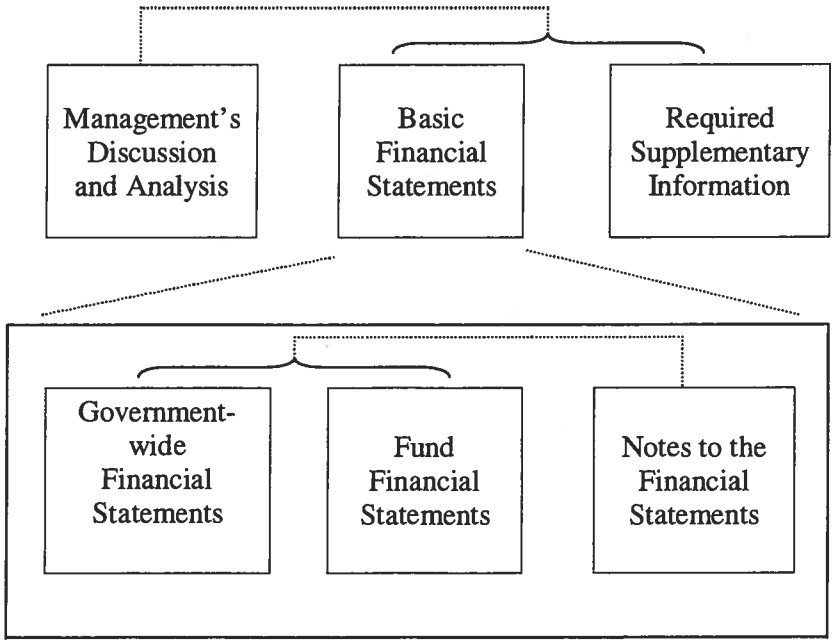
The first two statements are government-wide financial statements - the statement of net assets and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

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 balances	Statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows	Statement of net assets and statement of changes in net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Overview of Financial Statements

Government-Wide Statements
The government-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School District's net assets and how they have changed. Net assets, the difference between the School District's assets and liabilities, are one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net assets are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the School District, 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.

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.

Overview of Financial Statements (Continued)

Fund Financial Statements (Continued)
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 $13,408,698 as of June 30, 2006.

Table A-1
Fiscal Years Ended June 30, 2006 and 2005
Net Assets

	2006			2005		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	24,652,864	138,095	24,790,959	4,994,442	165,707	5,160,149
Capital Assets	33,481,911	242,984	33,724,895	34,287,993	242,758	34,530,751
Total Assets	58,134,775	381,079	58,515,854	39,282,435	408,465	39,690,900
Current and Other Liabilities	4,595,960	8,146	4,604,106	4,200,340	7,644	4,207,984
Long-Term Liabilities	40,503,050	-0-	40,503,050	24,610,346	-0-	24,610,346
Total Liabilities	45,099,010	8,146	45,107,156	28,810,686	7,644	28,818,330
Net Assets:						
Invested in Capital Assets (net of Related Debt)	9,780,993	242,984	10,023,977	8,501,909	242,758	8,744,667
Restricted for Debt Service	4,549	-0-	4,549	92	-0-	92
Unrestricted	3,250,223	129,949	3,380,172	1,969,748	158,063	2,127,811
Total Net Assets	13,035,765	372,933	13,408,698	10,471,749	400,821	10,872,570

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.

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

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.

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, 2006 and 2005
Changes in Net Assets

	2006			2005		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	120,951	541,460	662,411	119,763	553,451	673,214
Operating Grants and Contributions	3,698,775	322,708	4,021,483	3,600,684	298,025	3,898,709
Capital Grants and Contributions	608,476	-0-	608,476	357,350	-0-	357,350
General Revenues:						
Property Taxes	14,326,470	-0-	14,326,470	13,197,670	-0-	13,197,670
Other Taxes	2,100,209	-0-	2,100,209	1,671,065	-0-	1,671,065
Grants, Subsidies, And Contributions, Unrestricted	2,280,776	-0-	2,280,776	2,236,080	-0-	2,236,080
Other	465,651	21,404	487,055	159,610	590	160,200
Total Revenues	23,601,308	885,572	24,486,880	21,342,222	852,066	22,194,288
Expenses:						
Instructional Programs	12,225,265	-0-	12,225,265	12,100,154	-0-	12,100,154
Instructional Student Support	2,081,435	-0-	2,081,435	1,735,476	-0-	1,735,476
Administrative and Financial Support Services	1,879,082	-0-	1,879,082	1,947,875	-0-	1,947,875
Operation and Maintenance of Plant Services	1,841,987	-0-	1,841,987	1,821,434	-0-	1,821,434
Pupil Transportation	1,536,795	-0-	1,536,795	1,459,269	-0-	1,459,269
Student Activities	477,403	-0-	477,403	445,658	-0-	445,658
Community Services	7,968	-0-	7,968	7,173	-0-	7,173
Interest on Long-Term Debt	987,357	-0-	987,357	1,057,280	-0-	1,057,280
Food Services	-0-	913,460	913,460	-0-	874,402	874,402
Total Expenses	21,037,292	913,460	21,950,752	20,574,319	874,402	21,448,721
Increase (Decrease) in Net Assets	2,564,016	(27,888)	2,536,128	767,903	(22,336)	745,567

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

Table A-3 shows the School District's eight largest functions - instructional programs, instructional student support, administrative and financial support, operation and maintenance of plant, pupil transportation, student activities, community services, and 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, 2006 and 2005
Governmental Activities

	2006		2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional Programs	12,225,265	9,900,362	12,100,154	9,757,836
Instructional Student Support	2,081,435	1,810,754	1,735,476	1,573,838
Administrative and Financial Support Services	1,879,082	1,780,071	1,947,875	1,836,584
Operation and Maintenance of Plant Services	1,841,987	1,798,381	1,821,434	1,766,307
Pupil Transportation	1,536,795	527,274	1,459,269	468,654
Student Activities	477,403	414,343	445,658	392,372
Community Services	7,968	(976)	7,173	1,001
Interest on Long-Term Debt	987,357	378,881	1,057,280	699,930
Total Governmental Activities	21,037,292	16,609,090	20,574,319	16,496,522
Less: Unrestricted Grants, and Subsidies		2,280,776		2,236,080
Total Needs from Local Taxes and Other Revenues		14,328,314		14,260,442

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, 2006 and 2005
Business-Type Activities

	2006		2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Functions/Programs:				
Food Services	913,460	49,292	874,402	22,926
Less: Investment Earnings	1,310	1,310	590	590
Total Business-Type Activities	912,150	47,982	873,812	22,336

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, 2006, the School District governmental funds reported a combined fund balance of $22,218,723, which is an increase of $19,485,255. The primary reasons for this increase are specific to two funds:

General Fund:
The unreserved general fund balance increased by approximately $1,400,000. The School District exceeded budgeted earned income tax revenue by approximately $220,000 due to a change in the distribution methods used by the Lancaster County Tax Claim Bureau in order to close out old accounts. Additionally, revenues also exceeded budgeted amounts in interim taxes by $178,000, transfer taxes by $169,000, and interest on investments by $157,000. The School District decreased expenses over budgeted by approximately $600,000.

Capital Project Fund:
The School District issued General Obligation Bonds totaling $18,000,000.

General Fund Budget

During the fiscal year, the Board of School Directors (Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is authorized by state law. A schedule, showing the School District's original and final budget amounts compared with amounts actually paid and received, is provided on pages 48 and 49.

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, 2006, the School District had $32,925,734 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 $982,026.

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

	2006	2005
Land and Land Improvements	2,352,214	2,458,474
Building and Building Improvements	29,489,651	30,606,159
Furniture and Equipment	796,448	783,073
Vehicles	50,367	60,054
	32,688,680	33,907,760

Debt Administration

As of July 1, 2005, the School District had total outstanding bond principal of $25,855,000. During the year, the School District made payments against principal of $2,410,000 and added new debt totaling $18,000,000 resulting in ending outstanding debt as of June 30, 2006 of $41,445,000.

Table A-6
Outstanding Debt

	2006	2005
Issue:		
Series of 2002	3,745,000	4,220,000
General Obligation Note of 2003	1,535,000	1,625,000
Series of 2003	8,345,000	8,885,000
Series A of 2003	2,335,000	2,895,000
Series of 2005	7,485,000	8,230,000
Series 2006	18,000,000	-0-
	41,445,000	25,855,000

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 issued $18,000,000 in General Obligation Bonds and was assigned "Aaa" municipal bond rating by Moody's Investor Service.

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.

No construction projects were in progress during the 2005-06 fiscal year. However, it is anticipated that construction bids will go out in December 2006 and ground breaking will begin March of 2007, for the new Elementary School. As a result, additional debt was incurred as part of the 2006-07 budget that increase the debt service by approximately $640,000 or 19%. 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 $45,500,000. The current outstanding principal at June 30, 2006, was $41,445,000.

Budgeted revenue for the 2006-07 school year is 10% higher than the previous fiscal year. The majority of this is due to a 10.6% increase in the millage rate which the board assessed in order to provide a balanced budget. A increase of 5.6% in State Subsidies was based on figures available from the Governors Proposed Education Budget. Local revenue continues to provide the majority of funding for School District expenses as noted on page 13, with property taxes making up over 62% of total projected revenue from all sources.

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

The comparison of revenue and expenditure categories is as follows:

Table A-7
Budgeted Revenues

	2006-07	2005-06
Local Sources	73.5%	71.7%
State Sources	22.6%	24.0%
Federal/Other Sources	3.9%	4.3%

Budgeted Expenditures

	2006-07	2005-06
Instruction	50.9%	51.9%
Support Services	30.4%	31.9%
Non-Instruction/Community	1.4%	1.5%
Fund Transfers/Debt	17.3%	14.7%

Contacting the School District Business Administrator

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact John A. Bowden, 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, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	150,934	13,189	164,123
Investments	22,952,643	50,612	23,003,255
Taxes Receivable (net)	941,027		941,027
Due from Other Governments	439,765	38,522	478,287
Other Receivables	129,397	83	129,480
Inventories	34,252	35,689	69,941
Prepaid Expenses	4,846		4,846
Total Current Assets	24,652,864	138,095	24,790,959
Capital Assets:			
Land	651,861		651,861
Land Improvements (net of Accumulated Depreciation)	1,700,353		1,700,353
Building and Building Improvements (net of Accumulated Depreciation)	29,489,651		29,489,651
Furniture and Equipment (net of Accumulated Depreciation)	796,448	242,984	1,039,432
Vehicles (net of Accumulated Depreciation)	50,367		50,367
Construction in Process	237,054		237,054
Deferred Bond Issue Costs (net of Accumulated Amortization)	556,177		556,177
Total Noncurrent Assets	33,481,911	242,984	33,724,895
TOTAL ASSETS	58,134,775	381,079	58,515,854

See notes to financial statements.

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable	264,928	737	265,665
Due to Other Governments	27,251		27,251
Current Portion of Long-Term Debt	2,465,000		2,465,000
Accrued Salaries and Benefits	1,145,549		1,145,549
Compensated Absences Due Within One Year	125,612		125,612
Payroll Deductions and Withholdings	110,835		110,835
Deferred Revenues	1,760	7,409	9,169
Accrued Interest on Long-Term Debt	311,319		311,319
Other Current Liabilities	143,706		143,706
Total Current Liabilities	4,595,960	8,146	4,604,106
Long-Term Liabilities:			
Bonds Payable (net of Amortized Discount)	39,304,601		39,304,601
Accrued Retirement Bonus	539,488		539,488
Long-Term Portion of Compensated Absences	658,961		658,961
Total Noncurrent Liabilities	40,503,050	-0-	40,503,050
TOTAL LIABILITIES	45,099,010	8,146	45,107,156
NET ASSETS			
Invested in Capital Assets (net of Related Debt)	9,780,993	242,984	10,023,977
Restricted for Debt Service	4,549		4,549
Unrestricted	3,250,223	129,949	3,380,172
TOTAL NET ASSETS	13,035,765	372,933	13,408,698
TOTAL LIABILITIES and NET ASSETS	58,134,775	381,079	58,515,854

Pequea Valley School District
STATEMENT of ACTIVITIES
Year Ended June 30, 2006

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets: Governmental Activities	Net Revenue (Expense) and Changes in Net Assets: Business-Type Activities	Net Revenue (Expense) and Changes in Net Assets: Total
Governmental Activities:							
Instructional Programs	12,225,265	62,094	2,262,809		(9,900,362)		(9,900,362)
Instructional Student Support	2,081,435		270,681		(1,810,754)		(1,810,754)
Administrative and Financial Support Services	1,879,082		99,011		(1,780,071)		(1,780,071)
Operation and Maintenance of Plant Services	1,841,987	7,749	35,857		(1,798,381)		(1,798,381)
Pupil Transportation	1,536,795		1,009,521		(527,274)		(527,274)
Student Activities	477,403	51,108	11,952		(414,343)		(414,343)
Community Services	7,968		8,944		976		976
Interest on Long-Term Debt	987,357			608,476	(378,881)		(378,881)
Total Governmental Activities	21,037,292	120,951	3,698,775	608,476	(16,609,090)	-0-	(16,609,090)
Business-Type Activities:							
Food Services	913,460	541,460	322,708			(49,292)	(49,292)
Total Government	21,950,752	662,411	4,021,483	608,476	(16,609,090)	(49,292)	(16,658,382)

See notes to financial statements.

Pequea Valley School District
STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2006

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: 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)					14,326,470		14,326,470
Public Utility Realty, Earned Income, and Real Estate Transfer Taxes Levied for General Purposes (net)					2,100,209		2,100,209
Grants, Subsidies, and Contributions Unrestricted					2,280,776		2,280,776
Miscellaneous Income					6,947		6,947
Investment Earnings					478,798	1,310	480,108
Transfer between Funds					(20,094)	20,094	-0-
Total General Revenues, Special Items, Extraordinary Items, and Transfers					19,173,106	21,404	19,194,510
CHANGE in NET ASSETS					2,564,016	(27,888)	2,536,128
NET ASSETS - Beginning					10,471,749	400,821	10,872,570
NET ASSETS - Ending					13,035,765	372,933	13,408,698

See notes to financial statements.

Pequea Valley School District
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

	Major Funds					
	General Fund	Capital Reserve Fund	Capital Project Fund	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	141,153				3,402	144,555
Investments	2,244,030	2,112,431	18,013,115	104,589		22,474,165
Taxes Receivable (net)	941,027					941,027
Due from Other Funds	184					184
Due from Other Governments	439,765					439,765
Other Receivables	630		127,222			127,852
Inventories	34,252					34,252
Prepaid Expenses	4,846					4,846
TOTAL ASSETS	3,805,887	2,112,431	18,140,337	104,589	3,402	24,166,646
LIABILITIES and FUND BALANCES						
LIABILITIES						
Due to Other Funds	1,069				40	1,109
Accounts Payable	192,394		71,654		880	264,928
Due to Other Governments	27,251					27,251
Accrued Salaries and Benefits	1,145,549					1,145,549
Payroll Deductions and Withholdings	110,835					110,835
Deferred Revenues	367,599					367,599
Other Current Liabilities	30,652					30,652
TOTAL LIABILITIES	1,875,349	-0-	71,654	-0-	920	1,947,923
FUND BALANCES						
Reserve for Inventories	34,252					34,252
Reserve for Debt Service				4,549		4,549
Unreserved - Undesignated:						
General Fund	1,896,286					1,896,286
Special Revenue Fund		2,112,431				2,112,431
Capital Project Fund			18,068,683			18,068,683
Debt Service Fund				100,040	2,482	102,522
TOTAL FUND BALANCES	1,930,538	2,112,431	18,068,683	104,589	2,482	22,218,723
TOTAL LIABILITIES and FUND BALANCES	3,805,887	2,112,431	18,140,337	104,589	3,402	24,166,646

See notes to financial statements.

Pequea Valley School District
RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET ASSETS
June 30, 2006

Total fund balances - governmental funds		22,218,723
Amounts reported for governmental activities in the statement of net assets are different because:		
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.		374,273
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is $50,287,440 and the accumulated depreciation is $17,361,706.		32,925,734
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		365,839
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	(41,445,000)	
Accrued Interest on Long-Term Debt	(311,319)	
Debt Issuance Cost (net of Amortization)	556,177	
Bond Discount (net of Amortization)	(324,601)	
Accrued Retirement Bonus	(587,607)	
Compensated Absences	(736,454)	(42,848,804)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		13,035,765

See notes to financial statements.

Pequea Valley School District
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Major Funds					
	General Fund	Capital Reserve Fund	Capital Project Fund	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES						
Local Sources:						
Real Estate Taxes	14,228,971					14,228,971
Other Taxes	2,100,209					2,100,209
Investment Income	237,654	84,776	156,158	67	143	478,798
Other Revenue	110,806	7,173			51,108	169,087
Total Local Sources	16,677,640	91,949	156,158	67	51,251	16,977,065
State Sources	5,607,914					5,607,914
Federal Sources	939,151					939,151
TOTAL REVENUES	23,224,705	91,949	156,158	67	51,251	23,524,130
EXPENDITURES						
Instructional Services	11,159,463	13,828				11,173,291
Support Services	7,019,996	69,619				7,089,615
Noninstructional Services	329,535				155,757	485,292
Capital Outlay		10,770	237,054			247,824
Refund of Prior Year Revenue	2,134					2,134
Debt Service			232,399	3,173,108		3,405,507
TOTAL EXPENDITURES	18,511,128	94,217	469,453	3,173,108	155,757	22,403,663
EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES	4,713,577	(2,268)	(313,295)	(3,173,041)	(104,506)	1,120,467

See notes to financial statements.

Pequea Valley School District
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - GOVERNMENTAL FUNDS
(Continued)
Year Ended June 30, 2006

	Major Funds					
	General Fund	Capital Reserve Fund	Capital Project Fund	Debt Service Fund	Other Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)						
Bond Proceeds			18,000,000			18,000,000
Bond Premium			381,978			381,978
Proceeds from Sale of Capital Assets	1,907					1,907
Debt Service Fund Transfers	(3,177,538)	(100,000)		3,277,538		-0-
Other Fund Transfers	(99,844)	(14,533)			94,283	(20,094)
Net Other Financing Sources (Uses)	(3,275,475)	(114,533)	18,381,978	3,277,538	94,283	18,363,791
NET CHANGES in FUND BALANCES	1,438,102	(116,801)	18,068,683	104,497	(10,223)	19,484,258
FUND BALANCES - July 1, 2005	491,439	2,229,232		92	12,705	2,733,468
Change in Inventory	997					997
FUND BALANCES - June 30, 2006	1,930,538	2,112,431	18,068,683	104,589	2,482	22,218,723

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, 2006

Total net changes in fund balances - governmental funds		19,484,258
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 capital outlays exceed depreciation in the period is:		
Depreciation Expense	(1,415,063)	
Capital Outlays	433,037	(982,026)
Some property taxes will not be collected for several months after the School District's fiscal year ends; therefore, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year.		97,499
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		2,410,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental fund, an interest expenditure is reported when due.		(156,255)
In the statement of activities, certain operating expenses (e.g., compensated absences) are measured by the amounts earned during the year. In the governmental fund, 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.		(53,133)
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 revenue (expense) of the internal service funds is allocated among the governmental activities.		(19,751)

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, 2006

The governmental funds follow the purchase method of inventory, however, the statement of net assets uses the consumption method to record inventory.	997
The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items.	(18,217,573)
CHANGE in NET ASSETS of GOVERNMENTAL ACTIVITIES	2,564,016

See notes to financial statements.

Pequea Valley School District
STATEMENT of NET ASSETS -
PROPRIETARY FUNDS
June 30, 2006

	Food Service	Internal Service
ASSETS		
Current Assets:		
Cash and Cash Equivalents	13,189	6,379
Investments	50,612	478,478
Accounts Receivable	83	
Due from Other Governments	38,522	
Inventories	35,689	
Other Current Assets		1,545
Total Current Assets	138,095	486,402
Noncurrent Assets:		
Machinery and Equipment (net of Accumulated Depreciation)	242,984	
TOTAL ASSETS	381,079	486,402
LIABILITIES		
Current Liabilities:		
Accounts Payable	737	
Deferred Revenues	7,409	
Other Current Liabilities		112,129
TOTAL LIABILITIES	8,146	112,129
NET ASSETS		
Invested in Capital Assets (net of Related Debt)	242,984	
Unrestricted	129,949	374,273
TOTAL NET ASSETS	372,933	374,273
TOTAL LIABILITIES and NET ASSETS	381,079	486,402

See notes to financial statements.

Pequea Valley School District
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS - PROPRIETARY FUNDS
Year Ended June 30, 2006

	Food Service	Internal Service
OPERATING REVENUES		
Food Service Revenue	541,460	
Charges to Other Funds		1,444,810
Total Operating Revenues	541,460	1,444,810
OPERATING EXPENSES		
Salaries	314,329	
Employee Benefits	95,555	1,443,489
Purchased Professional and Technical Service	2,018	39,646
Purchased Property Service	21,462	
Supplies	448,117	
Depreciation	31,979	
Total Operating Expenses	913,460	1,483,135
OPERATING (LOSS)	(372,000)	(38,325)
NONOPERATING REVENUES		
Earnings on Investments	1,310	18,574
Transfers from Other Funds	20,094	
State Sources	51,150	
Federal Sources	271,558	
Total Nonoperating Revenues	344,112	18,574
CHANGES in NET ASSETS	(27,888)	(19,751)
NET ASSETS - July 1, 2005	400,821	394,024
NET ASSETS - June 30, 2006	372,933	374,273

See notes to financial statements.

Pequea Valley School District
STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Food Service	Internal Service
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	543,737	
Cash Received from Assessments Made to Other Funds		1,444,810
Cash Payments to Employees for Services	(409,884)	
Cash Payments to Suppliers for Goods and Services	(427,584)	
Cash Payments for Insurance Services		(1,430,485)
Cash Payments for Other Operating Expenses		(39,646)
Net Cash (Used) by Operating Activities	(293,731)	(25,321)
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Capital Acquisitions	(12,110)	-0-
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
State Sources	47,529	
Federal Sources	201,466	
Net Cash Provided by Noncapital Financing Activities	248,995	-0-
CASH FLOWS from INVESTING ACTIVITIES		
Purchase of Investments	(50,612)	359
Earnings on Investments	1,310	(359)
Net Cash (Used) by Investing Activities	(49,302)	-0-
(DECREASE) in CASH and CASH EQUIVALENTS	(106,148)	(25,321)
CASH and CASH EQUIVALENTS		
Beginning of Year	119,337	31,700
End of Year	13,189	6,379
RECONCILIATION of OPERATING (LOSS) to NET CASH PROVIDED by OPERATING ACTIVITIES		
Operating (Loss)	(372,000)	(38,325)
ADJUSTMENTS to RECONCILE OPERATING LOSS to NET CASH PROVIDED by OPERATING ACTIVITIES		
Depreciation	31,979	
Donated Commodities Used	42,898	
Decrease in Accounts Receivable	1,312	43,630
Decrease in Inventory	1,579	
(Decrease) in Accounts Payable	(608)	(30,626)
Increase in Interfund Payable	144	
Increase in Deferred Revenue	965	
Total Adjustments	78,269	13,004
Net Cash (Used) by Operating Activities	(293,731)	(25,321)
NON-CASH CAPITAL and RELATED FINANCING ACTIVITIES		
Equipment Transferred from Other Fund	20,094	-0-

See notes to financial statements.

Pequea Valley School District
STATEMENT of NET ASSETS -
FIDUCIARY FUNDS
June 30, 2006

	Private Purpose Trust	Agency
ASSETS		
Cash and Cash Equivalents		55
Investments	107,407	77,012
Due from General Fund		1,069
TOTAL ASSETS	107,407	78,136
LIABILITIES		
Accounts Payable		6,195
Other Current Liabilities	6,490	71,941
TOTAL LIABILITIES	6,490	78,136
NET ASSETS		
Restricted for Scholarships and Endowments	100,917	
TOTAL LIABILITIES and NET ASSETS	107,407	78,136

See notes to financial statements.

Pequea Valley School District
STATEMENT of CHANGES in NET ASSETS -
FIDUCIARY FUNDS
Year Ended June 30, 2006

	Private Purpose Trust
ADDITIONS	
Earnings on Investments	4,185
Donations	1,000
	5,185
DEDUCTIONS	
Scholarships Awarded	6,490
CHANGE in NET ASSETS	(1,305)
NET ASSETS - July 1, 2005	102,222
NET ASSETS - June 30, 2006	100,917

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 following is a summary of the School District's significant accounting policies:

Reporting Entity

Consistent with guidance contained in Statement No. 14 of the Governmental Accounting Standards Board (GASB), The Financial Reporting Entity, the criteria used by the School District to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

1. Organizations that make up its legal entity.

2. Legally separate organizations if School District officials appoint a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the School District as defined below.

   Impose its Will - If the School District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

   Financial Benefit or Burden - If the School District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations that are fiscally dependent on the School District. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the School District.

Based on the foregoing criteria, no additional entities are included in the accompanying general purpose financial statements.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Joint Ventures

The following joint ventures are not component units of the School District and are not included in this report.

Lancaster County Career and Technical Center (LCCTC)
The School District is one of 16 member school districts of the Lancaster County Career and Technical Center. LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the Career and Technical Board for Lancaster County (Vo-Tech Board), which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services in the year ended June 30, 2006, was approximately $336,963, which has been reported in the School District's general fund. Complete financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P. O. Box 527, Willow Street, PA 17584.

Lancaster County Career and Technical Center Authority
The School District is also a member of the Lancaster County Career and Technical Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the LCCTC 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 school districts and the Authority Board to advance refund the Authority's 1995 bonds. The School District has an ongoing financial obligation 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, 2006, was $283,288. The School District's lease payment to the Authority for the year ended June 30, 2006, was $79,706, which has been reported in the School District's general fund. Complete financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P. O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority
The School District is a member of the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The Authority is not reported as part of the School District's reporting entity. The School District did not have any financial transactions with the Authority during the year ended June 30, 2006. Complete financial statements for the Authority can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Joint Ventures (Continued)

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 in the year ended June 30, 2006, was approximately $854,027. Complete financial statements for LLIU can be obtained from the Administrative Office at 1020 New Holland Avenue, 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, 2006, was $43,491. Financial information for the Bureau can be obtained from the Administrative Office at 299 Hess Blvd., 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.

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 or expenses, as appropriate. 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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Financial Statements (Continued)

Government-Wide Financial Statements (Continued) - 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 non-major funds. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

General Fund - The general fund is the principal operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Reserve Fund - This fund is used to account for transfers from other funds and related investment earnings for capital outlays not accounted for in another fund.

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.

Capital Projects Fund - This fund is used to account for the resources and expenditures related to the construction of a new elementary school.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

The School District reports the following proprietary funds:

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

Internal Service Fund - This fund is used to account for hospitalization and unemployment costs which are services provided to the School District employees as benefits.

The School District accounts for assets held by the School District in a trustee capacity in a private purpose trust fund. This fund accounts for the receipts and disbursement of monies contributed to the School District for scholarships and memorials.

The agency fund is used to account for assets held by the School District as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund includes the student activities fund.

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

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. Property 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. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

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. Revenue from federal, state and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. 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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)
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.

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.

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.

Non-exchange 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 non-exchange transactions must also be available before it can be recognized.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the School District's food service fund are charges to students and staff for food. Operating expenses include the costs to provide food. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses

When 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 carried at cost plus accrued interest, which approximates fair value.

Investments
Investments are recorded at market value.

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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Due from Other Funds/Due to Other Funds
Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

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, 2006. 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 food service fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2006, 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:

Buildings and Building Improvements	20-40 years
Land Improvements	20 years
Furniture and Equipment	5-12 years
Vehicles	5-10 years

Long-Term Obligations
In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net 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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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, 2006, the School District had no encumbrances.

Pension Plan

Substantially all full-time and 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, 2006, 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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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. Unreserved retained earnings 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 2006.

NOTE 2 - Cash 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.

Cash and Cash Equivalents - Custodial Credit Risk
Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The School District does not have a policy for custodial credit risk. As of June 30, 2006, $17,143,876 of the School District's bank balance of $17,525,876 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	17,143,876
	17,143,876

NOTE 2 - Cash and Investments (Continued)

Reconciliation of Cash and Cash Equivalents to the Balance Sheet

Uninsured Amount Above	17,143,876
Plus: Insured Amount	382,000
Bank Balance	17,525,876
Less: Outstanding Checks	(81,379)
Carrying Amount - Bank Balances	17,444,497
Plus: Petty Cash	1,681
Less: Certificates of Deposits	(17,282,000)
Total Cash and Cash Equivalents Per Balance Sheet	164,178

Investments
As of June 30, 2006, the School District had the following investments:

Investments	Maturity	Fair Value
Certificates of Deposit	6-12 months	17,282,000
PA Local Government Investment Trust		3,621,162
PA School District Liquid Asset Fund		2,279,963
Goldman Sachs Financial Square Treasury Obligations		4,549
Total Investments Per Balance Sheet		23,187,674

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

Credit Risk
The School District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2006, the School District investments were rated as:

Investments	Standard & Poor's
PA Local Government Investment Trust	AAAm
PA School District Liquid Asset Fund	AAAm
Goldman Sachs Financial Square Treasury Obligations	AAAm

NOTE 2 - Cash and Investments (Continued)

Concentration of Credit Risk

The School District places no limit on the amount they may invest in any one issuer. More than 5% of the School District's investments are in Pennsylvania Local Government Investment Trust and PA School District Liquid Asset Fund. These investments are 15.62% and 9.84% of total investments. Pennsylvania Local Government Investment Trust and PA School District Liquid Asset Fund represents 16.08% and 10.13% of the governmental activity investments. The Pennsylvania Local Government Investment Trust and the PA School District Liquid Asset Fund make up 48% and 52% of the total investment in the general fund. The Pennsylvania Local Government Investment Trust make up 100 of the total investment in the capital reserve fund. The fiduciary funds have 100% of their investment in the Pennsylvania Local Government Investment Trust.

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 elected tax collectors bill and collect property taxes and remit them to the School District. The School District tax rate for the year ended June 30, 2006, was 13.20 mills ($13.20 per $1,000 of assessed valuation) as levied by the Board of School Directors. The schedule for real estate taxes levied for each fiscal year is as 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. A portion of the receivable amount which was measurable and available within 60 days was recognized as revenue and the balance deferred. The balances at June 30, 2006, were as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Deferred Taxes
Real Estate Taxes	413,385	14,176	399,209	107,117	292,092
Earned Income Taxes	381,197		381,197	381,197	
Interim Real Estate Taxes	133,183		133,183	59,436	73,747
Realty Transfer Taxes	27,438		27,438	27,438	
	955,203	14,176	941,027	575,188	365,839

NOTE 5 - Due from Other Governments

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2006, the following amounts were due from other governmental units:

Due From	General Fund	Enterprise Fund	Total
Federal Grants	8,166	33,820	41,986
State Match for Lunch Program		4,702	4,702
State Rental Subsidy	211,145		211,145
State Retirement Subsidy	89,107		89,107
State Social Security Subsidy	35,291		35,291
Other State Subsidies	1,122		1,122
Local	94,934		94,934
	439,765	38,522	478,287

NOTE 6 - Interfund Accounts

Individual fund receivable and payable balances at June 30, 2006, were as follows:

Fund	Due from Other Funds	Due to Other Funds
General	184	1,069
Athletic		40
Cafeteria		144
Fiduciary:		
Agency	1,069	
	1,253	1,253

NOTE 6 - Interfund Accounts (Continued)

Interfund transfers for the year ended June 30, 2006, were as follows:

Fund	Transfers In	Transfers Out
General Fund		3,277,382
Capital Reserve		114,533
Athletic Fund	94,283	
Cafeteria Fund	20,094	
Debt Service	3,277,538	
	3,391,915	3,391,915

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 were 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, 2006, was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Historical Cost:				
Capital Assets not Being Depreciated:				
Construction in Progress		237,054		237,054
Land	651,861	-0-		651,861
Total Cost	651,861	237,054	-0-	888,915
Capital Assets Being Depreciated:				
Land Improvements	2,701,193			2,701,193
Building and Building Improvements	44,930,007			44,930,007
Furniture and Equipment	1,462,398	195,982		1,658,380
Vehicles	121,301		12,356	108,945
Total Cost	49,214,899	195,982	12,356	49,398,525
Accumulated Depreciation:				
Land Improvements	894,580	106,260		1,000,840
Building and Building Improvements	14,323,848	1,116,508		15,440,356
Furniture and Equipment	679,324	182,608		861,932
Vehicles	61,247	9,687	12,356	58,578
Total Accumulated Depreciation	15,958,999	1,415,063	12,356	17,361,706
Net Capital Assets Being Depreciated				32,036,819
Net Capital Assets				32,925,734

NOTE 7 - Changes in Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	558,512	31,805		590,317
Accumulated Depreciation:				
Equipment	315,754	31,579		347,333
Net Capital Assets Being Depreciated	242,758	226	-0-	242,984
Net Capital Assets	242,758	226	-0-	242,984

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	1,133,951
Instructional Student Support	86,731
Administrative and Financial Support Services	164,720
Operation and Maintenance of Plant Services	29,661
	1,415,063

NOTE 8 - Deferred Revenues

Deferred revenues consisted of the following at June 30, 2006:

	General Fund	Proprietary Fund
Deferred Taxes	365,839	
Summer School Tuition	1,760	
Advanced Revenue		7,409
	367,599	7,409

NOTE 9 - General Long-Term Debt

General Obligation Bonds

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, 2006, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2006
Series of 2002	02/15/2013	2.00% - 3.85%	3,745,000
GON Series of 2003	04/01/2019	Wkly Variable Rate Max 15%	1,535,000
Series of 2003	04/01/2019	1.10% - 3.70%	8,345,000
Series A of 2003	05/15/2010	1.40% - 3.25%	2,335,000
Series of 2005	05/15/2021	3.00% - 4.10%	7,485,000
Series of 2006	02/01/2020	3.50% - 4.75%	18,000,000
			41,445,000

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, 2006, is 4.49%.

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
[illegible]eral Obligation Debt	25,855,000	18,000,000	2,410,000	41,445,000
Bond Premium		381,978		381,978
Bond Discount	(68,916)		(11,539)	(57,377)
Accrued Retirement Bonus	570,798	16,809		587,607
Compensated Absences	700,130	36,324		736,454
	27,057,012	18,435,111	2,398,461	43,093,662

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

Year Ending June 30,	Principal	Interest	Total Commitment
2007	2,465,000	1,338,037	3,803,037
2008	2,570,000	1,443,200	4,013,200
2009	2,635,000	1,377,329	4,012,329
2010	2,710,000	1,377,738	4,087,738
2011	2,725,000	1,241,428	3,966,428
2012 - 2016	15,180,000	4,656,551	19,836,551
2017 - 2021	13,160,000	1,370,684	14,530,684
	41,445,000	12,804,967	54,249,967

NOTE 10 - Compensated Absences

A summary of the amount recorded as a liability in the governmental activities for compensated absences is as follows for June 30, 2006:

Accumulated Sick Leave	670,075
Accumulated Vacation Leave	14,043
Employer Social Security and Medicare Share on Above	52,336
	736,454

NOTE 11 - Retirement Bonus

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, 2006:

Estimated Accrued Retirement Bonus	545,850
Employer Social Security and Medicare Share on Above	41,757
	587,607

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, 2006, are as follows:

2007	79,829
2008	79,799
2009	79,850
2010	79,891
Total Minimum Future Rental Payments	319,369

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.

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, 2006, the rate of employer contribution was 4.69 percent of covered payroll. The 4.69 percent rate is comprised of a pension contribution rate of 4.00 percent for pension benefits and .69 percent for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. Pequea Valley School District's contributions to PSERS for the years ending June 30, 2006, 2005, and 2004 were $491,922, $427,852, and $377,081, 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 $1,385,601 in total per year.

A liability for claims incurred prior to June 30, 2006 and, subsequently paid is recorded in the amount of $112,129 in other current liabilities in the internal service fund.

NOTE 14 - Risk Management (Continued)

Hospitalization (Continued)
Changes in the School District's claims liability amount in fiscal years 2006 and 2005 were:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2005-06	142,755	1,397,915	1,428,541	112,129
2004-05	178,218	1,761,701	1,797,164	142,755

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, 2006, the School District is not aware of any additional assessments relating to the Fund.

Other Risks
The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2006, 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 36 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, 2006, were $111,178 and $212,693, 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 Reserves 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, 2006, the School District has included the following amounts as specific reserves fund balances:

Debt Service Funds - Reserve for Debt Service Expenditures	4,549

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.

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.

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.

Pequea Valley School District
SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
Year Ended June 30, 2006

	Budget Amounts			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Local Sources:				
Real Estate Taxes	14,201,395	14,201,395	14,228,971	27,576
Other Taxes	1,703,923	1,703,923	2,100,209	396,286
Investment Income	80,000	80,000	237,654	157,654
Other Revenue	93,500	93,500	110,806	17,306
Total Local Sources	16,078,818	16,078,818	16,677,640	598,822
State Sources	5,374,834	5,374,834	5,607,914	233,080
Federal Sources	958,257	958,257	939,151	(19,106)
Total Revenues	22,411,909	22,411,909	23,224,705	812,796
EXPENDITURES				
Instructional Services:				
Regular Programs	8,666,371	8,666,371	8,378,750	287,621
Special Programs	1,751,986	1,751,986	1,662,979	89,007
Vocational Programs	507,710	510,449	510,449	-0-
Other Instructional Programs	711,454	711,454	607,285	104,169
Total Instructional Services	11,637,521	11,640,260	11,159,463	480,797
Support Services:				
Pupil Personnel Services	621,846	621,846	616,373	5,473
Instructional Staff Services	1,277,301	1,277,301	1,219,623	57,678
Administrative Services	1,239,395	1,239,395	1,187,952	51,443
Pupil Health	162,001	162,001	155,440	6,561
Business Services	313,306	313,306	301,136	12,170
Operation and Maintenance of Plant Services	1,895,536	1,895,536	1,792,079	103,457
Student Transportation Services	1,372,206	1,537,206	1,536,753	453
Central Services	232,413	232,413	186,699	45,714
Other Support Services	24,128	24,128	23,941	187
Total Support Services	7,138,132	7,303,132	7,019,996	283,136
Noninstructional Services:				
Student Activities	327,250	327,250	318,528	8,722
Community Services	7,968	11,007	11,007	-0-
Total Noninstructional Services	335,218	338,257	329,535	8,722
Refund of Prior Year Revenue	-0-	2,134	2,134	-0-
Total Expenditures	19,110,871	19,283,783	18,511,128	772,655
EXCESS of REVENUES over EXPENDITURES	3,301,038	3,128,126	4,713,577	1,585,451

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, 2006

	Budget Amounts			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-0-	-0-	1,907	1,907
Debt Service Fund Transfers	(3,204,133)	(3,204,133)	(3,177,538)	26,595
Other Fund Transfers	(96,906)	(96,906)	(99,844)	(2,938)
Budgetary Reserve	(400,000)	(227,088)	-0-	227,088
Net Other Financing (Uses)	(3,701,039)	(3,528,127)	(3,275,475)	252,652
NET CHANGES in FUND BALANCES	(400,001)	(400,001)	1,438,102	1,838,103
FUND BALANCES - July 1, 2005			491,439	
Change in Inventory			997	
FUND BALANCES - June 30, 2006			1,930,538	

See auditors' report.

Pequea Valley School District follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 31, management submits 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.

2. A public hearing is conducted to obtain taxpayer comments.

3. Prior to June 30, the budget is legally enacted through passage of an ordinance.

4. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the School Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.

5. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.

6. 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 at June 30, 2006.

7. Where applicable, unbudgeted federal program income and expenses have been added to the budgeted amounts.

8. 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.

9. No budgets are required for the major special revenue funds.

Pequea Valley School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year Ended June 30, 2006

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, 2005	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
U.S. Department of Agriculture									
Passed through the Pennsylvania Department of Education:									
School Breakfast Program***	I/F	10.553	N/A	07/01/05 - 06/30/06	N/A	-0-	26,465	31,439	4,974
	S	N/A	N/A	07/01/05 - 06/30/06	N/A	-0-	3,046	3,625	579
School Breakfast Program***	I/F	10.553	N/A	07/01/04 - 06/30/05	N/A	988	988	-0-	-0-
	S	N/A	N/A	07/01/04 - 06/30/05	N/A	135	135	-0-	-0-
National School Lunch Program***	I/F	10.555	N/A	07/01/05 - 06/30/06	N/A	-0-	168,376	197,222	28,846
(Note 3)	S	N/A	N/A	07/01/05 - 06/30/06	N/A	-0-	25,077	28,625	3,548
National School Lunch Program***	I/F	10.555	N/A	07/01/04 - 06/30/05	N/A	5,638	5,638	-0-	-0-
	S	N/A	N/A	07/01/04 - 06/30/05	N/A	946	946	-0-	-0-
Total Passed through the Pennsylvania Department of Education						7,707	230,671	260,911	37,947
Passed through the Pennsylvania Department of Agriculture:									
Food Donation (Note 2)	I/F	10.550	N/A	07/01/05 - 06/30/06	N/A	-0-	39,642	39,642	-0-
Total U.S. Department of Agriculture						7,707	270,313	300,553	37,947
U.S. Department of Education									
Passed through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	I/F	84.010	013-060332	07/01/05 - 09/30/06	725,955	-0-	538,644	526,352	(12,292)

See auditors' report.

Pequea Valley School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2006

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, 2005	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
U.S. Department of Education (Continued)									
Passed through the Pennsylvania Department of Education (Continued):									
Title I Grants to Local Educational Agencies	I/F	84.010	013-050332	07/01/04 - 09/30/05	696,309	69,686	232,103	162,417	-0-
Title I Grants to Local Educational Agencies	I/F	84.010	077-050332	07/01/04 - 09/30/06	3,996	-0-	3,996	3,996	-0-
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-060332	07/01/05 - 09/30/06	18,219	-0-	9,810	15,153	5,343
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-050332	07/01/04 - 09/30/05	17,000	1,203	4,250	3,047	-0-
State Grants for Innovative Programs	I/F	84.298	011-060332	07/01/05 - 09/30/06	3,722	-0-	1,985	3,722	1,737
State Grants for Innovative Programs	I/F	84.298	011-050332	07/01/04 - 09/30/05	5,726	1,145	1,145	-0-	-0-
Education Technology State Grants	I/F	84.318	055-060332	07/01/05 - 09/30/06	12,433	-0-	12,433	12,433	-0-
Improving Teacher Quality State Grants	I/F	84.367	020-060332	07/01/05 - 09/30/06	200,659	-0-	187,282	200,659	13,377
Improving Teacher Quality State Grants	I/F	84.367	020-050332	07/01/04 - 09/30/05	202,206	47,854	53,922	6,068	-0-
Total Passed through the Pennsylvania Department of Education						119,888	1,045,570	933,847	8,165

See auditors' report.

Pequea Valley School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2006

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, 2005	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
U.S. Department of Education (Continued)									
Passed through the Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States (Note 4)	I/F	84.027	062-050013	07/04/04 - 06/30/05	7,157	7,157	7,157	-0-	-0-
Total U.S. Department of Education						127,045	1,052,727	933,847	8,165
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	07/01/05 - 06/30/06	20,000	-0-	18,726	18,726	-0-
Passed through the Lancaster-Lebanon Intermediate Unit #13:									
Medical Assistance Program	I/F	93.778	N/A	07/01/05 - 06/30/06	5,303	-0-	5,303	5,303	-0-
Total U.S. Department of Health and Human Services						-0-	24,029	24,029	-0-
TOTAL EXPENDITURES of FEDERAL AWARDS						134,752	1,347,069	1,258,429	46,112

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

See auditors' report.

Pequea Valley School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2006

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

NOTE 2 - Food Donation

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

NOTE 3 - Returned Money

$574 was returned to the Pennsylvania Department of Education.

NOTE 4 - Adjustment

No receivable was shown at June 30, 2005; however, this was in error. A receivable of $7,157 should have been shown.

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, 2006, which collectively comprise Pequea Valley School District's basic financial statements and have issued our report thereon dated September 19, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider 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 other matters that we have reported to management of Pequea Valley School District in a separate letter dated September 19, 2006.

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

September 19, 2006
Lancaster, Pennsylvania

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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 its major federal program for the year ended June 30, 2006. Pequea Valley School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Pequea Valley School District's management. Our responsibility is to express an opinion on Pequea Valley School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pequea Valley School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pequea Valley School District's compliance with those requirements.

In our opinion, Pequea Valley School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

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 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

September 19, 2006
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Pequea Valley School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2006

A. Summary of Audit Results

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

2. No reportable conditions 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.

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

4. No reportable conditions relating to the audit of the major federal program are reported in the Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.

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

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

7. The program tested as a major program is: Title I Grants to Local Educational Agencies - CFDA #84.010.

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

None

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

None

Pequea Valley School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2006

There are no prior audit findings.