

Pequea Valley School District

Year Ended June 30, 2011



TROUT, EBERSOLE & GROFF<sub>LLP</sub>

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# Pequea Valley School District

## Financial Statements with Supplementary Information

Year Ended June 30, 2011

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# Pequea Valley School District

## Financial Statements with Supplementary Information

Year Ended June 30, 2011

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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, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Pequea Valley School District's** management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Pequea Valley School District** as of June 30, 2011, 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.

As described in Note 18 to the financial statements, the School adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2011, on our consideration of **Pequea Valley School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance with the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 52 and 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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



November 2, 2011  
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
Year Ended June 30, 2011

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, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the transmittal letter, notes to the basic financial statements, and the financial statements to enhance their understanding of the School District's financial performance.

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

**Financial Highlights**

Overall expenditures for the 2010-2011 fiscal year were expected to grow by 1.2% from the previous year. At year-end, actual expenditures were 9.6% lower than budgeted. An explanation of this difference is below.

The District is a member of the Lancaster-Lebanon Public Schools Employees Health Care Cooperative which self-funds healthcare for its employees. The Cooperative utilizes an independent firm to estimate the amount of dollars each district should budget in order to cover all healthcare claims. For the 2010-2011 school year, the District's actual expenditures were approximately \$200,000 less than budgeted.

Expenses for utilities and maintenance were approximately \$600,000 less than budgeted. The School District budgeted for additional electric costs planning for anticipated rate increases and the addition to the High School. Fuel oil and bottled gas were budgeted at peak rates and were not decreased when rates decreased. Some of the decrease in expenditures can be attributed to the District's energy conservation plan. Additionally, there were several contracts and positions in the maintenance department that were not renewed or placed on hold which resulted in savings of over \$200,000.

Employer retirement contributions were anticipated to increase to 8.22% of total salaries for this year; after the budget was approved the rate was decreased to 5.64% of total salaries resulting in a savings of almost \$300,000.

The District saved over \$400,000 in special education costs by contracting with neighboring schools to provide the service. This provided a savings both in the cost of tuition and the cost of transportation.

There were several positions in the budget that were not filled which resulted in savings of over \$150,000. These included positions such as technology support, psychologist intern, speech therapist, and fitness center assistant. Additionally, due to turnover, there was an additional savings of approximately \$75,000.

The School District received \$592,244 of various grants, which were used to offset one-time expenditures.

The School District assigned \$5,300,000 of the general fund balance in the following categories: future retirement reserves, and other projects.

**Using this Annual Report**

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

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

**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2011

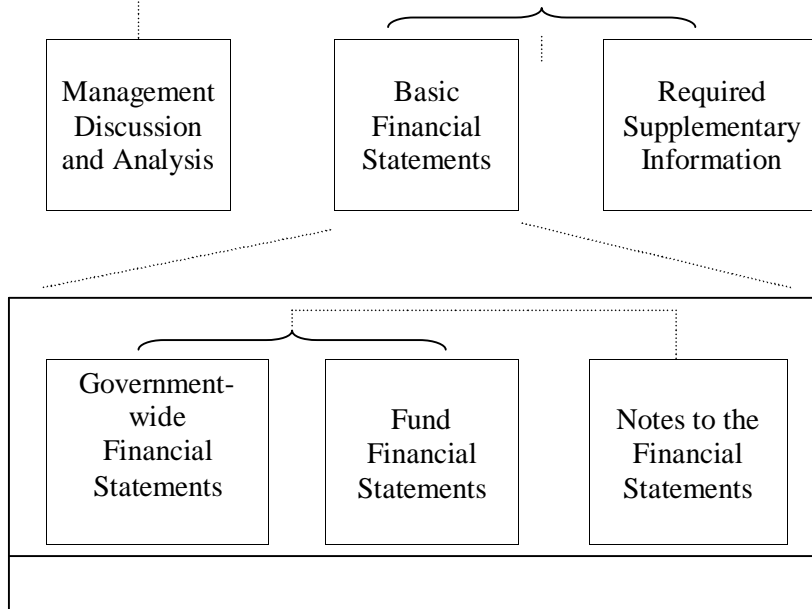
**Using this Annual Report (Continued)**

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.

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**



**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2011

**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**

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



**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2011

**Overview of Financial Statements**

**Government-Wide Statements**

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

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

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

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

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

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

**Fund Financial Statements**

The School District's fund financial statements, which begin on page 19, 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.

**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2011

**Overview of Financial Statements (Continued)**

**Fund Financial Statements (Continued)**

Proprietary funds - These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is 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 flow.

The School District's other proprietary fund is the internal service fund. This fund is used to facilitate the payments of actual claims incurred by the School District's self-funded medical and dental plans. The School District contracts with a third-party administrator to process all claims and notify the School District on a weekly basis of the dollar amount of claims that are to be paid.

Fiduciary funds - The School District is the trustee, or fiduciary, for some scholarship funds and student activity funds. All of the School District's fiduciary activities are reported in separate statements of net assets and changes in net assets - fiduciary funds. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations.

**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2011

**Financial Analysis of the School District as a Whole**

The School District's total net assets were \$29,640,815 as of June 30, 2011.

**Table A-1**  
**Fiscal Years Ended June 30, 2011, and 2010**  
**Net Assets**

	2011			2010		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Current and Other Assets	18,687,692	271,218	18,958,910	18,066,828	249,464	18,316,292
Capital Assets	<u>48,769,670</u>	<u>364,767</u>	<u>49,134,437</u>	<u>47,662,579</u>	<u>409,372</u>	<u>48,071,951</u>
<b>Total Assets</b>	<b>67,457,362</b>	<b>635,985</b>	<b>68,093,347</b>	<b>65,729,407</b>	<b>658,836</b>	<b>66,388,243</b>
Current and Other Liabilities	7,037,414	10,451	7,047,865	5,538,069	10,084	5,548,153
Long-Term Liabilities	<u>31,404,667</u>	<u>-0-</u>	<u>31,404,667</u>	<u>34,301,065</u>	<u>-0-</u>	<u>34,301,065</u>
<b>Total Liabilities</b>	<b>38,442,081</b>	<b>10,451</b>	<b>38,452,532</b>	<b>39,839,134</b>	<b>10,084</b>	<b>39,849,218</b>
Net Assets:						
Invested in Capital Assets, net of Related Debt	17,279,254	364,767	17,644,021	11,843,702	409,372	12,253,074
Restricted	97	-0-	97	8,541	-0-	8,541
Unrestricted	<u>11,735,930</u>	<u>260,767</u>	<u>11,996,697</u>	<u>14,038,030</u>	<u>239,380</u>	<u>14,277,410</u>
<b>Total Net Assets</b>	<b>29,015,281</b>	<b>625,534</b>	<b>29,640,815</b>	<b>25,890,273</b>	<b>648,752</b>	<b>26,539,025</b>

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

The results of this year's operations as a whole are reported in the statement of activities on pages 17 and 18. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues. The two largest general revenues are the local real estate taxes assessed to community taxpayers and basic education subsidy provided by the State of Pennsylvania.

**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2011

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

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

**Table A-2**  
**Fiscal Years Ended June 30, 2011, and 2010**  
**Changes in Net Assets**

	2011			2010		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	108,663	413,874	522,537	200,451	478,914	679,365
Operating Grants and Contributions	5,585,337	418,559	6,003,896	5,990,026	445,505	6,435,531
Capital Grants and Contributions	412,408	-0-	412,408	331,599	-0-	331,599
General Revenues:						
Property Taxes	19,409,793	-0-	19,409,793	18,496,897	-0-	18,496,897
Other Taxes	1,868,431	-0-	1,868,431	2,153,459	-0-	2,153,459
Grants, Subsidies, and Contributions, Unrestricted	2,520,150	-0-	2,520,150	2,601,915	-0-	2,601,915
Other	<u>91,914</u>	<u>553</u>	<u>92,467</u>	<u>132,010</u>	<u>553</u>	<u>132,563</u>
<b>Total Revenues</b>	<b>29,996,696</b>	<b>832,986</b>	<b>30,829,682</b>	<b>29,906,357</b>	<b>924,972</b>	<b>30,831,329</b>
Expenses:						
Instructional Programs	15,019,160	-0-	15,019,160	15,086,513	-0-	15,086,513
Instructional Student Support	3,084,119	-0-	3,084,119	2,776,191	-0-	2,776,191
Administrative and Financial Support	2,426,561	-0-	2,426,561	2,511,900	-0-	2,511,900
Operation and Maintenance of Plant	2,557,196	-0-	2,557,196	2,312,346	-0-	2,312,346
Pupil Transportation	1,839,800	-0-	1,839,800	1,752,418	-0-	1,752,418
Student Activities	531,681	-0-	531,681	493,101	-0-	493,101
Community Services	28,482	-0-	28,482	15,098	-0-	15,098
Interest on Long-Term Debt	1,350,088	-0-	1,350,088	1,340,662	-0-	1,340,662
Food Services	<u>-0-</u>	<u>856,204</u>	<u>856,204</u>	<u>-0-</u>	<u>923,188</u>	<u>923,188</u>
<b>Total Expenses</b>	<b>26,837,087</b>	<b>856,204</b>	<b>27,693,291</b>	<b>26,288,229</b>	<b>923,188</b>	<b>27,211,417</b>
<b>Increase (Decrease) in Net Assets</b>	<b>3,159,609</b>	<b>(23,218)</b>	<b>3,136,391</b>	<b>3,618,128</b>	<b>1,784</b>	<b>3,619,912</b>

**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2011

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

Table A-3 shows the School District's eight largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, and interest on long-term debt, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants and subsidies to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

**Table A-3**  
**Fiscal Years Ended June 30, 2011, and 2010**  
**Governmental Activities**

	<b>2011</b>		<b>2010</b>	
	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Instructional Programs	15,019,160	11,309,385	15,086,513	10,604,615
Instructional Student Support	3,084,119	2,804,299	2,776,191	2,555,901
Administrative and Financial Support	2,426,561	2,106,375	2,511,900	2,301,002
Operation and Maintenance of Plant	2,557,196	2,321,713	2,312,346	2,260,727
Pupil Transportation	1,839,800	742,350	1,752,418	606,258
Student Activities	531,681	496,836	493,101	427,103
Community Services	28,482	12,041	15,098	1,484
Interest on Long-Term Debt	<u>1,350,088</u>	<u>937,680</u>	<u>1,340,662</u>	<u>1,009,063</u>
<b>Total Governmental Activities</b>	<b>26,837,087</b>	<b>20,730,679</b>	<b>26,288,229</b>	<b>19,766,153</b>
Less: Unrestricted Grants, Subsidies		<u>(2,520,150)</u>		<u>(2,601,915)</u>
<b>Total Needs from Local Taxes and Other Revenues</b>		<b>18,210,529</b>		<b>17,164,238</b>

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, 2011, and 2010**  
**Business-Type Activities**

	<b>2011</b>		<b>2010</b>	
	<b>Total Cost of Services</b>	<b>Net Revenue of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Functions/Programs:				
Food Services	856,204	(23,771)	923,188	1,231

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

**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2011

**The School District Funds**

As of June 30, 2011, the School District governmental funds reported a combined fund balance of \$13,705,148 which is a decrease of \$644,722 from the previous year. The primary reasons for this decrease are explained below:

**Capital Projects Fund:**

In the spring of 2010 the board authorized the issuance of \$4,000,000 bonds to be used to build a health and physical sciences addition to the high school. By June 30, 2011, \$2,475,387 was spent on this project.

Additionally, the School District's actual expenses were 9.6% lower than budgeted, which resulted in an increase in the general fund balance of \$1,834,956. \$1,750,000 of this fund balance increase is committed to future retirement increases; the rest will be in unassigned fund balance. It will be recommended that the board move some of these funds to the healthcare reserve in the near future.

**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 52 and 53.

Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budgetary 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.

**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2011

**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2011, the School District had \$48,425,898 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deletions, and depreciation) of \$1,182,540.

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

	<b>2011</b>	<b>2010</b>
Land and Land Improvements	1,865,779	1,971,771
Buildings and Building Improvements	41,203,944	42,395,866
Furniture and Equipment	2,712,636	2,413,448
Vehicles	37,150	19,746
New Construction in Progress	<u>2,606,389</u>	<u>442,527</u>
	<b>48,425,898</b>	<b>47,243,358</b>

**Debt Administration**

As of July 1, 2010, the School District had a total outstanding bond principal of \$35,170,000. During the year, the School District made payments against principal in the amount of \$2,630,000 resulting in an ending outstanding debt as of June 30, 2011, of \$32,540,000.

**Table A-6**  
**Outstanding Debt**

	<b>2011</b>	<b>2010</b>
Issue:		
Series of 2006	17,700,000	17,840,000
Series of 2010 (series 2002)	1,185,000	1,750,000
Series A of 2011 (series 2003, 2005, note 2003)	9,660,000	11,580,000
Series B of 2011	<u>3,995,000</u>	<u>4,000,000</u>
	<b>32,540,000</b>	<b>35,170,000</b>

More detailed information about our long-term liabilities is included in Note 10 to the financial statements. Accrued vacation pay and sick leave and accrued retirement bonuses for specific employees of the School District are detailed in Notes 11 and 12 of the financial statements respectively.

**Pequea Valley School District**  
 MANAGEMENT'S DISCUSSION and ANALYSIS  
 (Continued)  
 Year Ended June 30, 2011

**Economic Factors and Next Year's Budgets and Rates**

The School District's general obligation bond rating is a Moody's Standard & Poor's AA-. The AA- rating is based upon the additional security for bonds provided by the Commonwealth of Pennsylvania Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default. Standard & Poor's cited that the AA- rating reflects the School District's stable tax base, very strong financial position with conservative budgeting practices, and low debt burden on market value basis with limited capital needs.

The School District does not expect a significant growth in student population. Despite a good amount of available land, current zoning ordinances discourage residential development. Increases in assessed values have been relatively low in recent years, primarily as a result of properties which qualify for preferential assessment under the Clean and Green Act. The wage tax shows a steady annual increase that generally reflects increases at or slightly above the CPI, an indication that employment opportunities are available for residents of our School District.

In the 2011-2012 budget the School District decreased expenditures by 0.8% from the previous year. Cuts were made to utilities (17.4%), central budget (9.6)% and federal budget (21.4%). Debt service is funded at the maximum needed level. The amount budgeted will not fully be used until 2018-2019. The additional amount budgeted dedicates and holds millage to be used for future capital projects. The technology budget was increased by 29% in order to begin and sustain a one-to-one laptop initiative at the high school. The School District eliminated seven professional positions in order to balance the budget.

Budgeted revenue for the 2011-2012 school year is .08% lower than the previous fiscal year and expects to use \$173,967 of fund balance. The millage rate for 2011-2012 is 16.5619, which is 1.40% higher than the previous year. Local revenue continues to provide the majority of funding for School District expenses as noted on page 10, with property taxes making up slightly over 64% of total projected revenue from all sources.

The comparison of revenue and expenditure categories is as follows:

**Table A-7**  
**Budgeted Revenues**

	<b>2011-2012</b>	<b>2010-2011</b>
Local Sources	74.9%	73.4%
State Sources	19.2%	21.2%
Federal/Other Sources	5.9%	5.4%

**Budgeted Expenditures**

	<b>2011-2012</b>	<b>2010-2011</b>
Instruction	50.3%	50.4%
Support Services	32.7%	32.1%
Non-Instruction/Community	1.3%	2.0%
Fund Transfers/Debt	15.7%	15.5%



**Pequea Valley School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2011

**Contacting the School District Business Administrator**

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact John A. Bowden, Business Administrator, **Pequea Valley School District**, 166 S. New Holland Road, P.O. Box 130, Kinzers, PA 17535.

# Pequea Valley School District

## STATEMENT of NET ASSETS

June 30, 2011

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Equivalents	\$ 3,053,723	\$ 226,391	\$ 3,280,114
Investments	13,239,509	15,092	13,254,601
Taxes Receivable, net	1,234,995	-0-	1,234,995
Internal Balances	32,964	(32,964)	-0-
Due from Other Governments	1,110,587	14,649	1,125,236
Other Receivables	8,899	2,959	11,858
Inventories	-0-	45,091	45,091
Other Assets	7,015	-0-	7,015
<b>Total Current Assets</b>	<b>18,687,692</b>	<b>271,218</b>	<b>18,958,910</b>
<b>Noncurrent Assets</b>			
Land	616,644	-0-	616,644
Building and Building Improvements, net of Accumulated Depreciation	41,203,944	-0-	41,203,944
Site Improvements, net of Accumulated Depreciation	1,249,135	-0-	1,249,135
Furniture and Equipment, net of Accumulated Depreciation	2,712,636	364,767	3,077,403
Vehicles, net of Accumulated Depreciation	37,150	-0-	37,150
Construction in Progress	2,606,389	-0-	2,606,389
Deferred Bond Issue Costs, net of Accumulated Amortization	343,772	-0-	343,772
<b>Total Noncurrent Assets</b>	<b>48,769,670</b>	<b>364,767</b>	<b>49,134,437</b>
<b>TOTAL ASSETS</b>	<b>\$ 67,457,362</b>	<b>\$ 635,985</b>	<b>\$ 68,093,347</b>

See notes to financial statements.

# Pequea Valley School District

## STATEMENT of NET ASSETS

(Continued)

June 30, 2011

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 1,287,030	\$ -0-	\$ 1,287,030
Current Portion of Long-Term Debt	2,855,000	-0-	2,855,000
Accrued Salaries and Benefits	1,441,552	-0-	1,441,552
Compensated Absences			
Due Within One Year	256,487	-0-	256,487
Accrued Retirement Bonuses			
Due Within One Year	76,707	-0-	76,707
Accrued Interest on Long-Term Debt	421,075	-0-	421,075
Payroll Deductions and Withholdings	101,033	-0-	101,033
Deferred Revenues	31,104	6,782	37,886
Due to Other Governments	420,024	3,669	423,693
Other Current Liabilities	147,402	-0-	147,402
<b>Total Current Liabilities</b>	<b>7,037,414</b>	<b>10,451</b>	<b>7,047,865</b>
<b>Noncurrent Liabilities</b>			
Bonds Payable,			
net of Amortized Discount	29,869,924	-0-	29,869,924
Accrued Retirement Bonuses	665,346	-0-	665,346
Long-Term Portion of			
Compensated Absences	716,177	-0-	716,177
Other Postemployment Benefit Liabilities	153,220	-0-	153,220
<b>Total Noncurrent Liabilities</b>	<b>31,404,667</b>	<b>-0-</b>	<b>31,404,667</b>
<b>TOTAL LIABILITIES</b>	<b>38,442,081</b>	<b>10,451</b>	<b>38,452,532</b>
<b>NET ASSETS</b>			
Invested in Capital Assets,			
net of Related Debt	17,279,254	364,767	17,644,021
Restricted for:			
Debt Service	97	-0-	97
Unrestricted	11,735,930	260,767	11,996,697
<b>TOTAL NET ASSETS</b>	<b>\$ 29,015,281</b>	<b>\$ 625,534</b>	<b>\$ 29,640,815</b>

See notes to financial statements.

## Pequea Valley School District

### STATEMENT of ACTIVITIES

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 15,019,160	\$ 96,707	\$ 3,613,068	\$ -0-	\$ (11,309,385)	\$ -0-	\$ (11,309,385)
Instructional Student Support	3,084,119	-0-	279,820	-0-	(2,804,299)	-0-	(2,804,299)
Administrative and Financial Support Services	2,426,561	4,096	316,090	-0-	(2,106,375)	-0-	(2,106,375)
Operation and Maintenance of Plant Services	2,557,196	7,860	227,623	-0-	(2,321,713)	-0-	(2,321,713)
Pupil Transportation	1,839,800	-0-	1,097,450	-0-	(742,350)	-0-	(742,350)
Student Activities	531,681	-0-	34,845	-0-	(496,836)	-0-	(496,836)
Community Services	28,482	-0-	16,441	-0-	(12,041)	-0-	(12,041)
Interest on Long-Term Debt	<u>1,350,088</u>	<u>-0-</u>	<u>-0-</u>	<u>412,408</u>	<u>(937,680)</u>	<u>-0-</u>	<u>(937,680)</u>
<b>Total Governmental Activities</b>	<b>26,837,087</b>	<b>108,663</b>	<b>5,585,337</b>	<b>412,408</b>	<b>(20,730,679)</b>	<b>-0-</b>	<b>(20,730,679)</b>
Business-Type Activities:							
Food Services	<u>856,204</u>	<u>413,874</u>	<u>418,559</u>	<u>-0-</u>	<u>-0-</u>	<u>(23,771)</u>	<u>(23,771)</u>
<b>Total Primary Government</b>	<b><u>\$ 27,693,291</u></b>	<b><u>\$ 522,537</u></b>	<b><u>\$ 6,003,896</u></b>	<b><u>\$ 412,408</u></b>	<b><u>\$ (20,730,679)</u></b>	<b><u>\$ (23,771)</u></b>	<b><u>\$ (20,754,450)</u></b>

See notes to financial statements.

**Pequea Valley School District**

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					\$ 19,409,793	\$ -0-	\$ 19,409,793
Public Utility Realty, Earned Income, Occupation and Per Capita Taxes Levied for General Purposes					1,868,431	-0-	1,868,431
Unrestricted Grants and Subsidies					2,520,150	-0-	2,520,150
Unrestricted Investment Earnings					92,971	553	93,524
Refund of Prior Year Revenue					(13,666)	-0-	(13,666)
Loss on Fixed Asset Dispositions					12,609	-0-	12,609
<b>Total General Revenues</b>					<u>23,890,288</u>	<u>553</u>	<u>23,890,841</u>
<b>CHANGES in NET ASSETS</b>					<b>3,159,609</b>	<b>(23,218)</b>	<b>3,136,391</b>
<b>NET ASSETS</b>							
Beginning					25,890,273	648,752	26,539,025
Prior Period Adjustment (Note 19)					(34,601)	-0-	(34,601)
Beginning, Restated					<u>25,855,672</u>	<u>648,752</u>	<u>26,504,424</u>
<b>Ending</b>					<u>\$ 29,015,281</u>	<u>\$ 625,534</u>	<u>\$ 29,640,815</u>

See notes to financial statements.

**Pequea Valley School District**  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 June 30, 2011

	Major Funds			Total Governmental Funds
	General Fund	Capital Project	Debt Service	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 3,053,626	\$ -0-	\$ 97	\$ 3,053,723
Investments	5,447,434	6,712,300	-0-	12,159,734
Taxes Receivable, net	1,234,995	-0-	-0-	1,234,995
Due from Other Funds	134,322	-0-	-0-	134,322
Due from Other Governments	1,110,587	-0-	-0-	1,110,587
Other Receivables	8,899	-0-	-0-	8,899
Prepaid Expenses	6,882	-0-	-0-	6,882
<b>TOTAL ASSETS</b>	<b><u>10,996,745</u></b>	<b><u>6,712,300</u></b>	<b><u>97</u></b>	<b><u>17,709,142</u></b>
 <b>LIABILITIES and FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	740,022	547,008	-0-	1,287,030
Due to Other Funds	46,842	54,383	-0-	101,225
Accrued Salaries and Benefits	1,441,552	-0-	-0-	1,441,552
Payroll Deductions and Withholdings	101,033	-0-	-0-	101,033
Payable to Other Governments	420,024	-0-	-0-	420,024
Deferred Revenue	653,050	-0-	-0-	653,050
Other Current Liabilities	80	-0-	-0-	80
<b>TOTAL LIABILITIES</b>	<b><u>3,402,603</u></b>	<b><u>601,391</u></b>	<b><u>-0-</u></b>	<b><u>4,003,994</u></b>
 <b>FUND BALANCES</b>				
Restricted	-0-	1,578,280	97	1,578,377
Committed	5,300,000	-0-	-0-	5,300,000
Assigned	-0-	4,532,629	-0-	4,532,629
Unassigned	2,294,142	-0-	-0-	2,294,142
<b>TOTAL FUND BALANCES</b>	<b><u>7,594,142</u></b>	<b><u>6,110,909</u></b>	<b><u>97</u></b>	<b><u>13,705,148</u></b>
 <b>TOTAL LIABILITIES and FUND BALANCES</b>	 <b><u>\$ 10,996,745</u></b>	 <b><u>\$ 6,712,300</u></b>	 <b><u>\$ 97</u></b>	 <b><u>\$ 17,709,142</u></b>

See notes to financial statements.

**Pequea Valley School District**  
 RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET  
 to the STATEMENT of NET ASSETS  
 June 30, 2011

Total Fund Balances - Governmental Funds \$ 13,705,148

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$72,123,445 and the accumulated depreciation is \$23,697,547. 48,425,898

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. 932,453

Property taxes receivable are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 621,947

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	(32,540,000)
Accrued Interest on Long-Term Debt	(421,075)
Bond Issue Costs, net of Amortization	343,772
Bond Premium, net of Amortization	(322,929)
Bond Discount, net of Amortization	138,005
Accrued Retirement Bonuses	(742,053)
Compensated Absences	(972,665)
Postemployment Benefits	<u>(153,220)</u>

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 29,015,281**

See notes to financial statements.

## Pequea Valley School District

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

Year Ended June 30, 2011

REVENUES	Major Funds			Total Governmental Funds
	General Fund	Capital Project	Debt Service	
Local Sources:				
Real Estate Taxes	\$ 19,381,973	\$ -0-	\$ -0-	\$ 19,381,973
Other Taxes	1,868,431	-0-	-0-	1,868,431
Investment Earnings	52,672	38,754	-0-	91,426
Other Revenue	138,560	-0-	-0-	138,560
Total Local Sources	21,441,636	38,754	-0-	21,480,390
State Sources	6,014,331	-0-	-0-	6,014,331
Federal Sources	2,465,114	-0-	-0-	2,465,114
<b>Total Revenues</b>	<b>29,921,081</b>	<b>38,754</b>	<b>-0-</b>	<b>29,959,835</b>
<b>EXPENDITURES</b>				
Instructional Services	14,136,953	-0-	-0-	14,136,953
Support Services	9,424,446	159,671	-0-	9,584,117
Noninstructional Services	573,400	-0-	632	574,032
Capital Outlay	-0-	2,315,716	-0-	2,315,716
Debt Service	-0-	-0-	3,969,706	3,969,706
Refund of Prior Year Expenditures	5,115	-0-	-0-	5,115
<b>Total Expenditures</b>	<b>24,139,914</b>	<b>2,475,387</b>	<b>3,970,338</b>	<b>30,585,639</b>
<b>EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES</b>				
	<b>5,781,167</b>	<b>(2,436,633)</b>	<b>(3,970,338)</b>	<b>(625,804)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Service Fund Transfer	(3,961,894)	-0-	3,961,894	-0-
Proceeds from Sale of Capital Assets	15,683	-0-	-0-	15,683
<b>Net Other Financing Sources (Uses)</b>	<b>(3,946,211)</b>	<b>-0-</b>	<b>3,961,894</b>	<b>15,683</b>
<b>NET CHANGES in FUND BALANCES</b>				
	<b>1,834,956</b>	<b>(2,436,633)</b>	<b>(8,444)</b>	<b>(610,121)</b>
<b>FUND BALANCES</b>				
Beginning	5,728,617	8,547,542	8,541	14,284,700
Change in Accounting Principle (Note 18)	65,170	-0-	-0-	65,170
Prior Period Adjustment (Note 19)	(34,601)	-0-	-0-	(34,601)
<b>Ending</b>	<b>\$ 7,594,142</b>	<b>\$ 6,110,909</b>	<b>\$ 97</b>	<b>\$ 13,705,148</b>

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, 2011

Net Changes in Fund Balances - Total Governmental Funds \$ (610,121)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation exceeds capital outlays in the period is as follows:

Depreciation Expense	(2,272,151)	
Capital Outlays	<u>3,457,765</u>	1,185,614

Proceeds from the sale of fixed assets are reported in the statement of activities net of the remaining basis of the assets disposed. This amount represents the remaining basis of all disposed assets. (3,074)

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered available revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 27,821

The issuance of long-term debt obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt obligations and related items. 2,599,283

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. 20,335

In the statement of activities, certain operating expenses (e.g., compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. 15,855

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, 2011

In the statement of activities, certain operating expenses (e.g., supplemental pension obligations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.	\$ (29,208)
The accrued post retirement benefit is recorded as a liability in the government-wide financial statements but not in the fund financial statements. This amount represents the change in the accrued post retirement benefit for the year.	(48,517)
The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net expense of the internal service funds is allocated among the governmental activities.	<u>1,621</u>
<b>CHANGES in NET ASSETS of GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 3,159,609</u></b>

See notes to financial statements.

# Pequea Valley School District

## STATEMENT of NET ASSETS -

### PROPRIETARY FUNDS

Year Ended June 30, 2011

	Enterprise Funds	
	Food Service	Internal Service Funds
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 226,391	\$ -0-
Investments	15,092	1,079,775
Due from Other Funds	46,842	-0-
Due from Other Governments	14,649	-0-
Inventories	45,091	-0-
Other Current Assets	2,959	-0-
<b>Total Current Assets</b>	<b>351,024</b>	<b>1,079,775</b>
<b>Noncurrent Assets</b>		
Machinery and Equipment, net of Accumulated Depreciation	<u>364,767</u>	<u>-0-</u>
<b>TOTAL ASSETS</b>	<b><u>715,791</u></b>	<b><u>1,079,775</u></b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Due to Other Funds	79,806	-0-
Due to Other Governments	3,669	-0-
Other Current Liabilities	-0-	147,322
Deferred Revenue	6,782	-0-
<b>TOTAL LIABILITIES</b>	<b><u>90,257</u></b>	<b><u>147,322</u></b>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of Related Debt	364,767	-0-
Unrestricted	<u>260,767</u>	<u>932,453</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 625,534</u></b>	<b><u>\$ 932,453</u></b>

See notes to financial statements.

## Pequea Valley School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS -

PROPRIETARY FUNDS

Year Ended June 30, 2011

	Enterprise Funds	
	Food Service	Internal Service Funds
<b>OPERATING REVENUES</b>		
Food Service Revenue	\$ 413,873	\$ -0-
Charges for Services	<u>-0-</u>	<u>1,884,057</u>
<b>Total Operating Revenues</b>	<b>413,873</b>	<b>1,884,057</b>
<b>OPERATING EXPENSES</b>		
Salaries	285,993	-0-
Employee Benefits	104,397	1,884,615
Purchased Professional and Technical Services	44,519	-0-
Other Purchased Services	21,327	-0-
Supplies	355,451	-0-
Depreciation	<u>44,516</u>	<u>-0-</u>
<b>Total Operating Expenses</b>	<b><u>856,203</u></b>	<b><u>1,884,615</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b>(442,330)</b>	<b>(558)</b>
<b>NONOPERATING REVENUES</b>		
Investment Earnings	553	2,179
State Sources	52,010	-0-
Federal Sources	<u>366,549</u>	<u>-0-</u>
<b>Net Nonoperating Revenues</b>	<b><u>419,112</u></b>	<b><u>2,179</u></b>
<b>CHANGES in NET ASSETS</b>	<b>(23,218)</b>	<b>1,621</b>
<b>NET ASSETS</b>		
Beginning	<u>648,752</u>	<u>930,832</u>
<b>Ending</b>	<b><u>\$ 625,534</u></b>	<b><u>\$ 932,453</u></b>

See notes to financial statements.

**Pequea Valley School District**

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

Year Ended June 30, 2011

	<u>Enterprise Funds</u>	
	<u>Food Service</u>	<u>Internal Service Funds</u>
<b>CASH FLOWS from OPERATING ACTIVITIES</b>		
Cash Received from Users	\$ 414,029	\$ -0-
Cash Received from Assessments Made to Other Funds	-0-	1,884,057
Cash Payments to Employees for Services	(431,894)	-0-
Cash Payments to Suppliers for Goods and Services	<u>(431,474)</u>	<u>(1,884,057)</u>
<b>Net Cash Used by Operating Activities</b>	<b>(449,339)</b>	<b>-0-</b>
<b>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</b>		
Disposal of Capital Item	<b>89</b>	<b>-0-</b>
<b>CASH FLOWS from NON-CAPITAL FINANCING ACTIVITIES</b>		
State Sources	56,498	-0-
Federal Sources	<u>411,787</u>	<u>-0-</u>
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b>468,285</b>	<b>-0-</b>
<b>CASH FLOWS from INVESTING ACTIVITIES</b>		
Investment Earnings	553	2,179
Purchase of Investments	<u>(9)</u>	<u>(2,179)</u>
<b>Net Cash Provided by Investing Activities</b>	<b>544</b>	<b>-0-</b>
<b>INCREASE in CASH and CASH EQUIVALENTS</b>	<b>19,579</b>	<b>-0-</b>
<b>CASH and CASH EQUIVALENTS</b>		
Beginning of Year	<u>206,812</u>	<u>-0-</u>
<b>End of Year</b>	<b><u>\$ 226,391</u></b>	<b><u>\$ -0-</u></b>

See notes to financial statements.

**Pequea Valley School District**

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

(Continued)

Year Ended June 30, 2011

	<b>Enterprise Funds</b>	
	<b>Food Service</b>	<b>Internal Service Funds</b>
<b>RECONCILIATION of OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES</b>		
Operating Loss	<b>\$ (442,330)</b>	<b>\$ (558)</b>
 <b>ADJUSTMENTS to RECONCILE OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES</b>		
Depreciation	44,516	-0-
Increase in Inventory	(7,413)	-0-
Increase (Decrease) in Other Current Assets	(2,764)	-0-
Decrease in Accounts Payable	-0-	558
Increase in Interfund Payable	(41,504)	-0-
Decrease in Deferred Revenue	156	-0-
<b>Total Adjustments</b>	<b>(7,009)</b>	<b>558</b>
 <b>Net Cash Used by Operating Activities</b>	<b>\$ (449,339)</b>	<b>\$ -0-</b>

See notes to financial statements.

# Pequea Valley School District

## STATEMENT of NET ASSETS -

### FIDUCIARY FUNDS

June 30, 2011

	Private Purpose Trust	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ -0-	\$ 9,111
Investments	<u>107,787</u>	<u>47,488</u>
<b>TOTAL ASSETS</b>	<b><u>107,787</u></b>	<b><u>56,599</u></b>
<b>LIABILITIES</b>		
Accounts Payable	-0-	187
Due to Other Funds	-0-	133
Other Current Liabilities	<u>1,855</u>	<u>56,279</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,855</u></b>	<b><u>56,599</u></b>
<b>NET ASSETS</b>		
Restricted for Scholarships	<b><u>\$ 105,932</u></b>	<b><u>\$ -0-</u></b>

See notes to financial statements.

**Pequea Valley School District**  
 STATEMENT of CHANGES in NET ASSETS -  
 FIDUCIARY FUNDS  
 Year Ended June 30, 2011

	<b>Private Purpose Trust</b>
<b>ADDITIONS</b>	
Investment Earnings	\$ 887
Gifts and Contributions	<u>405</u>
<b>Total Additions</b>	<b>1,292</b>
<b>DEDUCTIONS</b>	
Scholarships Awarded	<u>2,655</u>
<b>CHANGES in NET ASSETS</b>	<b>(1,363)</b>
<b>NET ASSETS</b>	
Beginning	<u>107,295</u>
<b>Ending</b>	<b><u>\$ 105,932</u></b>

See notes to financial statements.



# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

**Pequea Valley School District**, located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Leacock, Paradise, and Salisbury Townships. These include regular, advanced academic, vocational education programs, and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of three elementary schools, one middle school, and one high school, serving approximately 1,761 students.

The accounting policies of **Pequea Valley School District** conform with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

#### Reporting Entity

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

The School District is financially accountable for:

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

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

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

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

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

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Reporting Entity (Continued)

##### Joint Ventures

###### **Lancaster County Career and Technology Center**

The School District is one of 16 member school districts of the Lancaster County Career and Technology Centers (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member districts. LCCTC is controlled and governed by the Career and Technology Center Board for Lancaster County, which is comprised of school board members of all the member districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2011, was approximately \$398,892. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

###### **Lancaster County Career Technology Center Authority**

The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

###### **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, 2011. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

###### **Lancaster-Lebanon Intermediate Unit (LLIU)**

The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' Boards of Directors. **Pequea Valley School District** is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. **Pequea Valley School District** contracts with the LLIU for special education services for School District students. The amount paid for these services for the year ended June 30, 2011, was approximately \$690,361. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Reporting Entity (Continued)

##### Joint Ventures (Continued)

###### Lancaster County Tax Collection Bureau (Bureau)

The School District participates with 16 other school districts and the municipalities represented by those school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. 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, 2011, was \$19,044. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

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

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

#### Basis of Presentation - Fund Accounting

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, liabilities, fund equity, revenues, and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

#### Basis of Presentation - Financial Statements

**Government-wide Financial Statements** - The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation - Financial Statements (Continued)

**Fund Financial Statements** - Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

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

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

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

**Capital Projects Fund** - This fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This fund includes the capital reserve fund and any bond construction funds held by the School District.

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

The School District reports the following proprietary funds:

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

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

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation - Financial Statements (Continued)

##### Fund Financial Statements (Continued)

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.

##### Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary, and fiduciary fund financial statements measure and report all assets, liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service and compensated absence payments which are recognized when due.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees, and interest on investments. Current property taxes measurable at June 30, 2011, which are not intended to finance fiscal 2011 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year end.

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

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.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Basis of Accounting (Continued)**

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

When amounts are available in multiple fund balance classifications, it is the School District's policy to use funds in the following order: restricted, committed, assigned, and unassigned.

#### **Cash and Cash Equivalents**

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

#### **Investments**

Investments are recorded at market value.

#### **Taxes Receivable and Deferred Tax Revenues**

The portion of delinquent real estate taxes receivable that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other taxes receivable is recorded as deferred tax revenues. All taxes receivable are considered to be fully collectible (Note 4).

#### **Inventories**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in/first-out basis, and are expensed when used.

Inventory costs in the governmental funds are recorded as expenditures in the governmental funds when purchased.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventories (Continued)

Inventories in the cafeteria fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2011, including the value of commodities donated by the federal government. The School District combines school district and federal commodities inventories.

#### Capital Assets and Depreciation

The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting current replacement cost back to the estimated year of acquisition. Estimated useful lives, in years, for depreciable assets are generally as follows:

Building and Building Improvements	20 - 40 Years
Site Improvements	20 Years
Furniture and Equipment	5 - 12 Years
Vehicles	5 - 10 Years

#### Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### Compensated Absences and Retirement Bonuses

The School District accrues unused vacation and sick leave as a liability. Upon termination or retirement, the employee will be paid for these accumulated absences in accordance with School District policy. The School District also accrues retirement bonuses to be paid out at retirement in accordance with School District policy.

For governmental funds, that portion of unpaid compensated absences and retirement bonus that are expected to be paid using expendable, available resources are reported as expenditures in the fund from which the individual earning the leave or bonus is paid, and a corresponding liability reflected.

Additional amounts are accrued for salary-related payments associated with the payment of compensated absences and retirement bonuses 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.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **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, 2011, the School District had no encumbrances.

#### **Pension Plan**

Substantially all full-time and qualifying part-time employees of the School District participate in a cost-sharing multiple employer defined benefit pension plan. The School District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) The School District made all required contributions for the year ended June 30, 2011, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

#### **Interfund Activity**

Exchange transactions between governmental funds are eliminated on the government-wide statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

#### **Fund Balance Classification**

Fund balance for the governmental funds can be classified in five different categories: nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact.

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the School Board. Commitments may be changed only by the School District taking the same formal action that imposed the constraint originally.

Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the School Board, Superintendent or Business Manager.



# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Fund Balance Classification (Continued)**

In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are available for any purpose.

The School District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The School District considers committed and assigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

#### **Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The School District had no special items for the fiscal year 2011.

### **NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS**

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

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

The deposit and investment policy of the School District adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the School District.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk although the public school code requires that all deposits of the School District which are not insured are collateralized by the depository institution. As of June 30, 2011, \$11,828,954 of School District's bank balance of \$12,078,954 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	<u>11,828,954</u>
	<b>11,828,954</b>

#### Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	11,828,954
Insured Amount	<u>250,000</u>
Bank Balance	12,078,954
Outstanding Checks	<u>(367,179)</u>
Carrying Amount - Bank Balances	11,711,775
Petty Cash	1,450
Certificates of Deposit Classified as Investments on the Balance Sheet	<u>(8,424,000)</u>
<b>Total Cash and Cash Equivalents Per Financial Statements</b>	<b><u>3,289,225</u></b>

#### Investments

As of June 30, 2011, the School District had the following investments:

Investments	Maturity	Fair Value
PSDLAF		3,999,058
PSDMAX		986,818
Certificates of Deposit	0 - 12 Months	8,078,000
Certificates of Deposit	Over 12 Months	<u>346,000</u>
		<b>13,409,876</b>

#### 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.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Credit Risk

The School District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2011, the School District investments were rated as:

Investments	Standard & Poor's
PSDLAF	AAAm
PSDMAX	AAAm

#### Concentration of Credit Risk

The School District places no limit on the amount they may invest in any one issuer. More than 5% of the School District's investments are in the following investments:

Governmental Activities:	
PSDMAX	19%
US Treasury Strips	81%
Business-Type Activities and Food Service Fund:	
PSDMAX	100%
General Fund:	
PSDMA	2%
US Treasury Strips	98%
Capital Project Fund:	
PSDMAX	30%
US Treasury Strips	70%
Other Funds:	
PSDMAX	100%

#### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The School District has no investment subject to custodial credit risk.

### NOTE 3 - REAL ESTATE TAXES

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2011, was 16.33 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2011, 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)

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 4 - TAXES RECEIVABLE and DEFERRED TAXES

The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. All taxes are determined to be collectible. A portion of the receivable amount which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements. The balances at June 30, 2011, are as follows:

	Taxes Receivable	Estimated Uncollectable	Net Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	756,306	-0-	756,306	134,359	621,947
Realty Transfer Taxes	14,024	-0-	14,024	14,024	-0-
Earned Income Taxes	<u>464,665</u>	<u>-0-</u>	<u>464,665</u>	<u>464,665</u>	<u>-0-</u>
	<b>1,234,995</b>	<b>-0-</b>	<b>1,234,995</b>	<b>613,048</b>	<b>621,947</b>

### NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2011, the following amounts are due from other governmental units:

	General Fund	Enterprise Fund	Total
Federal Grants	166,063	13,413	179,476
State Match for Lunch Program	-0-	1,236	1,236
State Retirement Subsidy	135,366	-0-	135,366
State Social Security Subsidy	53,278	-0-	53,278
Other State Subsidies	267,217	-0-	267,217
Due from Intermediate Unit	312,452	-0-	312,452
Local	<u>176,211</u>	<u>-0-</u>	<u>176,211</u>
	<b>1,110,587</b>	<b>14,649</b>	<b>1,125,236</b>

### NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2011, are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	134,322	46,842
Enterprise Fund - Food Service	46,842	79,806
Capital Project Fund	-0-	54,383
Student Activity Fund	<u>-0-</u>	<u>133</u>
	<b>181,164</b>	<b>181,164</b>

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 6 - INTERFUND ACCOUNTS (Continued)

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

The general fund has an interfund payable owed to the enterprise fund-food service for general fund billable expenses furnished by the enterprise fund-food service. Enterprise fund-food service has an interfund payable owed to general fund for wages and benefits paid. Capital project fund has an interfund payable to general fund for paying an invoice that should have been paid from capital project fund.

Interfund transfers for the year ended June 30, 2011, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	3,961,894
Debt Service Fund	<u>3,961,894</u>	<u>-0-</u>
	<b>3,961,894</b>	<b>3,961,894</b>

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.

### NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2011, is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Historical Cost:				
Capital Assets not Being				
Depreciated:				
Construction in Progress	442,527	2,315,714	(151,852)	2,606,389
Land	<u>616,644</u>	<u>-0-</u>	<u>-0-</u>	<u>616,644</u>
<b>Total Cost</b>	<b>1,059,171</b>	<b>2,315,714</b>	<b>(151,852)</b>	<b>3,223,033</b>
Capital Assets Being				
Depreciated:				
Site Improvements	2,751,977	-0-	-0-	2,751,977
Building and Building				
Improvements	60,512,626	375,072	-0-	60,887,698
Furniture and Equipment	4,298,298	891,556	(87,431)	5,102,423
Vehicles	<u>131,040</u>	<u>27,274</u>	<u>-0-</u>	<u>158,313</u>
<b>Total Cost</b>	<b>67,693,941</b>	<b>1,293,902</b>	<b>(87,431)</b>	<b>68,900,412</b>

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Accumulated Depreciation:				
Site Improvements	1,396,850	105,992	-0-	1,502,842
Building and Building Improvements	18,116,760	1,566,994	-0-	19,683,754
Furniture and Equipment	1,884,849	589,295	(84,357)	2,389,787
Vehicles	<u>111,294</u>	<u>9,870</u>	<u>-0-</u>	<u>121,164</u>
<b>Total Accumulated Depreciation</b>	<b>21,509,753</b>	<b>2,272,151</b>	<b>(84,357)</b>	<b>23,697,547</b>
 <b>Net Capital Assets Being Depreciated</b>	 <b>46,184,188</b>	 <b>(978,249)</b>	 <b>(3,074)</b>	 <b>45,202,865</b>
 <b>Net Capital Assets</b>	 <b>47,243,359</b>	 <b>1,337,465</b>	 <b>(154,926)</b>	 <b>48,425,898</b>

Capital asset activity for business-type activities for the year ended June 30, 2011, is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	805,297	-0-	5,100	800,197
Accumulated Depreciation:				
Equipment	<u>395,925</u>	<u>44,515</u>	<u>5,010</u>	<u>435,430</u>
 <b>Net Capital Assets</b>	 <b>409,372</b>	 <b>(44,515)</b>	 <b>90</b>	 <b>364,767</b>

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	1,868,418
Instructional Student Support	164,626
Administration and Financial Support Services	190,313
Operation and Maintenance of Plant Services	<u>48,253</u>
	<b>2,272,151</b>

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2011, the School District was liable for \$1,441,552 of payroll, payable during July and August 2011, to those employees who have a ten-month contract but are paid over a twelve-month period, to non-salaried employees who performed services through June 30, 2011, and to retiring professional employees who are receiving a payout of their accumulated compensated absences and bonuses.

### NOTE 9 - DEFERRED REVENUE

Deferred revenue consists of the following as of June 30, 2011:

	General Fund	Food Service Fund	Total
Deferred Taxes	621,947	-0-	621,947
Other Deferred Revenue	31,103		31,103
Prepaid Lunch Sales	<u>-0-</u>	<u>6,782</u>	<u>6,782</u>
	<b>653,050</b>	<b>6,782</b>	<b>659,832</b>

### NOTE 10 - LONG-TERM DEBT

#### General Obligation Debt

The School District issues general obligation debt to provide funds for major capital improvements. These bonds and notes are direct obligations and pledge the full faith and credit of the School District.

On April 15, 2006, the School District issued General Obligation Bond Series of 2006 in the amount of \$18,000,000. The proceeds were used to finance various capital projects and to pay costs and expenses of issuing the bonds. The principal amount outstanding at June 30, 2011 was \$17,700,000.

On June 29, 2009, the School District issued General Obligation Note Series of 2009 in the amount of \$2,305,000. The proceeds were used to (1) currently refund the Series of 2002 General Obligation Bonds, and (2) pay the costs and expenses of issuing the note. The principal amount outstanding at June 30, 2011 was \$1,185,000 due in various amounts from August 15, 2011 through February 15, 2013.

In April 2010, the School District issued General Obligation Bond Series A of 2010 and Series B of 2010 in the amounts of \$11,580,000 and \$4,000,000, respectively. The proceeds of the Series A of 2010 were used to (1) currently refund outstanding General Obligation Bonds, Series of 2003, and (2) currently refund a portion of outstanding General Obligation Bonds, Series of 2005, and (3) currently refund outstanding General Obligation Notes, Series of 2003, and (4) pay the costs and expenses of issuing the bonds. The principal amount outstanding for Series A of 2010 at June 30, 2011 was \$9,660,000 due in various amounts from May 2011 through May 2021.

The proceeds of the General Obligation Bonds, Series B of 2010, will be used to provide funds to (1) finance various capital improvement projects of the School District, and (2) pay the costs and expenses of issuing the bonds. The principal amount outstanding for the Series B of 2010 at June 30, 2011 was \$3,995,000, due in various amounts from May 2011 through May 2021.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 10 - LONG-TERM DEBT (Continued)

Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2011, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2011	Due Within One Year
Series of 2006	02/01/2020	3.50% - 4.75%	17,700,000	1,240,000
GON Series of 2009	02/15/2013	2.75%	1,185,000	585,000
Series A of 2010	5/15/2021	1.00% - 4.00%	9,660,000	1,025,000
Series B of 2010	5/15/2021	1.00% - 3.60%	<u>3,995,000</u>	<u>5,000</u>
			<b>32,540,000</b>	<b>2,855,000</b>

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
General Obligation Debt	35,170,000	-0-	2,630,000	32,540,000
Bond Premium	387,086	-0-	64,156	322,929
Bond Discount	(157,430)	-0-	(19,425)	(138,005)
Accrued Retirement Bonuses	712,845	29,208	-0-	742,053
Estimated Liability for Compensated Absences	988,520	-0-	15,856	972,664
Estimated Liability for Other Postemployment Benefits	<u>104,703</u>	<u>48,517</u>	<u>-0-</u>	<u>153,220</u>
	<b>37,205,724</b>	<b>77,725</b>	<b>2,690,587</b>	<b>34,592,861</b>

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

	Interest	Principal	Total
2012	1,274,688	2,855,000	4,129,688
2013	1,181,735	2,955,000	4,136,735
2014	1,078,886	3,050,000	4,128,886
2015	937,286	3,180,000	4,117,286
2016	810,168	3,315,000	4,125,168
2017 - 2021	<u>1,985,853</u>	<u>17,185,000</u>	<u>19,170,853</u>
	<b>7,268,616</b>	<b>32,540,000</b>	<b>39,808,616</b>



**Pequea Valley School District**

NOTES to FINANCIAL STATEMENTS

(Continued)

**NOTE 11 - COMPENSATED ABSENCES**

A summary of the amount recorded as a liability in the governmental activities for compensated absences is as follows as of June 30, 2011:

Accumulated Sick Days	730,872
Accumulated Vacation Days	90,856
Accumulated Personal Days	81,815
Employer Social Security and Medicare on Days Amounts Above	<u>69,121</u>
	<b>972,664</b>

**NOTE 12 - ACCRUED RETIREMENT BONUSES**

Upon voluntary retirement, a professional employee with 25 years or more of credited service with PSERS and at least 15 consecutive years employment with the School District will receive a retirement stipend of \$300 per year of service, with a maximum of 30 years, if notice is given of their intent to retire by March 1 of the school year in which the retirement is effective. Upon retirement, amounts due to the retiree are deposited into an individual 403(b) plan. A summary of the amount recorded as a liability in the governmental activities for this supplemental retirement benefit is as follows for June 30, 2011:

	<b>Governmental Activities</b>
Estimated Accrued Retirement Bonus	<b>742,053</b>

**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.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

#### Funding Policy

The contribution policy is set by the Code and requires contributions by active employees and by participating employers. Plan members may belong to two membership classes. Class TC and Class TD are available to plan members. Active members who joined the Plan before July 22, 1983, are required to contribute 5.25 percent of their compensation if they are in Class TC or 6.5 percent for Class TD. Members who joined on or after July 11, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25 percent for Class TC or 7.5 percent for Class TD. Members who joined the Plan after June 30, 2001, are automatically in Class TD and are required to contribute 7.5 percent. The contributions required of participating employers are based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. For fiscal year ended June 30, 2011, the rate of employer contribution was 5.64 percent of covered payroll. The 5.64 percent rate is comprised of a pension contribution rate of 5.00 percent for pension benefits and .64 percent for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. **Pequea Valley School District's** contributions to PSERS for the years ended June 30, 2011, 2010, and 2009, were \$659,392, \$560,468, and \$648,129, respectively. Those amounts are equal to the required contribution for each year.

### NOTE 14 - RISK MANAGEMENT

#### Hospitalization

The School District is participating in the insurance consortium with the Lancaster-Lebanon Intermediate Unit (the LLIU) to provide for the medical care for eligible employees and their dependents. The School District remits funds to the LLIU. The LLIU deposits the funds into the School District trust account to be held for the benefits described above, and CoreSource, Inc., the Plan Administrator, upon receiving funds from the trust account, processes and pays the claims. The School District also contracts with Health America, a claims administrator, to process and pay claims. The School District is limited in liability for claims to \$60,000 per individual and \$2,958,070 in total per year.

A liability for claims incurred prior to June 30, 2011, and subsequently paid is recorded in the amount of \$147,322 in other current liabilities in the internal service fund.

Changes in the School District's claims liability amount in fiscal years 2011 and 2010 are:

	<b>Beginning of Fiscal Year Liability</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Balance at Fiscal Year End</b>
2010 - 2011	146,764	1,884,615	1,884,057	147,322
2009 - 2010	161,695	1,931,937	1,946,868	146,764

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 14 - RISK MANAGEMENT (Continued)

#### Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for 17 member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims, and losses and providing self-insurance and re-insurance thereof. It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance.

As of June 30, 2011, the School District is not aware of any additional assessments relating to the Fund.

#### Other Risks

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of asset, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2011, and the two previous fiscal years, no settlements exceeded insurance coverage.

### NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES

#### Description

The School District has adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In addition to the relevant disclosures within this note related to the implementation of GASB Statement No. 45, the financial statements reflect a long-term liability of \$153,220 in total liabilities resulting from the adoption.

The School District maintains a single employer defined benefit plan to provide post retirement healthcare benefits to School District employees who have retired with 30 years of PSERS service or upon superannuation retirement. Such benefits are available to retiree dependents until the retired employee reaches Medicare age, provided the retired employee provides payment equal to the premium determined for the purpose of COBRA.

#### Funding Policy

The School District has elected to finance postemployment benefits on a pay-as-you-go basis. The School District recognizes expenditures for postemployment group insurance when claims are filed with the Plan Administrator. These financial statements assume that pay-as-you-go funding will continue.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Annual OPEB Cost and Net OPEB Obligation

The School District's annual cost for other postemployment retirement benefits (OPEB) is calculated based on the annual required contribution (ARC) of the School District, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following illustrates the components of the School District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the School District's net OPEB obligation:

Annual Required Contribution	135,125
Interest on OPEB Obligation	4,712
Adjustment to Annual Required Contribution	<u>(6,428)</u>
Annual OPEB Cost	133,409
Contributions Made	<u>84,892</u>
Estimated Increase in Net OPEB Obligation	48,517
Net OPEB Obligation - Beginning of Year	<u>104,703</u>
Net OPEB Obligation - End of Year	153,220

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011, 2010, and 2009 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
6/30/2011	133,409	64%	153,220
6/30/2010	153,303	67%	104,703
6/30/2009	156,172	66%	53,022

#### Funding Status and Funding Progress

As of September 27, 2010, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$1,047,405, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,047,405. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$10,253,558, and the ratio of the UAAL to the covered payroll equaled 1.32%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The School District is required to present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the School District maintains no Plan assets, information relative to Plan asset required disclosures is not applicable. Additionally, because 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively.

# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the School District and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the School District and Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated July 1, 2010, the entry age normal cost method was used. Because the School District funds its OPEB on a pay-as-you-go basis, the Plan has no assets (investments) legally held exclusively for paying the post retirement medical benefits. Actuarial assumptions included an interest rate of 4.5% per annum, medical inflation of 8.5% in the first year gradually decreasing by 0.5% per year to an ultimate rate of 5% in 2015 and later.

### NOTE 16 - FUND BALANCE CLASSIFICATIONS

Restricted fund balance represents fund balances that can only be used for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers. At June 30, 2011, the School District has the following restricted balance:

Debt Service Fund - Restricted for debt payment	97
Capital Project Fund - Restricted for Capital Outlays	1,578,280

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. At June 30, 2011, the School District has included the following as committed fund balances:

General Fund - Committed for High School Construction Project	1,000,000
General Fund - Committed for Future Technology Purchases	750,000
General Fund - Committed to offset Future Retirement Contributions	3,550,000

Assigned fund balance comprises amounts intended to be used by the government for specific purposes determined by the governing body or by an official or a body to which the governing body delegates the authority.

Capital Project Fund - Assigned for Capital Outlays	4,532,629
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# Pequea Valley School District

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 17 - 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.

#### Legal Matters

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

#### Contracts

The School District has entered into various contracts for the construction at the high school. The amount remaining on the outstanding contracts is \$1,927,808.

### NOTE 18 - CHANGE in ACCOUNTING PRINCIPLE

The School District adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions*, effective July 1, 2010. Financial statements issued for the general fund reflect an adjustment to beginning fund balance in the amount of \$65,170 that represents the ending fund balance for the athletic fund.

### NOTE 19 - PRIOR PERIOD ADJUSTMENTS

Prior period adjustments have been made as follows:

Revenue not booked as a receivable	(61,689)
Adjustment to prior year payroll accrual	<u>96,290</u>
<b>Total Adjustment</b>	<b>34,601</b>

# Pequea Valley School District

## SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -

BUDGET and ACTUAL -

GENERAL FUND

Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final	Budgetary Basis	Final Budget - Favorable (Nonfavorable)
<b>REVENUES</b>				
Local Sources:				
Real Estate Taxes	\$ 19,393,828	\$ 19,393,828	\$ 19,381,973	\$ (11,855)
Other Taxes	1,778,506	1,778,506	1,868,431	89,925
Investment Earnings	45,000	45,000	52,672	7,672
Other Revenue	<u>175,000</u>	<u>175,000</u>	<u>138,560</u>	<u>(36,440)</u>
Total Local Sources	21,392,334	21,392,334	21,441,636	49,302
State Sources	6,260,651	6,260,651	6,014,331	(246,320)
Federal Sources	<u>1,927,501</u>	<u>1,927,501</u>	<u>2,465,114</u>	<u>537,613</u>
<b>Total Revenues</b>	<b>29,580,486</b>	<b>29,580,486</b>	<b>29,921,081</b>	<b>340,595</b>
<b>EXPENDITURES</b>				
Instructional Services:				
Regular Programs	11,166,337	11,166,337	10,476,969	689,368
Special Programs	3,178,221	3,178,221	2,967,829	210,392
Vocational Programs	597,753	597,753	555,710	42,043
Other Instructional Programs	<u>102,689</u>	<u>102,689</u>	<u>136,445</u>	<u>(33,756)</u>
<b>Total Instructional Services</b>	<b>15,045,000</b>	<b>15,045,000</b>	<b>14,136,953</b>	<b>908,047</b>
Support Services:				
Pupil Personnel Services	834,828	834,828	767,666	67,162
Instructional Staff Services	1,758,383	1,758,383	1,974,860	(216,477)
Administrative Services	1,588,766	1,588,766	1,388,827	199,939
Pupil Health	215,291	215,291	202,866	12,425
Business Services	458,285	458,285	506,110	(47,825)
Operation of Plant and Maintenance Services	2,687,703	2,687,703	2,429,093	258,610
Student Transportation Services	1,923,293	1,923,293	1,839,800	83,493
Central and Other Business Services	293,714	293,714	292,888	826
Other Support Services	<u>25,500</u>	<u>25,500</u>	<u>22,336</u>	<u>3,164</u>
<b>Total Support Services</b>	<b>9,785,763</b>	<b>9,785,763</b>	<b>9,424,446</b>	<b>361,317</b>
Noninstructional Services:				
Student Activities	597,334	597,334	544,918	52,416
Community Services	<u>4,382</u>	<u>4,382</u>	<u>28,482</u>	<u>(24,100)</u>
<b>Total Noninstructional Services</b>	<b>601,716</b>	<b>601,716</b>	<b>573,400</b>	<b>28,316</b>
Refund of Prior Year Expenditures	<u>-0-</u>	<u>-0-</u>	<u>5,115</u>	<u>(5,115)</u>
<b>Total Expenditures</b>	<b>25,432,479</b>	<b>25,432,479</b>	<b>24,139,914</b>	<b>1,292,565</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt Service Fund Transfer	(4,148,010)	(4,148,010)	(3,844,674)	303,336
Other Fund Transfers	<u>(4,665,230)</u>	<u>(4,665,230)</u>	<u>(117,220)</u>	<u>4,548,010</u>
Proceeds from Sale of Capital Assets	3	3	15,683	15,680
Budgetary Reserve	<u>(400,000)</u>	<u>(400,000)</u>	<u>-0-</u>	<u>400,000</u>
<b>Net Other Financing Uses</b>	<b>\$ (9,213,237)</b>	<b>\$ (9,213,237)</b>	<b>\$ (3,946,211)</b>	<b>\$ 5,267,026</b>

See independent 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, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Budgetary Basis	Final Budget - Favorable (Nonfavorable)
<b>NET CHANGES in FUND BALANCES</b>	\$ (5,065,230)	\$ (5,065,230)	\$ 1,834,956	\$ 6,900,186
<b>FUND BALANCES</b>				
Beginning			5,728,617	
Change in Accounting Principle (Note 18)			65,170	
Prior Period Adjustment (Note 19)			(34,601)	
Beginning, Restated			5,759,186	
<b>Ending</b>			<b><u>\$ 7,594,142</u></b>	

See independent auditors' report.



**Pequea Valley School District**  
NOTES to REQUIRED SUPPLEMENTARY INFORMATION

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

1. The Pennsylvania Department of Education (PDE) issues a schedule of actions for school districts for the development of the annual budget under Act 1. One deadline is the action to resolve to keep any tax increase in the real estate tax millage rate below the index announced by the PDE. Prior to that deadline, management submits to the Board, for consideration, a draft operating budget projection or other information to review, for the fiscal year commencing the following July 1. The Board determines if it will approve a resolution to keep any tax increase below the index.
2. If the Board adopts the resolution, management submits prior to May 31 to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.
3. A public hearing is conducted to obtain taxpayer comments.
4. If the Board does not adopt the resolution, management prepares and submits a proposed operating budget for the fiscal year commencing the following July 1 in accordance to the deadlines established by PDE under Act 1. These deadlines will vary with the setting of the spring municipal election date each year.
5. In either case, prior to June 30, the budget is legally enacted through adoption of a resolution.
6. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.
7. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.
8. Unused appropriations lapse at the end of each fiscal year; however, the School District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount. There were no outstanding encumbrances for the year ended June 30, 2011.
9. The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.
10. Where applicable, unbudgeted federal and state revenue and expenditures have been added to the original budgeted revenue and expenditures.

**Pequea Valley School District**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 Year Ended June 30, 2011

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, 2010	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
<b>U.S. Department of Agriculture</b>									
<b>Passed Through the Pennsylvania</b>									
<b>Department of Education:</b>									
School Breakfast Program (Note 2)	I/F	10.553	N/A	07/01/10 - 06/30/11	N/A	\$ -0-	\$ 48,580	\$ 50,816	\$ 2,236
School Breakfast Program (Note 2)	I/F	10.553	N/A	07/01/09 - 06/30/10	N/A	9,960	9,960	-0-	-0-
National School Lunch Program (Note 2)	I/F	10.555	N/A	07/01/10 - 06/30/11	N/A	-0-	259,814	270,990	11,176
National School Lunch Program (Note 2)	I/F	10.555	N/A	07/01/09 - 06/30/10	N/A	<u>48,481</u>	<u>48,481</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Passed Through the Pennsylvania Department of Education</b>						<b>58,441</b>	<b>366,835</b>	<b>321,806</b>	<b>13,412</b>
<b>Passed Through the Pennsylvania</b>									
<b>Department of Agriculture:</b>									
National School Lunch Program (Notes 2 and 3)	I/F	10.555	N/A	07/01/10 - 06/30/11	N/A	<u>-0-</u>	<u>44,743</u>	<u>44,743</u>	<u>-0-</u>
<b>Total U.S. Department of Agriculture</b>						<b>58,441</b>	<b>411,578</b>	<b>366,549</b>	<b>13,412</b>
<b>U.S. Department of Education</b>									
<b>Passed Through the Pennsylvania</b>									
<b>Department of Education:</b>									
Title I Grants to Local Educational Agencies (Note 2)	I/F	84.010	013-110332	08/09/10 - 09/30/11	1,042,535	-0-	670,729	798,909	128,180
Title I Grants to Local Educational Agencies (Note 2)	I/F	84.010	013-100332	05/13/09 - 09/30/10	1,159,714	193,331	458,894	265,563	-0-
Title I Grants to Local Educational Agencies (Note 2)	I/F	84.010	042-110332	03/01/11 - 09/30/12	56,180	-0-	5,914	17,255	11,341
Title I Grants to Local Educational Agencies (Note 2)	I/F	84.010	077-100332	07/01/09 - 09/30/10	3,600	1,800	3,560	1,800	40
Safe and Drug-Free Schools and Communities - State Grants	I/F	84.186	100-100332	07/01/09 - 09/30/10	12,156	867	2,431	1,564	-0-
Educational Technology State Grants (Notes 2 and 4)	I/F	84.318	055-100332	07/01/09 - 09/30/11	75,700	\$ 61,689	\$ 75,700	\$ 9,086	\$ (4,925)

See auditors' report.

**Pequea Valley School District**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 (Continued)  
 Year Ended June 30, 2011

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, 2010	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2011
<b>U.S. Department of Education (Continued)</b>									
<b>Passed Through the Pennsylvania Department of Education (Continued):</b>									
Improving Teacher Quality State Grants	I/F	84.367	020-110332	08/09/10 - 09/30/11	200,238	\$ -0-	\$ 143,564	\$ 192,501	\$ 48,937
Improving Teacher Quality State Grants	I/F	84.367	020-100332	05/13/09 - 09/30/10	209,088	48,020	55,757	7,737	-0-
ARRA - Title I Grants to Local Educational Agencies, Recovery Act (Note 2)	I/F	84.389	127-100332	05/13/09 - 09/30/11	591,607	95,321	241,332	128,501	(17,510)
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (Note 2)	I/F	84.394	126-110332	07/01/10 - 09/30/11	295,295	-0-	295,295	295,295	-0-
Education Jobs Fund	I/F	84.410	140-119388	08/10/10 - 03/31/11	175,166	<u>-0-</u>	<u>175,166</u>	<u>175,166</u>	<u>-0-</u>
<b>Total Passed Through the Pennsylvania Department of Education</b>						<b>401,028</b>	<b>2,128,342</b>	<b>1,893,377</b>	<b>166,063</b>
<b>Passed Through Lancaster-Lebanon Intermediate Unit #13:</b>									
Special Education - Grants to States (Note 2)	I/F	84.027	062-100013	07/01/10 - 06/30/11	372,904	-0-	372,904	372,904	-0-
ARRA - Special Education - Grants to States, Recovery Act (Note 2)	I/F	84.391	128-100013	02/17/09 - 09/30/11	472,861	<u>18,830</u>	<u>136,061</u>	<u>142,922</u>	<u>25,691</u>
<b>Total Passed Through Lancaster-Lebanon Intermediate Unit #13</b>						<b>18,830</b>	<b>508,965</b>	<b>515,826</b>	<b>25,691</b>
<b>Total U.S. Department of Education</b>						<b>419,858</b>	<b>2,637,307</b>	<b>2,409,203</b>	<b>191,754</b>
<b>TOTAL EXPENDITURES of FEDERAL AWARDS</b>						<b>\$ 478,299</b>	<b>\$ 3,048,885</b>	<b>\$ 2,775,752</b>	<b>\$ 205,166</b>

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

See auditors' report.

**Pequea Valley School District**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 (Continued)  
 Year Ended June 30, 2011

**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 - CLUSTER IDENTIFICATION**

Project Title	Federal CFDA Number	Cluster
School Breakfast Program	10.553	Child Nutrition Cluster
National School Lunch Program	10.555	Child Nutrition Cluster
Title I Grants to Local Educational Agencies	84.010	Title I, Part A Cluster
Special Education - Grants to States	84.027	Special Education Cluster
Educational Technology State Grants	84.318	Educational Technology State Grants Cluster
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	Title I, Part A Cluster
ARRA - Special Education - Grants to States, Recovery Act	84.391	Special Education Cluster
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	State Fiscal Stabilization Fund Cluster

**NOTE 3 - NATIONAL SCHOOL LUNCH PROGRAM - PASSED THROUGH the PENNSYLVANIA DEPARTMENT of AGRICULTURE**

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

**NOTE 4 - ACCRUAL (DEFERRAL) ADJUSTMENTS at JUNE 30, 2010**

Project Title	Source Code	Grantor Number	Grant Period Beginning / Ending Date	Accrual (Deferral) Shown at June 30, 2010	Correct Accrual (Deferral) at June 30, 2010
Educational Technology State Grants	F	055-100332	07/01/09 - 09/30/11	-0-	61,689

**NOTE 5 - UNSPENT GRANT FUNDS**

The June 30, 2010, schedule of expenditures of federal awards showed an ending deferral for Title I Grants to Local Educational Agencies CFDA #84.010 Grantor Number 077-090332 in the amount of \$484. However, the grant funds had been unspent at the end of the grant period and therefore the School District returned the funds to the Pennsylvania Department of Education in October 2010.

See auditors' report.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Pequea Valley School District** as of and for the year ended June 30, 2011, which collectively comprise **Pequea Valley School District's** basic financial statements and have issued our report thereon dated November 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2011-01 and #2011-02 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #2011-03 to be a significant deficiency.

### **Compliance and Other Matters**

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

We noted certain other matters that we reported to management of **Pequea Valley School District** in a separate letter dated November 2, 2011.

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

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



November 2, 2011  
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

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

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

**Compliance**

We have audited **Pequea Valley School District's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Pequea Valley School District's** major federal programs for the year ended June 30, 2011. **Pequea Valley School District's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of **Pequea Valley School District's** management. Our responsibility is to express an opinion on **Pequea Valley School District's** compliance based on our audit.

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

In our opinion, **Pequea Valley School District** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those compliance requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items #2011-04 and #2011-05.

## Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item #2011-06. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of management, the board officers and members, others within the entity, 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.



November 2, 2011  
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants



**Pequea Valley School District**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
Year Ended June 30, 2011

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of **Pequea Valley School District**.
2. Three significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Two of the significant deficiencies are determined to be material weaknesses.
3. No instances of noncompliance material to the financial statements of **Pequea Valley School District** were disclosed during the audit.
4. One significant deficiency relating to the audit of the major federal programs is reported in the Independent Auditors' Report on Compliance with Requirements that Could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award 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 programs tested as major programs are: School Breakfast Program - CFDA #10.553, National School Lunch Program - CFDA #10.555, Title I Grants to Local Educational Agencies - CFDA #84.010, Special Education - Grants to States - CFDA #84.027, ARRA Title I Grants to Local Educational Agencies, Recovery Act - CFDA #84.389, and ARRA Special Education - Grants to States, Recovery Act - CFDA #84.391.
8. The threshold for distinguishing type A and B programs was \$300,000.
9. **Pequea Valley School District** was not determined to be a low-risk auditee.

**Pequea Valley School District**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
(Continued)  
Year Ended June 30, 2011

B. Findings - Financial Statements Audit

**Material Weaknesses**

**#2011-01 - Preparation of Financial Statements** - The School District has designated an employee responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The School District has assumed responsibility for evaluating the adequacy and results of the financial statements and accepted responsibility for them. However, the School District's staff is not experienced in preparing all of the required financial statements and notes to the financial statements for the School District in conformity with the accounting principles generally accepted in the United States of America.

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

**School District's Response** - Since the District's staff does not possess the expertise to prepare the financial statements and the notes to the financial statements for the Pequea Valley School District, in conformity with the accounting principles generally accepted in the United States of America, the District understands and accepts that this material weakness cannot be corrected without hiring additional staff who has the necessary knowledge and expertise.

**#2011-02 - Adjusting Journal Entries** - The School District has designated an employee responsible to oversee the adjusting cash to accrual journal entries. However, there were several additional material adjusting entries that needed to be made for the financial statements to be prepared in conformity with generally accepted accounting principles. The School District has assumed responsibility for and evaluated the adequacy of the adjusting entries and has accepted responsibility for them. The material audit adjustments that needed to be made were as follows:

- Recording of retainage payable
- Reversal of construction in progress entry
- Prior year revenue booked as a receivable
- Recording of IU IDEA revenue
- Correct deferred taxes and related receivable
- Adjust transfer tax receivable
- Correction of taxes reversal
- Recording of retirement stipend payables

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

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

**Pequea Valley School District**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
(Continued)  
Year Ended June 30, 2011

B. Findings - Financial Statements Audit (Continued)

**Significant Deficiency**

**#2011-03 - Payroll Accrual** - The general fund payroll accrual did not previously include an accrual for administrative or hourly individuals. In the past, the accrual was only adjusted for the teachers paid over 12 months that are on 10 month contracts.

**Recommendation** - Management should review the payroll accrual to determine that all types of employees are included in the payroll accrual going forward.

**School District's Response** - The District will prepare journal entries to accrue administrative and hourly payroll as part of the year end closing routine.

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

**Compliance Findings**

DEPARTMENT of EDUCATION

**#2011-04** - School Breakfast Program - CFDA #10.553, National School Lunch Program - CFDA #10.555, Year Ended June 30, 2011

**Criteria:** The School District is required to verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced meals. If the verification process determines changes to applicant free and reduced status, the School District is required to make those changes.

**Statement of Condition:** The School District sampled the correct number of free and reduced applicant households. However, the School District did not correctly classify and make changes to the free and reduced meal status of those households based on the documentation received.

**Cause and Effect:** Errors in the review of verified free and reduced lunch applications led to the status of some of the verified free and reduced households to be incorrectly classified.

**Questioned Costs:** None

**Recommendation:** Procedures should be established to ensure that the School District correctly classifies and makes changes to the free and reduced meal status based on the documentation received.

**Pequea Valley School District**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
(Continued)  
Year Ended June 30, 2011

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

**Compliance Findings (Continued)**

**School District Response** - Guidelines concerning the Free/Reduced Verification process is a fluid document that continues to go through considerable change. Hence, the Application software has yearly updates to keep abreast with those changes. Food Service staff has recently gone to two PDE workshops and one software webinar concerning Free/Reduced processing and verification changes. Currently school districts are now able to directly verify income and status on the COMPASS website prior to notifying selected families and requesting proof of income. This will greatly cut down on human error.

Concerning Applications we need to verify all paper applications will be signed in ink by person processing the verification. The verification in entirety will be double checked after the applications have been verified to ensure all proofs of income have been considered, and all steps completed correctly.

**#2011-05** - Title I Grants to Local Educational Agencies - CFDA #84.010, Grant Number 013-100332 and ARRA Title I Grants to Local Educational Agencies, Recovery Act - CFDA #84.389, Grant Number 127-100332, Year Ended June 30, 2011

**Criteria:** The School District is required to monitor the federal cash receipts and disbursements and return any interest earnings on at least a quarterly basis to ensure compliance with cash management guidelines.

**Statement of Condition:** The School District did not return interest earned on at least a quarterly basis.

**Cause and Effect:** The School District performed the monitoring on a quarterly basis however did not return the interest earned.

**Questioned Costs:** None

**Recommendation** - Procedures should be established to ensure that the interest earned is returned on at least a quarterly basis when the monitoring procedures are being performed.

**School District Response** - After the quarterly federal expenditure reports are filed the interest calculation will be performed and payment/s made if interest income was earned.

**Significant Deficiency**

**#2011-06** - School Breakfast Program - CFDA #10.553, National School Lunch Program - CFDA #10.555, Year Ended June 30, 2011

School District policy states that an appropriate LEA official will sign off on the eligibility verification sampling process. However during field work it was noted that only some of those selected for testing were approved as reviewed by an appropriate LEA official. It was also noted that the eligibility testing notification letters that had been sent to the free and reduced applicant households selected for sampling did not contain valid return deadline dates for the income verification documentation.

**Recommendation:** We recommend that established policies and procedures be followed and that the verification process has proper oversight by a School District official.

**Pequea Valley School District**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
(Continued)  
Year Ended June 30, 2011

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

**Compliance Findings (Continued)**

**School District Response** - The Food Service Director will ensure that the established policies and procedures are followed for the National School Program.

**Pequea Valley School District**  
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS  
Year Ended June 30, 2011

**Compliance Findings**

DEPARTMENT of EDUCATION

#2010-06 and #2009-12 - Title I Grants to Local Educational Agencies - CFDA #84.010, Grant Number 013-090332, Years Ending June 30, 2010 and June 30, 2009

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

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

Current Status: The School District filed Reconciliation of Cash on Hand Quarterly Reports in a timely manner during the year ended June 30, 2011.

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

The School District did not acquire and maintain signed semi-annual certifications from employees who work solely in the program stating that the employee is engaged solely in activities supported by the program.

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

Current Status: The School District acquired and maintained semi-annual certifications from employees who work solely in the program stating that the employee is engaged solely in activities supported by the program as required for the year ended June 30, 2011.

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

School District personnel did not perform the required verification checks on parties, with whom they contracted with for more than \$25,000, within the program to ensure that the parties are not suspended or debarred.

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

Current Status: The School District performed the proper verification checks on parties with whom they have contracted with for more than \$25,000, during the year ended June 30, 2011.

**Pequea Valley School District**  
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS  
(Continued)  
Year Ended June 30, 2011

**Compliance Findings (Continued)**

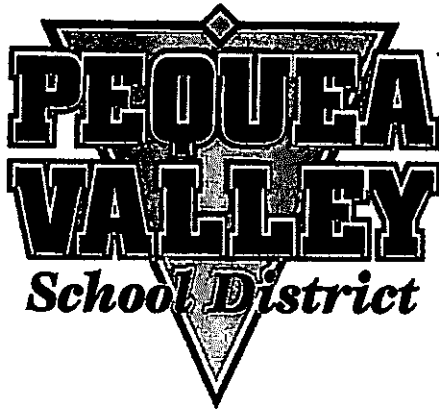
DEPARTMENT of EDUCATION (Continued)

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

The School District did not file the required Pennsylvania Department of Education Final Expenditure Report in a timely manner.

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

Current Status: For the grant year ending June 30, 2011, the School District filed the Pennsylvania Department of Education Final Expenditure Report in a timely manner.



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

**Corrective Action Plan  
November 9, 2011**

United States Department of Education (oversight agency for this audit)

Pequea Valley School District respectfully submits the following corrective action plan for the year ended June 30, 2011.

Name and address of independent public account firm:

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

Audit period: July 1, 2010 through June 30, 2011

The findings from the June 30, 2011, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**Material Weaknesses**

**#2011-01 - Preparation of Financial Statements** - The School District has designated an employee responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The School District has assumed responsibility for evaluating the adequacy and results of the financial statements and accepted responsibility for them. However, the School District's staff is not experienced in preparing all of the required financial statements and notes to the financial statements for the School District in conformity with the accounting principles generally accepted in the United States of America.

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

**School District's Response -**

Since the District's staff does not possess the expertise to prepare the financial statements and the notes to the financial statements for the Pequea Valley School District, in conformity with the accounting principles generally accepted in the United States of America, the District understands and accepts that this material weakness cannot be corrected without hiring additional staff who has the necessary knowledge and expertise.



**#2011-02 - Adjusting Journal Entries** - The School District has designated an employee responsible to oversee the adjusting cash to accrual journal entries. However, there were several additional material adjusting entries that needed to be made for the financial statements to be prepared in conformity with generally accepted accounting principles. The School District has assumed responsibility for and evaluated the adequacy of the adjusting entries and has accepted responsibility for them. The material audit adjustments that needed to be made were as follows:

- Recording of retainage payable
- Reversal of construction in progress entry
- Prior year revenue booked as a receivable
- Recording of IU IDEA revenue
- Correct deferred taxes and related receivable
- Adjust transfer tax receivable
- Correction of taxes reversal
- Recording of retirement stipend payables

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

**School District's Response –**

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

**SIGNIFICANT DEFICIENCY**

**#2011-03 - Payroll Accrual** - The general fund payroll accrual did not previously include an accrual for administrative or hourly individuals. In the past, the accrual was only adjusted for the teachers paid over 12 months that are on 10 month contracts.

**Recommendation** - Management should review the payroll accrual to determine that all types of employees are included in the payroll accrual going forward.

**School District's Response –**

The District will prepare journal entries to accrue administrative and hourly payroll as part of the year end closing routine.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT**

**Compliance Findings**

**DEPARTMENT of EDUCATION**

**#2011-04 - School Breakfast Program - CFDA #10.553, National School Lunch Program - CFDA #10.555, Year Ended June 30, 2011**

**Criteria:** The School District is required to verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced meals. If the verification process determines changes to applicant free and reduced status, the School District is required to make those changes.

## **#2011-04 Continued**

**Statement of Condition:** The School District sampled the correct number of free and reduced applicant households. However, the School District did not correctly classify and make changes to the free and reduced meal status of those households based on the documentation received.

**Cause and Effect:** Errors in the review of verified free and reduced lunch applications led to the status of some of the verified free and reduced households to be incorrectly classified.

**Questioned Costs:** None

**Recommendation:** Procedures should be established to ensure that the School District correctly classifies and makes changes to the free and reduced meal status based on the documentation received. We also recommend that procedures be put into place to ensure that changes are made to the status of those participants when the verification process determines that changes should be made.

**School District Response:** Guidelines concerning the Free/Reduced Verification process is a fluid document that continues to go through considerable change. Hence, the Application software has yearly updates to keep abreast with those changes. Food Service staff has recently gone to two PDE workshops and one software webinar concerning Free/Reduced processing and verification changes. Currently school districts are now able to directly verify income and status on the COMPASS website prior to notifying selected families and requesting proof of income. This will greatly cut down on human error.

Concerning Applications we need to verify all paper applications will be signed in ink by person processing the verification. The verification in entirety will be double checked after the applications have been verified to ensure all proofs of income have been considered, and all steps completed correctly.

**#2011-05 - Title I Grants to Local Educational Agencies - CFDA #84.010, Grant Number 013-100332 and ARRA Title I Grants to Local Educational Agencies, Recovery Act - CFDA #84.389, Grant Number 127-100332, Year Ended June 30, 2011**

**Criteria:** The School District is required to monitor the federal cash receipts and disbursements and return any interest earnings on at least a quarterly basis to ensure compliance with cash management guidelines.

**Statement of Condition:** The School District did not return interest earned on at least a quarterly basis.

**Cause and Effect:** The School District performed the monitoring on a quarterly basis however did not return the interest earned.

**Questioned Costs:** None

**Recommendation:** Procedures should be established to ensure that the interest earned is returned on at least a quarterly basis when the monitoring procedures are being performed.

**School District Response:**

After the quarterly federal expenditure reports are filed the interest calculation will be performed and payment/s made if interest income was earned.

**#2011-06 - School Breakfast Program - CFDA #10.553, National School Lunch Program - CFDA #10.555, Year Ended June 30, 2011**

School District policy states that an LEA official will sign off on the eligibility verification sampling process. However during field work it was noted that only some of those tested were approved as reviewed by an appropriate LEA official. It was also noted that the eligibility testing notification letters that had been sent

**#2011-06 Continued**

to the free and reduced applicant households selected for sampling did not contain valid return deadline dates for the income verification documentation.

**Recommendation:** We recommend that established policies and procedures be followed and that the verification process has proper oversight by a School District official.

**School District Response:** The Food Service Director will ensure that the established policies and procedures are followed for the National School Program.

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

Sincerely Yours,

A handwritten signature in black ink that reads "John A. Bowden". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

John A. Bowden  
Business Administrator  
Pequea Valley School District