PEQUEA VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2005

Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2005

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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2005

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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, 2005, 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, 2005, 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 October 3, 2005, 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

October 3, 2005
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, 2005. 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 2004-05 fiscal year were expected to grow by about 5% from the previous year. Areas that varied from that average are highlighted below.

Anticipated expenditures for health insurance coverage for employees were expected to increase by about 17% as a result of market conditions, combined with the School District's experience rating. Tuition reimbursement payments to professional staff were expected to increase by 12% due to the number of newer teachers employed by the School District who are seeking permanent certification. Expenditures for the curriculum review cycle doubled to $182,457 following a two-year period of partial deferrals to reduce costs. Maintenance and utility costs were expected to increase by 13% in order to maintain additional square footage created by the Salisbury renovation and expansion project and to reflect actual historical expenditures. Transportation costs were budgeted to be 7.8% higher to accommodate additional services required of IU 13 and other special needs students. Finally, the contract with IU 13 to provide services for students with special needs was expected to grow by 6%.

In addition, the school board approved 7.5 full-time equivalent teaching positions to meet the goal of "*raising each school's PSSA proficiency scores to meet or exceed expected percentages of adequate yearly progress.*" This goal is in response to the increased accountability demanded by the Federal "No Child Left Behind" Act. Services include additional staff to offer full-day kindergarten, an additional special education teacher, a middle school remediation teacher, a middle school "at-risk" program, and a high school remediation teacher.

With the exception of the additional revenue realized due to the increase in the real estate millage rate, all other revenue sources remained about the same. Because of continued low interest rates on investments and minimum increases in state subsidies, there was a need to increase real estate rates by 3.4% in order to balance the budget. The School District was also scheduled to receive $82,898 in "Accountability Grant" revenue; these funds were allocated to add full-day kindergarten to all who request services.

The School District began the year with adequate reserves as a result of refinancing bonds at lower interest rates in recent years. The unreserved/undesignated general fund balance was $1.8 million. The capital reserve fund balance was approximately $620,000, and the designated health care reserve fund balance had net assets of about $395,000.

Using this Annual Report

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so that the reader can understand Pequea Valley School District as a financial whole.

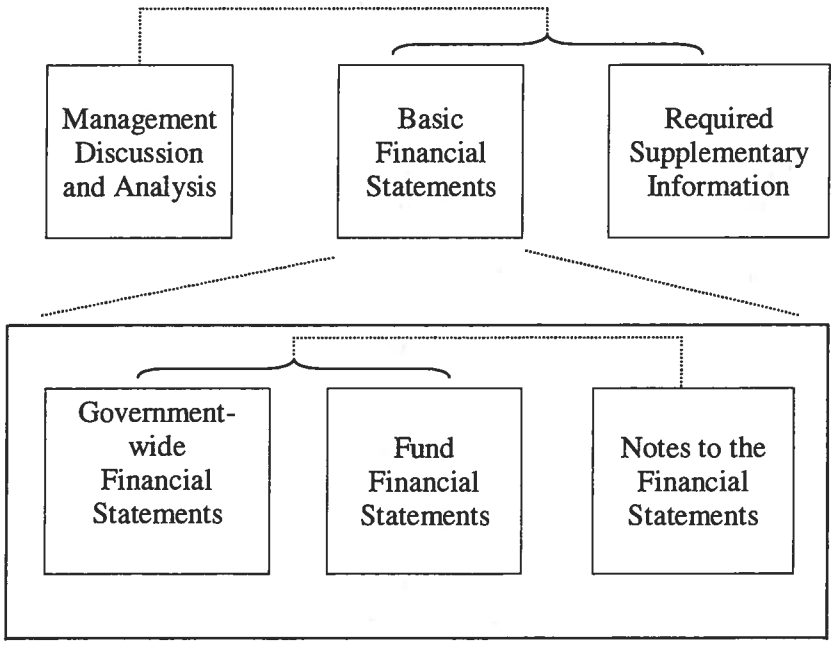
The first two statements are government-wide financial statements - the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the School District's overall financial status.

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the financial section are arranged and relate to one another:

Figure A-1
Required Components of
Pequea Valley School District's
Financial Report



Using this Annual Report (Continued)

Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of Pequea Valley School District's
Government-Wide and Fund Financial Statements

		Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except fiduciary funds)	The activities of the School District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the School District operates similar to private business - food services and internal services fund	Instances in which the School District is the trustee or agent to someone else's resources - scholarship and activity funds
Required financial statements	Statement of Net Assets Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows	Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Overview of Financial Statements

Government-Wide Statements

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

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

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

To assess the overall health of the School District, you need to consider additional non-financial factors, such as changes in the School District's property tax base and the performance of the students.

The government-wide financial statements of the School District are divided into two categories:

- Governmental activities - All of the School District's basic services are included here, such as instruction, administration, and community services. Property taxes, state and federal subsidies, and grants finance most of these activities.
- Business type activities - The School District operates a food service operation and charges fees to staff, students, and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The School District's fund financial statements, which begin on page 18, provide detailed information about the most significant funds - not the School District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds - Most of the School District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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 $10,872,570 as of June 30, 2005.

Table A-1
Fiscal Years Ended June 30, 2005 and 2004
Net Assets

	2005			2004		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	4,994,442	165,707	5,160,149	4,779,532	159,065	4,938,597
Capital Assets	34,287,993	242,758	34,530,751	35,374,579	273,032	35,647,611
Total Assets	39,282,435	408,465	39,690,900	40,154,111	432,097	40,586,208
Current and Other Liabilities	4,200,340	7,644	4,207,984	4,125,006	8,940	4,133,946
Long-Term Liabilities	24,610,346	-0-	24,610,346	26,325,259	-0-	26,325,259
Total Liabilities	28,810,686	7,644	28,818,330	30,450,265	8,940	30,459,205
Net Assets:						
Invested in Capital Assets, net of Related Debt	8,501,909	242,758	8,744,667	7,688,120	273,032	7,961,152
Restricted	92	-0-	92	108	-0-	108
Unrestricted	1,969,748	158,063	2,127,811	2,015,618	150,125	2,165,743
Total Net Assets	10,471,749	400,821	10,872,570	9,703,846	423,157	10,127,003

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, 2005 and 2004
Changes in Net Assets

	2005			2004		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	119,763	553,451	673,214	167,419	547,024	714,443
Operating Grants and Contributions	3,600,684	298,025	3,898,709	3,324,797	265,439	3,590,236
Capital Grants and Contributions	357,350	-0-	357,350	324,244	-0-	324,244
General Revenues:						
Property Taxes	13,197,670	-0-	13,197,670	12,762,204	-0-	12,762,204
Other Taxes	1,671,065	-0-	1,671,065	1,649,323	-0-	1,649,323
Grants, Subsidies, and Contributions, Unrestricted	2,236,080	-0-	2,236,080	2,191,951	-0-	2,191,951
Other	159,610	590	160,200	87,718	303	88,021
Total Revenues	21,342,222	852,066	22,194,288	20,507,656	812,766	21,320,422
Expenses:						
Instructional Programs	12,100,154	-0-	12,100,154	11,331,775	-0-	11,331,775
Instructional Student Support	1,735,476	-0-	1,735,476	1,798,843	-0-	1,798,843
Administrative and Financial Support	1,947,875	-0-	1,947,875	1,657,873	-0-	1,657,873
Operation and Maintenance of Plant	1,821,434	-0-	1,821,434	1,674,964	-0-	1,674,964
Pupil Transportation	1,459,269	-0-	1,459,269	1,274,837	-0-	1,274,837
Student Activities	445,658	-0-	445,658	475,944	-0-	475,944
Community Services	7,173	-0-	7,173	8,189	-0-	8,189
Interest on Long-Term Debt	1,057,280	-0-	1,057,280	1,228,688	-0-	1,228,688
Food Services	-0-	874,402	874,402	-0-	826,790	826,790
Total Expenses	20,574,319	874,402	21,448,721	19,451,113	826,790	20,277,903
Increase (Decrease) in Net Assets	767,903	(22,336)	745,567	1,056,543	(14,024)	1,042,519

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

Table A-3 shows the School District's eight largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, and food service as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, 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, 2005 and 2004
Governmental Activities

	2005		2004	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional Programs	12,100,154	9,757,836	11,331,775	9,151,113
Instructional Student Support	1,735,476	1,573,838	1,798,843	1,603,904
Administrative and Financial Support	1,947,875	1,836,584	1,657,873	1,589,282
Operation and Maintenance of Plant	1,821,434	1,766,307	1,674,964	1,618,259
Pupil Transportation	1,459,269	468,654	1,274,837	344,734
Student Activities	445,658	392,372	475,944	405,467
Community Services	7,173	1,001	8,189	950
Interest on Long-Term Debt	1,057,280	699,930	1,228,688	920,944
Total Governmental Activities	20,574,319	16,496,522	19,451,113	15,634,653
Less: Unrestricted Grants, Subsidies		2,236,080		2,191,951
Total Needs from Local Taxes and Other Revenues		14,260,442		13,442,702

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, 2005 and 2004
Business-Type Activities

	2005		2004	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Functions/Programs:				
Food Services	874,402	22,926	826,790	14,327
Less: Investment Earnings	590	590	303	303
Total Business-Type Activities	873,812	22,336	826,487	14,024

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, 2005, the School District governmental funds reported a combined fund balance of $2,733,468, which is an increase of $277,211. The primary reasons for this increase are specific to two funds:

General Fund:
The unreserved general fund balance decreased by approximately $1,324,000. The School Board authorized a transfer of $1,000,000 into the capital reserve fund to provide for the option of reducing debt payments by retiring a variable-rate note in the event that a new bond issue would be needed for additional construction projects or to use as cash for other capital projects. The remaining decrease was the result of the need to tap budgetary reserves to pay for increased cost of heating and diesel fuel due to market conditions, and other unforeseen expenses.

Capital Reserve Fund:
The unreserved fund balance increased by approximately $1,600,000 as a result of the transfer from the general fund as noted above and proceeds from a bond refinancing.

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, 2005, the School District had $33,907,760 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deletions, and depreciation) of $1,181,824.

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

	2005	2004
Land and Land Improvements	2,458,474	2,541,365
Buildings and Building Improvements	30,606,159	31,741,119
Furniture and Equipment	783,073	758,274
Vehicles	60,054	48,826
	33,907,760	35,089,584

Debt Administration

As of July 1, 2004, the School District had total outstanding bond principal of $27,480,000. During the year, the School District made payments against principal of $10,275,000 and added new debt totaling $8,650,000 resulting in ending outstanding debt as of June 30, 2005, of $25,855,000.

Table A-6
Outstanding Debt

	2005	2004
Issue:		
Series A of 2001	-0-	4,095,000
Series B of 2001	-0-	4,175,000
Series of 2002	4,220,000	4,685,000
General Obligation Note of 2003	1,625,000	1,715,000
Series of 2003	8,885,000	9,370,000
Series A of 2003	2,895,000	3,440,000
Series of 2005	8,230,000	-0-
	25,855,000	27,480,000

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 refinanced the outstanding principal of the Bonds, Series 2001A and 2001B, to realize a reduction in interest for future year payments.

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. A county-wide reassessment was completed during this fiscal year; new totals will be used for the 2005-06 fiscal year. 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 2004-05 fiscal year. However, the Board is currently working with an architectural firm to develop options that will involve the consolidation of students currently housed at Leacock and Paradise Elementary Schools into one facility located at the Paradise site. As a result, additional debt may be incurred as part of the 2006-07 budget that will be adopted in the spring of 2006. 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, 2005, was $25,855,000.

Budgeted revenue for the 2005-06 school year is 4.4% higher than the previous fiscal year. The majority of this is due to a 5.8% increase in anticipated real estate tax collection. As a result of county-wide reassessment, the "revenue neutral" millage rate for 2004-05 was calculated to be 12.48; the new millage rate for 2005-06 was set at 13.73. A 2% increase in state subsidy was budgeted based on figures available at the time of adoption. With the exception of an anticipated $120,000 increase in delinquent tax collections, based on historical data, all other revenue projections remained fairly constant. Local revenue continues to provide the majority of funding for School District expenses as noted on page 13, with property taxes making up over 64% 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

	2005-06	2004-05
Local Sources	71.7%	71.1%
State Sources	24.0%	24.4%
Federal/Other Sources	4.3%	4.5%

Budgeted Expenditures

	2005-06	2004-05
Instruction	51.9%	51.5%
Support Services	31.9%	29.3%
Non-Instruction/Community	1.5%	1.9%
Fund Transfers/Debt	14.7%	17.3%

Contacting the School District Business Administrator

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Amy J. Swartz, 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, 2005

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	541,580	119,337	660,917
Investments	2,975,499		2,975,499
Taxes Receivable (net)	751,943		751,943
Due from Other Governments	638,606	7,707	646,313
Other Receivables	51,483	1,395	52,878
Inventories	33,255	37,268	70,523
Prepaid Expenses	2,076		2,076
Total Current Assets	4,994,442	165,707	5,160,149
Noncurrent Assets:			
Land	651,861		651,861
Land Improvements (net of Accumulated Depreciation)	1,806,613		1,806,613
Building and Building Improvements (net of Accumulated Depreciation)	30,606,159		30,606,159
Furniture and Equipment (net of Accumulated Depreciation)	783,073	242,758	1,025,831
Vehicles (net of Accumulated Depreciation)	60,054		60,054
Deferred Bond Issue Costs (net of Accumulated Amortization)	380,233		380,233
Total Noncurrent Assets	34,287,993	242,758	34,530,751
TOTAL ASSETS	39,282,435	408,465	39,690,900

See notes to financial statements.

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable	182,261	1,201	183,462
Current Portion of Long-Term Debt	2,410,000		2,410,000
Accrued Salaries and Benefits	1,112,685		1,112,685
Compensated Absences Due Within One Year	36,666		36,666
Payroll Deductions and Withholdings	115,622		115,622
Deferred Revenues	6,655	6,443	13,098
Accrued Interest on Long-Term Debt	155,064		155,064
Other Current Liabilities	181,387		181,387
Total Current Liabilities	4,200,340	7,644	4,207,984
Noncurrent Liabilities:			
Bonds Payable (net of Amortized Discount)	23,376,084		23,376,084
Accrued Retirement Bonus	570,798		570,798
Long-Term Portion of Compensated Absences	663,464		663,464
Total Noncurrent Liabilities	24,610,346	-0-	24,610,346
TOTAL LIABILITIES	28,810,686	7,644	28,818,330
NET ASSETS			
Invested in Capital Assets (net of Related Debt)	8,501,909	242,758	8,744,667
Restricted for:			
Debt Service	92		92
Unrestricted	1,969,748	158,063	2,127,811
TOTAL NET ASSETS	10,471,749	400,821	10,872,570
TOTAL LIABILITIES and NET ASSETS	39,282,435	408,465	39,690,900

Pequea Valley School District
STATEMENT of ACTIVITIES
Year Ended June 30, 2005

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:							
Instruction	12,100,154	48,572	2,293,746		(9,757,836)		(9,757,836)
Instructional Student Support	1,735,476	400	161,238		(1,573,838)		(1,573,838)
Administrative and Financial Support Services	1,947,875	10,730	100,561		(1,836,584)		(1,836,584)
Operation and Maintenance of Plant Services	1,821,434	20,447	34,680		(1,766,307)		(1,766,307)
Pupil Transportation	1,459,269		990,615		(468,654)		(468,654)
Student Activities	445,658	39,614	13,672		(392,372)		(392,372)
Community Services	7,173		6,172		(1,001)		(1,001)
Interest on Long-Term Debt	1,057,280			357,350	(699,930)		(699,930)
Total Governmental Activities	20,574,319	119,763	3,600,684	357,350	(16,496,522)	-0-	(16,496,522)
Business-Type Activities:							
Food Services	874,402	553,451	298,025			(22,926)	(22,926)
Total Government	21,448,721	673,214	3,898,709	357,350	(16,496,522)	(22,926)	(16,519,448)

See notes to financial statements.

Pequea Valley School District
STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2005

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	Total
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes (net)					13,197,670		13,197,670
Public Utility Realty, Earned Income, and Real Estate Transfer Taxes Levied for General Purposes (net)					1,671,065		1,671,065
Grants, Subsidies, and Contributions not Restricted					2,236,080		2,236,080
Investment Earnings					133,376	590	133,966
Miscellaneous Income					26,234		26,234
Total General Revenues, Special Items, Extraordinary Items, and Transfers					17,264,425	590	17,265,015
CHANGE in NET ASSETS					767,903	(22,336)	745,567
NET ASSETS - Beginning					9,703,846	423,157	10,127,003
NET ASSETS - Ending					10,471,749	400,821	10,872,570

See notes to financial statements.

Pequea Valley School District
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2005

	Major Funds				
	General Fund	Capital Reserve Fund	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	36,107			13,510	49,617
Investments	737,298	2,238,109	92		2,975,499
Taxes Receivable (net)	751,943				751,943
Due from Other Funds	759				759
Due from Other Governments	638,606				638,606
Other Receivables	5,963				5,963
Inventories	33,255				33,255
Prepaid Expenses	2,076				2,076
TOTAL ASSETS	2,206,007	2,238,109	92	13,510	4,457,718
LIABILITIES and FUND BALANCES					
LIABILITIES					
Due to Other Funds				55	55
Accounts Payable	172,634	8,877		750	182,261
Accrued Salaries and Benefits	1,112,685				1,112,685
Payroll Deductions and Withholdings	115,622				115,622
Deferred Revenues	274,995				274,995
Other Current Liabilities	38,632				38,632
TOTAL LIABILITIES	1,714,568	8,877	-0-	805	1,724,250
FUND BALANCES					
Reserve for Inventories	33,255				33,255
Reserve for Debt Service			92		92
Unreserved - Undesignated:					
General Fund	458,184				458,184
Special Revenue Fund		2,229,232		12,705	2,241,937
TOTAL FUND BALANCES	491,439	2,229,232	92	12,705	2,733,468
TOTAL LIABILITIES and FUND BALANCES	2,206,007	2,238,109	92	13,510	4,457,718

See notes to financial statements.

Pequea Valley School District
RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET ASSETS
June 30, 2005

Total fund balances - governmental funds		2,733,468
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.		394,024
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 $49,866,759 and the accumulated depreciation is $15,958,999.		33,907,760
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.		268,340
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	(25,855,000)	
Accrued Interest on Long-Term Debt	(155,064)	
Debt Issuance Cost (net of Amortization)	380,233	
Bond Discount (net of Amortization)	68,916	
Accrued Retirement Bonus	(570,788)	
Compensated Absences	(700,130)	(26,831,833)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		10,471,759

See notes to financial statements.

Pequea Valley School District
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Major Funds				
	General Fund	Capital Reserve Fund	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES					
Local Sources:					
Real Estate Taxes	13,202,947				13,202,947
Other Taxes	1,671,065				1,671,065
Investment Income	110,168	23,085	35	88	133,376
Other Revenue	98,601	6,942		39,614	145,157
Total Local Sources	15,082,781	30,027	35	39,702	15,152,545
State Sources	5,275,156				5,275,156
Federal Sources	918,958				918,958
TOTAL REVENUES	21,276,895	30,027	35	39,702	21,346,659
EXPENDITURES					
Instructional Services	10,899,604	29,308			10,928,912
Support Services	6,620,189	241,943			6,862,132
Noninstructional Services	307,510			145,391	452,901
Refund of Prior Year Revenue	46,805				46,805
Debt Service			2,959,969		2,959,969
TOTAL EXPENDITURES	17,874,108	271,251	2,959,969	145,391	21,250,719
EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES	3,402,787	(241,224)	(2,959,934)	(105,689)	95,940

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, 2005

	Major Funds				
	General Fund	Capital Reserve Fund	Debt Service Fund	Other Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)					
Refunding Bond Proceeds			8,650,000		8,650,000
Proceeds from Sale of Capital Assets	839				839
Debt Service (Payment to Refunded Bond Escrow Agent)			(8,469,568)		(8,469,568)
Debt Service Fund Transfers	(2,779,485)		2,779,485		-0-
Other Fund Transfers	(1,948,884)	1,850,000		98,884	-0-
Net Other Financing Sources (Uses)	(4,727,530)	1,850,000	2,959,917	98,884	181,271
NET CHANGES in FUND BALANCES	(1,324,743)	1,608,776	(17)	(6,805)	277,211
FUND BALANCES - July 1, 2004	1,815,243	620,456	109	19,510	2,455,318
Change in Inventory	939	-0-	-0-	-0-	939
FUND BALANCES - June 30, 2005	491,439	2,229,232	92	12,705	2,733,468

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, 2005

Total net change in fund balances - governmental funds		277,211
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	(1,410,584)	
Capital Outlays	228,760	(1,181,824)
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.		(5,276)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		10,275,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental fund, an interest expenditure is reported when due.		24,356
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.		(109,845)
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.		17,636

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, 2005

The governmental funds follow the purchase method of inventory, however, the statement of net assets uses the consumption method to record inventory.	939
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.	(8,530,294)
CHANGE in NET ASSETS of GOVERNMENTAL ACTIVITIES	767,903

See notes to financial statements.

Pequea Valley School District
STATEMENT of NET ASSETS -
PROPRIETARY FUNDS
June 30, 2005

	Food Service	Internal Service
ASSETS		
Current Assets:		
Cash and Cash Equivalents	119,337	31,700
Investments		460,263
Accounts Receivable	1,395	43,630
Due from Other Governments	7,707	
Inventories	37,268	
Other Current Assets		1,186
Total Current Assets	165,707	536,779
Noncurrent Assets:		
Machinery and Equipment (net of Accumulated Depreciation)	242,758	
TOTAL ASSETS	408,465	536,779
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,201	
Deferred Revenues	6,443	
Other Current Liabilities		142,755
TOTAL LIABILITIES	7,644	142,755
NET ASSETS		
Invested in Capital Assets (net of Related Debt)	242,758	
Unrestricted	158,063	394,024
TOTAL NET ASSETS	400,821	394,024
TOTAL LIABILITIES and NET ASSETS	408,465	536,779

See notes to financial statements.

Pequea Valley School District
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS - PROPRIETARY FUNDS
Year Ended June 30, 2005

	Food Service	Internal Service
OPERATING REVENUES		
Food Service Revenue	553,451	
Charges to Other Funds		1,833,680
Total Operating Revenues	553,451	1,833,680
OPERATING EXPENSES		
Salaries	300,233	
Employee Benefits	87,401	1,737,495
Purchased Professional and Technical Service		86,865
Purchased Property Service	21,702	
Travel	4,480	
Supplies	430,312	
Depreciation	30,274	
Total Operating Expenses	874,402	1,824,360
OPERATING INCOME (LOSS)	(320,951)	9,320
NONOPERATING REVENUES		
Earnings on Investments	590	8,316
State Sources	49,844	
Federal Sources	248,181	
Total Nonoperating Revenues	298,615	8,316
CHANGES in NET ASSETS	(22,336)	17,636
NET ASSETS - July 1, 2004	423,157	376,388
NET ASSETS - June 30, 2005	400,821	394,024

See notes to financial statements.

Pequea Valley School District
STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Food Service	Internal Service
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	552,842	
Cash Received from Assessments Made to Other Funds		1,833,680
Cash Payments to Employees for Services	(387,634)	
Cash Payments to Suppliers for Goods and Services	(423,528)	
Cash Payments for Insurance Services		(1,730,849)
Cash Payments for Other Operating Expenses		(86,865)
Net Cash Provided (Used) by Operating Activities	(258,320)	15,966
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
State Sources	49,369	
Federal Sources	203,382	
Net Cash Provided by Noncapital Financing Activities	252,751	-0-
CASH FLOWS from INVESTING ACTIVITIES		
Purchase of Investments		(460,262)
Earnings on Investments	590	7,129
Net Cash Provided (Used) by Investing Activities	590	(453,133)
(DECREASE) in CASH and CASH EQUIVALENTS	(4,979)	(437,167)
CASH and CASH EQUIVALENTS		
Beginning of Year	124,316	468,867
End of Year	119,337	31,700
RECONCILIATION of OPERATING INCOME (LOSS) to NET CASH PROVIDED by OPERATING ACTIVITIES		
Operating Income (Loss)	(320,951)	9,320
ADJUSTMENTS to RECONCILE OPERATING INCOME (LOSS) to NET CASH PROVIDED by OPERATING ACTIVITIES		
Depreciation	30,274	
Donated Commodities Used	41,915	
(Increase) Decrease in Accounts Receivable	(1,395)	42,109
Increase in Inventory	(5,813)	
Decrease in Accounts Payable	(2,082)	(35,463)
Increase in Interfund Payable	(1,054)	
Increase in Deferred Revenue	786	
Total Adjustments	62,631	6,646
Net Cash Provided (Used) by Operating Activities	(258,320)	15,966

See notes to financial statements.

Pequea Valley School District
STATEMENT of NET ASSETS -
FIDUCIARY FUNDS
June 30, 2005

	Private Purpose Trust	Agency
ASSETS		
Cash and Cash Equivalents		20,437
Investments	105,522	47,408
Accounts Receivable		1,674
TOTAL ASSETS	105,522	69,519
LIABILITIES		
Due to Other Funds		704
Other Current Liabilities	3,300	68,815
TOTAL LIABILITIES	3,300	69,519
NET ASSETS		
Restricted for Scholarships and Endowments	102,222	-0-
TOTAL LIABILITIES and NET ASSETS	105,522	69,519

See notes to financial statements.

Pequea Valley School District
STATEMENT of CHANGES in NET ASSETS -
FIDUCIARY FUNDS
Year Ended June 30, 2005

	Private Purpose Trust
ADDITIONS	
Earnings on Investments	2,064
Donations	300
	2,364
DEDUCTIONS	
Scholarships Awarded	2,500
CHANGE in NET ASSETS	(136)
NET ASSETS - July 1, 2004	102,358
NET ASSETS - June 30, 2005	102,222

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 1,887 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, 2005, was approximately $283,543, 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, 2005, was $343,983. The School District's lease payment to the Authority for the year ended June 30, 2005, was $79,289, 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, 2005. Complete financial statements for the Authority can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

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, 2005, was approximately $682,290. Complete financial statements for LLIU can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

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, 2005, was estimated at $30,000. 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 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 fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

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

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

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.

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.

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.

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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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, 2005. 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, 2005, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as deferred revenue until used.

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, 2005, 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, 2005, 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 2005.

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, 2005, $185,900 of the School District's bank balance of $573,900 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	185,900
	185,900

NOTE 2 - Cash and Investments (Continued)

Reconciliation of Cash and Cash Equivalents to the Balance Sheet

Uninsured Amount Above	185,900
Plus: Insured Amount	388,000
Bank Balance	573,900
Less: Outstanding Checks	(66,309)
Carrying Amount - Bank Balances	507,591
Plus: Petty Cash	1,500
Less: Certificates of Deposits	(288,000)
Total Cash and Cash Equivalents Per Balance Sheet	221,091

Investments
As of June 30, 2005, the School District had the following investments:

Investments	Maturity	Fair Value
Certificates of Deposit	6-12 months	288,000
PA Local Government Investment Trust		2,445,804
PA Local Government Investment Trust - Fixed Term	0-6 months	761,283
PA School District Liquid Asset Fund		120,350
Goldman Sachs Financial Square Treasury Obligations		92
		3,615,529
Less: Outstanding Checks		(26,837)
Total Investments Per Balance Sheet		3,588,692

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, 2005, the School District investments were rated as:

Investments	Standard & Poor's
PA Local Government Invesment Trust	AAA
PA Local Government Investment Trust - Fixed Term	AAA
PA School District Liquid Asset Fund	AAA
Goldman Sachs Financial Square Treasury Obligations	AAA

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 Pennsylvania Local Government Investment Trust - Fixed Term. These investments are 67.65% and 21..06% of total investments. Pennsylvania Local Government Investment Trust and Pennsylvania Local Government Investment Trust - Fixed Term represents 66.22% and 21.99% of the governmental activity investments. The Pennsylvania Local Government Investment Trust and the PA School District Liquid Asset Fund make up 83.68% and 16.32% of the total investment in the general fund. The Pennsylvania Local Government Investment Trust and Pennsylvania Local Government Investment Trust - Fixed Term make up 65.99% and 34.01% of the total investment in the capital reserve fund. The School District's non-major funds have 100% of the investment in the Pennsylvania Local Government Investment Trust. 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, 2005, was 15.00 mills ($15.00 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, 2005, were as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Deferred Taxes
Real Estate Taxes	366,967	11,569	355,398	91,562	263,836
Earned Income Taxes	339,140		339,140	339,140	
Interim Real Estate Taxes	38,437		38,437	33,933	4,504
Realty Transfer Taxes	18,968		18,968	18,968	
	763,512	11,569	751,943	483,603	268,340

NOTE 5 - Due from Other Governments

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2005, the following amounts were due from other governmental units:

Due From	General Fund	Enterprise Fund	Total
Federal Grants	119,888	6,626	126,514
State Match for Lunch Program		1,081	1,081
State Rental Subsidy	167,558		167,558
State Retirement Subsidy	82,630		82,630
State Social Security Subsidy	48,414		48,414
Other State Subsidies	2,888		2,888
Local - LLIU	110,439		110,439
Local	106,789		106,789
	638,606	7,707	646,313

NOTE 6 - Interfund Accounts

Individual fund receivable and payable balances at June 30, 2005, were as follows:

Fund	Due from Other Funds	Due to Other Funds
General	759	
Athletic		55
Fiduciary:		
Agency		704
	759	759

NOTE 6 - Interfund Accounts (Continued)

Interfund transfers for the year ended June 30, 2005, were as follows:

Fund	Transfers In	Transfers Out
General Fund		4,728,369
Capital Reserve	1,850,000	
Athletic Fund	98,884	
Debt Service	2,779,485	
	4,728,369	4,728,369

Transfers are made from the General Fund to the Debt Service Funds to provide resources for the payment of principal and interest on general obligation bonds.

Transfers are made from the General Fund to the Capital Reserve Fund to provide funding for future capital expenditures.

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, 2005, was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Historical Cost:				
Capital Assets not Being Depreciated:				
Land	651,861	-0-	-0-	651,861
Capital Assets Being Depreciated:				
Land Improvements	2,677,342	23,850		2,701,192
Buildings and Building Improvements	44,930,007			44,930,007
Furniture and Equipment	1,278,557	183,841		1,462,398
Vehicles	100,232	21,069		121,301
Total Cost	48,986,138	228,760	-0-	49,214,898
Accumulated Depreciation:				
Land Improvements	787,838	106,741		894,579
Buildings and Building Improvements	13,188,888	1,134,960		14,323,848
Furniture and Equipment	520,283	159,042		679,325
Vehicles	51,406	9,841		61,247
Total Accumulated Depreciation	14,548,415	1,410,584	-0-	15,958,999
Net Capital Assets Being Depreciated				33,255,899
Net Capital Assets				33,907,760

NOTE 7 - Changes in Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2005, was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2005
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	558,512			558,512
Accumulated Depreciation:				
Equipment	285,480	(30,274)		315,754
Net Capital Assets being Depreciated	273,032	(30,274)	-0-	242,758
Net Capital Assets	273,032	(30,274)	-0-	242,758

Depreciation expenses were charged to governmental functions as follows:

Instruction	1,136,475
Instructional Student Support	82,688
Administration and Financial Services	164,532
Operation and Maintenance of Plant	26,889
	1,410,584

NOTE 8 - Deferred Revenues

Deferred revenues consisted of the following at June 30, 2005:

	General Fund	Enterprise Fund
Deferred Taxes	268,340	
Summer School Tuition	895	
Deferred Rental Income	5,760	
Advanced Revenue		6,443
	274,995	6,443

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, 2005, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2005
Series of 2002	02/15/2013	2.00% - 3.85%	4,220,000
GON Series of 2003	04/01/2019	Wkly Variable Rate Max 15%	1,625,000
Series of 2003	04/01/2019	1.10% - 3.70%	8,885,000
Series A of 2003	05/15/2010	1.40% - 3.25%	2,895,000
Series of 2005	05/15/2021	3.00% - 4.10%	8,230,000
			25,855,000

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, 2005, is 2.28%.

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
General Obligation Debt	27,480,000	8,650,000	10,275,000	25,855,000
Bond Discount	(44,448)	(33,432)	(8,964)	(68,916)
Accrued Retirement Bonus	564,920	5,878		570,798
Compensated Absences	596,163	103,967		700,130
	28,596,635	8,726,413	10,266,036	27,057,012

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

Year ending June 30,	Principal	Interest	Total Commitment
2006	2,410,000	739,853	3,149,853
2007	2,465,000	691,643	3,156,643
2008	2,525,000	633,267	3,158,267
2009	2,575,000	569,772	3,144,772
2010	2,655,000	573,150	3,228,150
2011 - 2015	7,920,000	1595,486	9,515,486
2016 - 2020	4,950,000	552,345	5,502,345
2021	355,000	14,555	369,555
	25,855,000	5,370,071	31,225,071

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, 2005:

Accumulated Sick Leave	635,517
Accumulated Vacation Leave	14,859
Employer Social Security and Medicare Share on Above	49,754
	700,130

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, 2005:

Estimated Accrued Retirement Bonus	530,235
Employer Social Security and Medicare Share on Above	40,563
	570,798

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, 2005, are as follows:

2006	79,078
2007	79,201
2008	79,171
2009	79,221
2010	79,262
Total Minimum Future Rental Payments	395,933

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, 2005, the rate of employer contribution was 4.23 percent of covered payroll. The 4.23 percent rate is comprised of a pension contribution rate of 4.00 percent for pension benefits and .23 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, 2005, 2004, and 2003 were $427,852, $377,081, and $130,842, 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 HealthGuard Management Services Company, 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, 2004 and, subsequently paid is recorded in the amount of $178,218 in other current liabilities in the internal service fund. For the year ended June 30, 2005, the liability for claims incurred prior to June 30, 2005 and, subsequently paid was $142,755.

NOTE 14 - Risk Management (Continued)

Hospitalization (Continued)
Changes in the School District's claims liability amount in fiscal years 2005 and 2004 were:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2004-05	178,218	1,761,701	1,797,164	142,755
2003-04	67,922	1,538,554	1,428,258	178,218

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, 2005, 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, 2005, 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 38 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, 2005, were $129,908 and $197,368, 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, 2005, the School District has included the following amounts as specific reserves fund balances:

Debt Service Funds - Reserve for Debt Service Expenditures	92

NOTE 18 - Debt Refunding

On February 15, 2005, the School District issued general obligation bonds, Series of 2005 in the amount of $8,650,000 to advance refund the general obligation bonds, Series A and Series B of 2001. The proceeds of the bonds were deposited with an escrow agent in an amount which was sufficient to pay the interest on the Series A and B of 2001 bonds and to redeem and pay, on the redemption date (May 15, 2006), all the refunded bonds. As a result of the advance refunding, the School District reduced its total debt service requirements by $388,428, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $378,709.

Pequea Valley School District
SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
Year Ended June 30, 2005

	Budget Amounts			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Local Sources:				
Real Estate Taxes	13,394,160	13,394,160	13,202,947	(191,213)
Other Taxes	1,698,389	1,698,389	1,671,065	(27,324)
Investment Income	80,000	80,000	110,168	30,168
Other Revenue	86,000	86,000	98,601	12,601
Total Local Sources	15,258,549	15,258,549	15,082,781	(175,768)
State Sources	5,243,769	5,243,769	5,275,156	31,387
Federal Sources	944,789	944,789	918,958	(25,831)
Total Revenues	21,447,107	21,447,107	21,276,895	(170,212)
EXPENDITURES				
Instructional Services:				
Regular Programs	8,282,846	8,086,179	8,025,187	60,992
Special Programs	1,620,193	1,696,003	1,544,444	151,559
Vocational Programs	681,061	683,192	652,094	31,098
Other Instructional Programs	668,767	691,211	677,879	13,332
Total Instructional Services	11,252,867	11,156,585	10,899,604	256,981
Support Services:				
Pupil Personnel Services	576,143	578,293	565,582	12,711
Instructional Staff Services	1,026,304	1,043,954	1,019,523	24,431
Administrative Services	1,158,099	1,193,051	1,192,609	442
Pupil Health	148,944	155,138	148,792	6,346
Business Services	262,699	269,249	263,077	6,172
Operation and Maintenance of Plant Services	1,730,232	1,780,348	1,741,486	38,862
Student Transportation Services	1,321,693	1,461,193	1,459,288	1,905
Central Services	254,166	247,577	206,753	40,824
Other Support Services	23,040	23,079	23,079	-0-
Total Support Services	6,501,320	6,751,882	6,620,189	131,693
Operation of Noninstructional Services:				
Student Activities	316,641	327,640	300,337	27,303
Community Services	8,322	8,322	7,173	1,149
Total Operation of Noninstructional Services	324,963	335,962	307,510	28,452
Refund of Prior Year Revenue	-0-	46,805	46,805	-0-
Total Expenditures	18,079,150	18,291,234	17,874,108	417,126
EXCESS of REVENUES over EXPENDITURES	3,367,957	3,155,873	3,402,787	246,914

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, 2005

	Budget Amounts			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-0-	-0-	839	839
Debt Service Fund Transfers	(3,169,073)	(3,169,073)	(2,779,485)	389,588
Other Fund Transfers	(198,884)	(198,884)	(1,948,884)	(1,750,000)
Budgetary Reserve	(400,000)	(187,916)		187,916
Net Other Financing (Uses)	(3,767,957)	(3,555,873)	(4,727,530)	(1,171,657)
NET CHANGES in FUND BALANCES	(400,000)	(400,000)	(1,324,743)	(924,743)
FUND BALANCES - July 1, 2004			1,815,243	
Change in Inventory			939	
FUND BALANCES - June 30, 2005			491,439	

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 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, 2005.

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.

Pequea Valley School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year Ended June 30, 2005

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, 2004	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2005
U.S. Department of Agriculture									
Passed through the Pennsylvania Department of Education:									
School Breakfast Program***	I/F	10.553	N/A	07/01/04 - 06/30/05	N/A	-0-	27,422	28,410	988
	S	N/A	N/A	07/01/04 - 06/30/05	N/A	-0-	3,493	3,628	135
School Breakfast Program***	I/F	10.553	N/A	07/01/03 - 06/30/04	N/A	452	452	-0-	-0-
	S	N/A	N/A	07/01/03 - 06/30/04	N/A	64	64	-0-	-0-
National School Lunch Program***	I/F	10.555	N/A	07/01/04 - 06/30/05	N/A	-0-	172,331	177,969	5,638
	S	N/A	N/A	07/01/04 - 06/30/05	N/A	-0-	27,647	28,593	946
National School Lunch Program***	I/F	10.555	N/A	07/01/03 - 06/30/04	N/A	3,291	3,291	-0-	-0-
	S	N/A	N/A	07/01/03 - 06/30/04	N/A	542	542	-0-	-0-
						4,349	235,242	238,600	7,707
Passed through the Pennsylvania Department of Agriculture:									
Food Donation (Note 2)	I/F	10.550	N/A	07/01/04 - 06/30/05	N/A	-0-	41,915	41,915	-0-
Total U.S. Department of Agriculture						4,349	277,157	280,515	7,707
U.S. Department of Education									
Passed through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	I/F	84.010	013-050332	07/01/04 - 09/30/05	696,309	-0-	464,206	533,892	69,686

See auditors' report.

Pequea Valley School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2005

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, 2004	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2005
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	013-040332	07/01/03 - 09/30/04	645,652	99,102	214,040	114,938	-0-
Title I Grants to Local Educational Agencies	I/F	84.010	013-030332	07/01/02 - 09/30/03	591,590	(20,828)	-0-	20,828	-0-
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-050332	07/01/04 - 09/30/05	17,000	-0-	12,750	13,953	1,203
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-040332	07/01/03 - 09/30/04	21,038	2,501	5,918	3,417	-0-
State Grants for Innovative Programs	I/F	84.298	011-050332	07/01/04 - 09/30/05	5,726	-0-	4,581	5,726	1,145
Education Technology State Grants	I/F	84.318	055-050332	07/01/04 - 09/30/05	16,440	-0-	16,440	16,440	-0-
Education Technology State Grants	I/F	84.318	055-040332	07/01/03 - 09/30/04	15,261	2,035	2,035	-0-	-0-
Improving Teacher Quality State Grants	I/F	84.367	020-050332	07/01/04 - 09/30/05	202,206	-0-	148,284	196,138	47,854
Improving Teacher Quality State Grants	I/F	84.367	020-040332	07/01/03 - 09/30/04	199,882	21,035	26,651	5,616	-0-
Total U.S.Department of Education						103,845	894,905	910,948	119,888

See auditors' report.

Pequea Valley School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2005

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, 2004	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2005
U.S. Department of Health and Human Services									
Passed through the Lancaster-Lebanon Intermediate Unit #13:									
Medical Assistance Program	I/F	93.778	N/A	07/01/04 - 06/30/05	6,511	-0-	6,511	6,511	-0-
TOTAL EXPENDITURES of FEDERAL AWARDS						108,194	1,178,573	1,197,974	127,595

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

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

See auditors' report.

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REPORT on INTERNAL CONTROL over FINANCIAL REPORTING and on COMPLIANCE and OTHER MATTERS BASED on an AUDIT of FINANCIAL STATEMENTS PERFORMED in ACCORDANCE with GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pequea Valley School District as of and for the year ended June 30, 2005, which collectively comprise Pequea Valley School District's basic financial statements and have issued our report thereon dated October 3, 2005. 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 opinion 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 over financial reporting 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 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 October 3, 2005.

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

October 3, 2005
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, 2005. 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, 2005.

Internal Control Over Compliance

The management of Pequea Valley School District is responsible for establishing and maintaining effective internal control over compliance with 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

October 3, 2005
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Pequea Valley School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2005

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, 2005

There are no prior audit findings.