

Lebanon School District

Year Ended June 30, 2014



TROUT, EBERSOLE & GROFF_{LLP}

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Lebanon School District

Financial Statements with Supplementary Information

Year Ended June 30, 2014

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Lebanon School District

Financial Statements with Supplementary Information

Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board Officers and Members
Lebanon School District
Lebanon County, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Lebanon School District**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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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 **Lebanon School District**, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 18 to the financial statements, the School District changed its method of accounting for bond issuance costs applicable to the government-wide financial statements as a result of implementing GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13, the budgetary comparison information on pages 54 and 55 and the postemployment healthcare benefits schedule of funding progress on pages 57 through 60 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Lebanon School District's** basic financial statements. The combining non-major fund financial statements, and the schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining nonmajor fund financial statements and 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014, on our consideration of the **Lebanon School District's** internal control over financial reporting and on 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 and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Lebanon School District's** internal control over financial reporting and compliance.

November 12, 2014
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountant

Lebanon School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2014

The discussion and analysis of **Lebanon School District's** financial performance provides an overall review of the School District's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. It should be read in conjunction with the notes to the basic financial statements and the financial statements to enhance the understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- In total, net position increased \$4,283,184. Net assets of governmental activities increased \$4,096,811 while net assets of business-type activities increased \$186,373.
- Revenues totaled \$63,492,031. General revenues accounted for \$44,346,226 in revenue or 70 percent of total revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$19,145,805 or 30 percent of total revenues.
- Total assets and deferred inflows of resources of governmental activities decreased by \$835,673 from the originally issued 2013 statements, primarily as a result of updates and reallocations within the capital asset inventory and implementation of GASB 65 to recognized bond issuance costs being expensed when incurred.
- The School District had \$56,290,799 in expenses related to governmental activities; \$16,044,859 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes and unrestricted grants and subsidies) of \$44,342,751 were adequate to provide for these programs.
- Among major funds, the general fund had \$60,179,928 in revenues and other financing sources and \$58,108,147 in expenditures and other financing uses. Revenues exceeded expenditures at year end by \$2,071,781 resulting in a fund balance of \$15,753,485. The School District used a tax increase of 0.6994 mills and cost reduction strategies to offset increases in salaries, health care, pensions, and special education costs as well as fully fund the debt issues for the high school renovations and improve the fund balance position.

Using this Annual Report

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

The statement of net position and statement of activities provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how the services were financed in the short-term as well as what remains for future spending.

The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of **Lebanon School District**, the general fund is the most significant fund.

Lebanon School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

Reporting the School District as a Whole

Our analysis for the School District as a whole begins on page 6. One of the most important questions asked about the School District's finances is, "Is the School District as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the School District as a whole and about the activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position and changes in net position. The change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors.

In the statement of net position and the statement of activities, the School District's financial information is divided into two distinct kinds of activities:

- **Governmental Activities** - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District's food service program is reported as business activity.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds and the fund financial statements provide detailed information about the most significant funds, not the School District as a whole. The School District's two types of funds (governmental and proprietary) use different accounting approaches.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds 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 general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Lebanon School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

The School District as a Whole

The statement of net position provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net position for 2014 compared to 2013:

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Assets						
Current and Other Assets	20,106,271	22,070,448	1,616,304	1,839,787	21,722,575	23,910,235
Capital Assets	<u>69,915,316</u>	<u>68,393,031</u>	<u>460,126</u>	<u>418,542</u>	<u>70,375,442</u>	<u>68,811,573</u>
Total Assets	90,021,587	90,463,479	2,076,430	2,258,329	92,098,017	92,721,808
Deferred Outflow Of Resources						
	372,525	356,167	-0-	-0-	372,525	356,167
Liabilities						
Current Liabilities	9,534,640	8,394,656	19,217	13,341	9,553,857	8,407,997
Noncurrent Liabilities	<u>63,205,094</u>	<u>60,673,801</u>	<u>11,920</u>	<u>13,322</u>	<u>63,217,014</u>	<u>60,687,123</u>
Total Liabilities	72,739,734	69,068,457	31,137	26,663	72,770,871	69,095,120
Net Assets						
Net Investment in Capital Assets	5,683,416	6,872,209	460,126	418,542	6,143,542	7,290,751
Restricted	74,378	63,682	-0-	-0-	74,378	63,682
Unrestricted	<u>11,896,584</u>	<u>14,815,298</u>	<u>1,585,167</u>	<u>1,813,124</u>	<u>13,481,751</u>	<u>16,628,422</u>
Total Net Position	17,654,378	21,751,189	2,045,293	2,231,666	19,699,671	23,982,855

Lebanon School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

The School District as a Whole (Continued)

Table 2 shows the changes in net position for fiscal year 2014 compared to 2013:

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Revenues						
Program Revenues:						
Charges for Services	115,557	100,835	493,332	472,051	608,889	572,886
Operating Grants	14,398,512	14,202,413	2,471,008	2,628,895	16,869,520	16,831,308
Capital Grants	2,095,910	1,741,611	-0-	-0-	2,095,910	1,741,611
General Revenue:						
Property Taxes	15,767,289	16,262,883	-0-	-0-	15,767,289	16,262,883
Unrestricted Grants and Subsidies	24,481,169	25,964,495	-0-	-0-	24,481,169	25,964,495
Other	<u>2,089,001</u>	<u>2,115,373</u>	<u>1,689</u>	<u>3,475</u>	<u>2,090,690</u>	<u>2,118,848</u>
Total Revenues	58,947,438	60,387,610	2,966,029	3,104,421	61,913,467	63,492,031
Expenses						
Instruction	34,285,874	34,809,562	-0-	-0-	34,285,874	34,809,562
Support Services:						
Instructional						
Student Support	5,205,423	5,923,736	-0-	-0-	5,205,423	5,923,736
Administrative and Financial Support Services	5,011,820	4,946,693	-0-	-0-	5,011,820	4,946,693
Operation and Maintenance of						
Plant Services	4,946,642	5,395,359	-0-	-0-	4,946,642	5,395,359
Pupil Transportation	1,131,934	1,216,775	-0-	-0-	1,131,934	1,216,775
Student Activities	1,063,588	1,206,125	-0-	-0-	1,063,588	1,206,125
Community Services	244,058	5,574	-0-	-0-	244,058	5,574
Interest on Long- Term Debt	2,811,085	2,786,975	-0-	-0-	2,811,085	2,786,975
Food Service	-0-	-0-	<u>2,716,664</u>	<u>2,918,048</u>	<u>2,716,664</u>	<u>2,918,048</u>
Total Expenses	54,700,424	56,290,799	2,716,664	2,918,048	57,417,088	59,208,847
Increase in Net Position	4,247,014	4,096,811	249,365	186,373	4,496,379	4,283,184

Lebanon School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

The School District as a Whole (Continued)

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. It identifies the cost of these services supported by tax revenue and unrestricted state entitlements. Table 4 shows, for business-type activities, the total cost of services and the net cost of services.

Table 3
Governmental Activities

	2013		2014	
	Total Cost	Net Cost	Total Cost	Net Cost
Instruction	34,285,874	22,622,231	34,809,562	23,701,535
Support Services:				
Instructional Student Support	5,205,423	4,065,797	5,923,736	4,350,940
Administrative and Financial Support Services	5,011,820	4,548,641	4,946,693	4,468,395
Operation and Maintenance of Plant Services	4,946,642	4,622,379	5,395,359	4,995,954
Pupil Transportation	1,131,934	572,893	1,216,775	608,317
Student Activities	1,063,588	955,736	1,206,125	1,076,300
Community Services	244,058	(12,407)	5,574	(865)
Interest on Long-Term Debt	<u>2,811,085</u>	<u>715,175</u>	<u>2,786,975</u>	<u>1,045,364</u>
Total Expenses	54,700,424	38,090,445	56,290,799	40,245,940

Table 4
Business-Type Activities

	2013		2014	
	Total Cost	Net Cost	Total Cost	Net Cost
Food Services	2,716,664	(247,676)	2,918,048	(182,898)

The School District depends on a combination of tax revenues and governmental grants for governmental activities. For all governmental activities, general revenue support is 73 percent of the total governmental revenues. The community, as a whole, is the primary financial support for **Lebanon School District** students, although 27 percent does come from charges for services as well as operating and capital grants, making these grant revenues integral for the financial stability of the School District.

Business-Type Activities

Business-type activities include food service operations. This program had revenues of \$3,104,421 and expenses of \$2,918,048 for fiscal year 2014. Business-type activities receive no support from tax revenues.

Lebanon School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

The School District's Funds

The major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$60,213,566 and other financing sources of \$8,069,772. Those same funds had expenditures of \$58,021,025 and other financing uses of \$7,855,000. The net change in fund balance for all governmental funds was \$2,407,313. The net change in fund balance for the general fund shows an increase of \$2,071,781 due to the implementation of cost reduction strategies and an increase in state funding after adoption of the final budget.

General Fund Budgeting Highlights

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2014, the School District amended its general fund budget several times to accommodate differences from the original budget to the actual expenditures of the School District. The School District used site-based budgeting and the budgeting systems as designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budgeted revenue and other financing sources totaled \$58,527,213, but the School District realized actual revenues and other sources of \$60,179,928. The budgeted expenditures were \$59,371,396 plus a budgetary reserve for unexpected building repairs of \$2,000,000. The School District expended \$58,108,147 without the need to utilize the budgetary reserve. The School District received additional state revenue after adoption of the final 2014 budget, and placed these funds in reserve to address cost increases for the ensuing year. The School District budgets expenditures based upon a long term strategy of sustainability and reduced the actual expenditures during the year in support of that strategy.

Lebanon School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

Capital Assets and Debt Administration

Capital Assets - At the end of fiscal 2014, the School District had \$68.81 million invested in land, buildings, and equipment, with \$68.39 million in governmental activities. Table 5 shows the fiscal 2014 balance compared to 2013:

Table 5
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Land	682,029	682,029			682,029	682,029
Land Improvements	2,654,407	2,423,482	-0-	-0-	2,654,407	2,423,482
School Buildings	65,280,189	64,443,557	-0-	-0-	65,280,189	64,443,557
Furniture, Fixtures, and Equipment	545,172	532,685	437,440	400,897	982,612	933,582
Vehicles	127,544	119,657	22,686	17,645	150,230	137,302
Construction in Progress	<u>625,975</u>	<u>191,621</u>	<u>-0-</u>	<u>-0-</u>	<u>625,975</u>	<u>191,621</u>
Totals	69,915,316	68,393,031	460,126	418,542	70,375,442	68,811,573

Debt Administration - At June 30, 2014, the School District had \$61.480 million in bonds and notes outstanding, with \$2.85 million due within one year. The Series B of 2010 Notes requires a sinking fund to accumulate principal payments for the retirement of this note in 2029. The debt service fund shows a cumulative balance of \$14,916 available for the retirement of this Note. Table 6 summarizes bonds and notes outstanding.

Lebanon School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

Capital Assets and Debt Administration (Continued)

Debt Administration (Continued)

Table 6
Outstanding Debt at Year-End
(In Thousands)

	Governmental Activities	
	2013	2014
General Obligation Bonds and Notes:		
2006 Bonds	7,855	-0-
2009A Bonds	9,480	8,820
2009AA Bonds	6,035	5,190
Series B of 2010 Notes	15,000	15,000
Series of 2011	8,600	8,145
Series of 2012	13,895	13,890
Series of 2013	3,045	3,015
Series of 2014	<u>-0-</u>	<u>7,420</u>
	63,910	61,480

The School District issued General Obligation Bonds, Capital Project Series, Subseries of 2006, dated December 15, 2006, in the aggregate principal amount of \$8,500,000. The proceeds of the bonds are used for the planning, designing, acquiring, constructing, furnishing and equipping alterations, additions, renovations and improvements to the existing Southeast Elementary School and Southwest Elementary School and pay the costs and expenses related to the issuance of the bonds. The School District refunded these bonds during the current year with the proceeds of the General Obligation Bonds, Series 2014.

The School District issued General Obligation Bonds, Series A of 2009, dated June 15, 2009, in the aggregate principal amount of \$9,500,000. The proceeds of the bonds are used for the planning, designing, acquiring, constructing, furnishing and equipping alterations, additions, improvements and renovations to the existing Lebanon Senior High School and pay the costs and expenses related to the issuance of the bonds.

The School District issued General Obligation Bonds, Series AA of 2009, dated June 15, 2009, in the aggregate principal amount of \$12,995,000. The proceeds of the bonds are used for the current refunding of the General Obligation Bonds Series of 2002, 2003, 2003B, 2004 and pay the costs and expenses related to the issuance of the bonds.

The School District issued General Obligation Notes, Series B of 2010, dated December 8, 2010, in the aggregate principal amount of \$15,000,000 as part of an allocation from the State Public School Building Authority Federally Taxable Revenue Bonds, Series B of 2010. This bond issue is part of the Qualified School Construction Bond Program under the American Recovery & Reinvestment Act (ARRA) of 2009. The proceeds of the bonds are used for the costs of planning, designing, acquiring, constructing, furnishing and equipping alterations, additions, improvements and renovations to the existing Lebanon Senior High School and paying the costs of issuing the notes.

Lebanon School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

Capital Assets and Debt Administration (Continued)

Debt Administration (Continued)

The School District issued General Obligation Bonds, Series of 2011, dated September 20, 2011, in the aggregate principal amount of \$9,245,000. The proceeds of the bonds are used for the current refunding of the General Obligation Bonds, Capital Project Series, Subseries of 2005 and pay the costs and expenses related to the issuance of the bonds.

The School District issued General Obligation Bonds, Series of 2012, dated January 17, 2012, in the aggregate principal amount of \$13,900,000. The proceeds of the bonds are used for the costs of planning, designing, acquiring, constructing, furnishing and equipping alterations, additions, improvements and renovations to the existing Lebanon Senior High School and paying the costs of issuing the bonds.

The School District issued General Obligation Bonds, Series of 2013, dated February 19, 2013, in the aggregate principal amount of \$3,055,000 to be used towards the current refunding of the School District's outstanding General Obligation Bonds Series of 2007.

The School District issued General Obligation Bonds, Series 2014, dated February 13, 2014, in the aggregate principal amount of \$7,980,000 to be used toward the current refunding of the School District's outstanding General Obligation Bonds, Capital Project Series, Series of 2006.

The School District has no special assessment debt. Long-term debt is liquidated from the general fund unless the liquidation is the result of a new debt issue, in which event the debt service fund is utilized.

For the Future

The focus of the **Lebanon School District** is to maintain financial stability while planning for a capital project to address the Northwest Elementary School.

The School District depends primarily on state and local sources of revenue to finance operations. The School District does not expect growth in the local property tax base due to a lack of available undeveloped land within the School District, so increasing local revenue will depend heavily on property taxpayers. The School District was part of a county-wide real estate reassessment for the 2013-2014 school year. The School District approved an 18.67 mill operating levy for the 2014-2015 school year which represented a 3.43% millage increase. The School District will continue to work with state officials to secure needed support through adequate grant and subsidy funding to provide the necessary financial resources for a quality education of our resident students.

While the School District was successful in increasing its tax revenue millage, additional increases will be needed to fund the additional debt required to continue our capital improvements of our aging school facilities. Henry Houck Elementary School, Harding Elementary School, Southeast Elementary School, Southwest Elementary School and Lebanon High School are renovated. Long-term planning is underway to address the capital requirement for Northwest Elementary School and the Lebanon Middle School to fully complete all required upgrades to protect the community's investment in our facilities and provide safe, efficient, and modern learning environments for the students in our School District.

In conclusion, **Lebanon School District** is committed to a financial plan of retaining adequate reserves, budgeting practices that emphasize sustainability and long-term facilities planning to provide safe and effective learning environments. All of the School District's financial abilities will be needed to meet the challenges of the future.

Lebanon School District
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended June 30, 2014

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money received. If you have questions about this report or need additional financial information, please contact Curtis O. Richards, Business Manager, Lebanon School District, 1000 South Eighth Street, Lebanon, PA 17042.

Lebanon School District

STATEMENT of NET POSITION

June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 494,742	\$ 1,776,384	\$ 2,271,126
Investments	16,385,112	-0-	16,385,112
Taxes Receivable, net	1,565,852	-0-	1,565,852
Internal Balances	35,262	(35,262)	-0-
Due from Other Governments	3,562,443	18,518	3,580,961
Other Receivables	27,037	18,145	45,182
Inventories	-0-	62,002	62,002
Total Current Assets	<u>22,070,448</u>	<u>1,839,787</u>	<u>23,910,235</u>
Noncurrent Assets			
Land	682,029	-0-	682,029
Land Improvements, net of Accumulated Depreciation	2,423,482	-0-	2,423,482
Buildings, net of Accumulated Depreciation	64,443,557	-0-	64,443,557
Furniture, Fixtures, and Equipment, net of Accumulated Depreciation	532,685	400,897	933,582
Vehicles, net of Accumulated Depreciation	119,657	17,645	137,302
Construction in Progress	191,621	-0-	191,621
Total Noncurrent Assets	<u>68,393,031</u>	<u>418,542</u>	<u>68,811,573</u>
TOTAL ASSETS	<u>90,463,479</u>	<u>2,258,329</u>	<u>92,721,808</u>
DEFERRED OUTFLOWS OF RESOURCES			
Bond Insurance Costs, net of Accumulated Amortization	277,495	-0-	277,495
Loss on Bond Refunding, net of Accumulated Amortization	78,672	-0-	78,672
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 356,167</u>	<u>\$ -0-</u>	<u>\$ 356,167</u>

See notes to financial statements.

Lebanon School District

STATEMENT of NET POSITION

(Continued)

June 30, 2014

	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 564,079	\$ 2,984	\$ 567,063
Current Portion of Long-Term Debt	2,850,000	-0-	2,850,000
Current Portion of Earned Income Tax Settlement Payable	32,609	-0-	32,609
Accrued Salaries and Benefits	3,183,976	-0-	3,183,976
Accrued Interest on Long-Term Debt	385,653	-0-	385,653
Payroll Deductions and Withholdings	1,372,187	-0-	1,372,187
Deferred Revenues	<u>6,152</u>	<u>10,357</u>	<u>16,509</u>
Total Current Liabilities	8,394,656	13,341	8,407,997
Noncurrent Liabilities			
Bonds Payable, net of Amortized Discount	58,670,822	-0-	58,670,822
Earned Income Tax Settlement Payable	195,653	-0-	195,653
Compensated Absences	1,027,440	13,322	1,040,762
Net Other Postemployment Benefit (OPEB) Liability	<u>779,886</u>	<u>-0-</u>	<u>779,886</u>
Total Noncurrent Liabilities	<u>60,673,801</u>	<u>13,322</u>	<u>60,687,123</u>
TOTAL LIABILITIES	<u>69,068,457</u>	<u>26,663</u>	<u>69,095,120</u>
NET POSITION			
Net Investment in Capital Assets	6,872,209	418,542	7,290,751
Restricted	63,682	-0-	63,682
Unrestricted	<u>14,815,298</u>	<u>1,813,124</u>	<u>16,628,422</u>
TOTAL NET POSITION	<u>\$ 21,751,189</u>	<u>\$ 2,231,666</u>	<u>\$ 23,982,855</u>

See notes to financial statements.

Lebanon School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 34,809,562	\$ 27,391	\$ 11,080,636	\$ -0-	\$ (23,701,535)	\$ -0-	\$ (23,701,535)
Instructional Student Support	5,923,736	-0-	1,572,796	-0-	(4,350,940)	-0-	(4,350,940)
Administrative and Financial							
Support Services	4,946,693	-0-	478,298	-0-	(4,468,395)	-0-	(4,468,395)
Operation and Maintenance of							
Plant Services	5,395,359	30,359	369,046	-0-	(4,995,954)	-0-	(4,995,954)
Pupil Transportation	1,216,775	-0-	608,458	-0-	(608,317)	-0-	(608,317)
Student Activities	1,206,125	43,085	86,740	-0-	(1,076,300)	-0-	(1,076,300)
Community Services	5,574	-0-	6,439	-0-	865	-0-	865
Interest on Long-Term Debt	<u>2,786,975</u>	<u>-0-</u>	<u>-0-</u>	<u>1,741,611</u>	<u>(1,045,364)</u>	<u>-0-</u>	<u>(1,045,364)</u>
Total Governmental							
Activities	56,290,799	100,835	14,202,413	1,741,611	(40,245,940)	-0-	(40,245,940)
Business-Type Activities:							
Food Service	<u>2,918,048</u>	<u>472,051</u>	<u>2,628,895</u>	<u>-0-</u>	<u>-0-</u>	<u>182,898</u>	<u>182,898</u>
Total Government	<u>\$ 59,208,847</u>	<u>\$ 572,886</u>	<u>\$ 16,831,308</u>	<u>\$ 1,741,611</u>	<u>\$ (40,245,940)</u>	<u>\$ 182,898</u>	<u>\$ (40,063,042)</u>

See notes to financial statements.

Lebanon School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Position		
		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, net					\$ 16,262,883	\$ -0-	\$ 16,262,883
Public Utility Realty, Earned Income, Occupation and Per Capita Taxes Levied for General Purposes, net					1,972,778	-0-	1,972,778
Unrestricted Grants and Subsidies					25,964,495	-0-	25,964,495
Unrestricted Investment Earnings					9,252	2,499	11,751
Miscellaneous Income					133,343	976	134,319
Gain on Capital Asset Dispositions					-0-	-0-	-0-
Total General Revenues					44,342,751	3,475	44,346,226
CHANGES in NET POSITION					4,096,811	186,373	4,283,184
NET POSITION							
Beginning, As Originally Stated					19,176,456	1,744,301	20,920,757
Prior Period Adjustment (Note 18)					(1,522,078)	300,992	(1,221,086)
Beginning, Restated					17,654,378	2,045,293	19,699,671
Ending					\$ 21,751,189	\$ 2,231,666	\$ 23,982,855

See notes to financial statements.

Lebanon School District
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	Major Fund		Nonmajor Governmental Funds	Total Governmental Funds
	General Fund			
ASSETS				
Cash and Cash Equivalents	\$ 446,783		\$ 47,959	\$ 494,742
Investments	16,369,389		15,723	16,385,112
Taxes Receivable, net	1,565,852		-0-	1,565,852
Due from Other Funds	35,262		-0-	35,262
Due from Other Governments	3,562,443		-0-	3,562,443
Other Receivables	27,037		-0-	27,037
TOTAL ASSETS	22,006,766		63,682	22,070,448
LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES				
LIABILITIES				
Accounts Payable	564,079		-0-	564,079
Accrued Salaries and Benefits	3,183,976		-0-	3,183,976
Payroll Deductions and Withholdings	1,372,187		-0-	1,372,187
Deferred Revenues	6,152		-0-	6,152
TOTAL LIABILITIES	5,126,394		-0-	5,126,394
DEFERRED INFLOWS of RESOURCES				
Delinquent Real Estate Taxes	1,126,887		-0-	1,126,887
FUND BALANCES				
Restricted	-0-		63,682	63,682
Committed	228,262		-0-	228,262
Assigned	6,000,000		-0-	6,000,000
Unassigned	9,525,223		-0-	9,525,223
TOTAL FUND BALANCES	15,753,485		63,682	15,817,167
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES	\$ 22,006,766		\$ 63,682	\$ 22,070,448

See notes to financial statements.

Lebanon School District
 RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
 to the STATEMENT of NET POSITION
 June 30, 2014

Total Fund Balances - Governmental Funds \$ 15,817,167

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 \$88,726,411, and the accumulated depreciation is \$20,333,380. 68,393,031

Property and other 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. 1,126,887

Certain accrued obligations not expected to be liquidated with expendable available financial resources are not reported as liabilities in the fund financial statements. (228,262)

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	(61,480,000)
Accrued Interest on Long-Term Debt	(385,653)
Bond Issue Costs and Loss on Refunding, net of Amortization	356,167
Bond Discount, net of Amortization	(40,822)
Accrued Other Postemployment Benefit (OPEB) Liability	(779,886)
Compensated Absences	<u>(1,027,440)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 21,751,189**

See notes to financial statements.

Lebanon School District

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

Year Ended June 30, 2014

	Major Fund		Nonmajor Governmental Funds	Total Governmental Funds
	General Fund			
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 14,346,242	\$	-0-	\$ 14,346,242
Other Taxes	1,852,319		-0-	1,852,319
Investment Earnings	8,718		535	9,253
Other Revenue	2,186,320		33,103	2,219,423
Total Local Sources	18,393,599		33,638	18,427,237
State Sources	37,123,671		-0-	37,123,671
Federal Sources	4,662,658		-0-	4,662,658
Total Revenues	60,179,928		33,638	60,213,566
EXPENDITURES				
Instructional Services	33,579,634		-0-	33,579,634
Support Services	17,118,264		207,930	17,326,194
Noninstructional Services	1,179,805		-0-	1,179,805
Capital Outlay	656,251		-0-	656,251
Refund of Prior Year Revenue	79,717		-0-	79,717
Debt Service	5,143,619		55,805	5,199,424
Total Expenditures	57,757,290		263,735	58,021,025
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES				
	2,422,638		(230,097)	2,192,541
OTHER FINANCING SOURCES (USES)				
Refunding Bond Proceeds	-0-		7,980,000	7,980,000
Debt Service (Payment to Bond Escrow Agent)	-0-		(7,855,000)	(7,855,000)
Bond Premium on Refunding Bond Proceeds	-0-		89,772	89,772
Transfers In (Out)	(350,857)		350,857	-0-
Net Other Financing Sources	(350,857)		565,629	214,772
NET CHANGES in FUND BALANCES				
	2,071,781		335,532	2,407,313
FUND BALANCES				
Beginning	13,681,704		(271,850)	13,409,854
Ending	\$ 15,753,485		\$ 63,682	\$ 15,817,167

See notes to financial statements.

Lebanon 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, 2014

Total Net Changes in Fund Balances - Governmental Funds \$ 2,407,313

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

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

Depreciation Expense	(1,916,761)	
Capital Outlays	<u>779,476</u>	(1,137,285)

Because some revenues 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 revenues increased by this amount this year. 141,434

In the statement of activities, certain accrued obligations not expected to be liquidated with expendable available financial resources are recorded when the liability is incurred. In the fund financial statements, these liabilities are recorded when they are due. 296,609

The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items. (8,061,506)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 10,410,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. 8,150

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. \$ 40,553

See notes to financial statements.

Lebanon 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, 2014

In the statement of activities, certain operating expenses (e.g., other postemployment benefits) 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.

\$ (8,457)

CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES

\$ 4,096,811

See notes to financial statements.

Lebanon School District

STATEMENT of NET POSITION -

PROPRIETARY FUND

June 30, 2014

	<u>Enterprise Fund</u>
	<u>Food Service</u>
	<u>Fund</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 1,776,384
Accounts Receivable, net	18,145
Due from Other Governments	18,518
Inventories	62,002
Total Current Assets	1,875,049
Noncurrent Assets	
Equipment and Vehicles, net of Accumulated Depreciation	<u>418,542</u>
TOTAL ASSETS	<u><u>2,293,591</u></u>
LIABILITIES	
Current Liabilities	
Accounts Payable	2,984
Due to Other Funds	35,262
Deferred Revenues	10,357
Total Current Liabilities	48,603
Noncurrent Liabilities	
Compensated Absences	<u>13,322</u>
TOTAL LIABILITIES	<u><u>61,925</u></u>
NET POSITION	
Net Investment in Capital Assets	418,542
Unrestricted	1,813,124
TOTAL NET POSITION	<u><u>\$ 2,231,666</u></u>

See notes to financial statements.

Lebanon School District

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

PROPRIETARY FUND

Year Ended June 30, 2014

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
OPERATING REVENUES	
Food Service Revenue	\$ 472,051
Miscellaneous	976
Total Operating Revenues	473,027
OPERATING EXPENSES	
Salaries	334,935
Employee Benefits	212,696
Purchased Professional and Technical Services	9,360
Other Purchased Services	854,429
Repairs and Maintenance	36,377
Supplies	1,421,762
Depreciation	48,489
Total Operating Expenses	2,918,048
OPERATING LOSS	(2,445,021)
NONOPERATING REVENUES	
Investment Earnings	2,499
State Sources	155,961
Federal Sources	2,472,934
Total Nonoperating Revenues	2,631,394
CHANGES in NET POSITION	186,373
NET POSITION	
Beginning, As Originally Stated	1,744,301
Prior Period Adjustment (Note 18)	300,992
Beginning, Restated	2,045,293
Ending	<u>\$ 2,231,666</u>

See notes to financial statements.

Lebanon School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUND

Year Ended June 30, 2014

	Enterprise Fund
	Food Service Fund
CASH FLOWS from OPERATING ACTIVITIES	
Cash Received from Users	\$ 486,430
Cash Payments to Employees for Services	(545,948)
Cash Payments to Suppliers for Goods and Services	<u>(2,013,378)</u>
Net Cash Used by Operating Activities	(2,072,896)
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES	
Cash Payments for Purchase of Capital Assets	(6,905)
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES	
State Sources	157,382
Federal Sources	<u>2,392,812</u>
Net Cash Provided by Noncapital Financing Activities	2,550,194
CASH FLOWS from INVESTING ACTIVITIES	
Investment Earnings	<u>2,499</u>
INCREASE in CASH and CASH EQUIVALENTS	472,892
CASH and CASH EQUIVALENTS	
Beginning of Year	<u>1,303,492</u>
End of Year	<u>1,776,384</u>
RECONCILIATION of OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES	
Operating Loss	(2,445,021)
ADJUSTMENTS to RECONCILE OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES	
Depreciation	48,489
Donated Commodities Used	105,954
Increase in Accounts Receivable	14,548
Decrease in Due from Other Funds	4,115
Increase in Inventory	(21,282)
Decrease in Prepaid Expenses	228,609
Increase in Accounts Payable	(5,707)
Increase in Due to Other Funds	(3,834)
Decrease in Accrued Salaries and Benefits	1,402
Increase in Deferred Revenues	<u>(169)</u>
Total Adjustments	<u>372,125</u>
Net Cash Used by Operating Activities	<u>\$ (2,072,896)</u>

See notes to financial statements.

Lebanon School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUND

(Continued)

Year Ended June 30, 2014

Enterprise Fund
Food Service
Fund

SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION

NONCASH NONCAPITAL FINANCING ACTIVITIES

Receipt of USDA Donated Commodities

113,265

Use of USDA Donated Commodities

(105,954)

See notes to financial statements.

Lebanon School District
 STATEMENT of NET POSITION -
 FIDUCIARY FUNDS
 June 30, 2014

	Private Purpose Trust	Agency Fund
ASSETS		
Cash and Cash Equivalents	<u>\$ 280,610</u>	<u>\$ 155,760</u>
LIABILITIES		
Other Current Liabilities	<u>-0-</u>	<u>155,760</u>
NET POSITION		
Restricted for Scholarships	<u>\$ 280,610</u>	<u>\$ -0-</u>

See notes to financial statements.

Lebanon School District
 STATEMENT of CHANGES in NET POSITION -
 FIDUCIARY FUND
 Year Ended June 30, 2014

	Private Purpose Trust
ADDITIONS	
Investment Earnings	\$ 576
Gifts and Contributions	<u>5,216</u>
Total Additions	5,792
DEDUCTIONS	
Scholarships Awarded	<u>17,966</u>
CHANGES in NET POSITION	(12,174)
NET POSITION	
Beginning	<u>292,784</u>
Ending	<u>\$ 280,610</u>

See notes to financial statements.

Lebanon School District
NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Lebanon School District, located in Lebanon County, Pennsylvania, provides a full range of educational services appropriate to children grade K4 through grade 12 living in Lebanon City and West Lebanon Township. These include regular, advanced academic, and 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 five elementary schools, one middle school, and one high school, serving approximately 4,800 students.

The accounting policies of **Lebanon School District** conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The following is a summary of the School District's significant accounting policies:

Reporting Entity

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

The School District is financially accountable for:

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

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

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

3. Organizations 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, the accounts of the Cedar Foundation, the Educational Foundation of the **Lebanon School District**, are included as a public purpose trust fund in the accompanying financial statements.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

Lebanon County Career and Technology Center

The School District is one of six member school districts of the Lebanon County Career and Technology Center (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 Lebanon 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 in the year ended June 30, 2014, was approximately \$817,793 which has been reported in the School District's general fund. Complete financial statements for LCCTC can be obtained from the Administrative Office at 833 Metro Drive, Lebanon, PA 17042.

Lebanon County Area Career and Technology Center Authority

The School District is also a member of the Lebanon County Area Career and Technology Center Authority (Authority). In 1965, the Authority entered into an agreement with the member school districts and the Lebanon County Career and Technology Center (LCCTC) to acquire land and construct buildings to provide the facilities for the operation of LCCTC. In February 2001, the Authority entered into an additional agreement with the same parties to provide funding for the upgrading and modernization of the LCCTC facilities. The School District has an ongoing financial responsibility to the Authority for a portion of the debt obligations relating to these improvements. The School District's lease payment to the Authority for the year ended June 30, 2014, was \$22,471 which has been reported in the School District's general fund. The balance of the School District's share of these obligations at June 30, 2014, was \$2,083,470. As indicated in Note 16, the Authority refinanced its debt in August 2013, and the School District's future obligation was revised as a result of this refinancing. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 833 Metro Drive, Lebanon, PA 17042.

Lancaster-Lebanon Joint Authority

The School District is a member in 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, 2014. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member districts' Boards of Directors. **Lebanon 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. **Lebanon School District** contracts with the LLIU for special education and other professional services for School District students. The amount paid for these services, including services paid with pass-through federal funds, in the year ended June 30, 2014, was approximately \$2,329,921. The LLIU also purchases meals from the School District for students who attend certain of its programs in the Lebanon area. The amount paid by the LLIU to the School District for these services in the year ended June 30, 2014, was approximately \$255,429 (recognized as food service revenue in the food service fund). At June 30, 2014, \$339,386 was receivable from LLIU (including amounts due for pass-through funds). Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

**Lebanon County Tax Collection Committee (Committee)
(Formerly: Lebanon County Earned Income Tax Bureau)**

The School District participates with five other school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee with an equal number of five municipal representatives. The Committee's operating expenditures are deducted from the distributions which are made weekly. The Committee has contracted for the county-wide collection of earned income tax and several county taxing bodies' real estate and personal taxes with Keystone Municipal Collections. Financial information for the Committee can be obtained by a request to Tax Collection Committee, 105 East Evergreen Road, Lebanon, PA 17042.

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 position 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. 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. 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 as well as deferred inflows and outflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. 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 fund:

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 accounted for in another fund.

Lebanon 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 reports the following nonmajor governmental funds:

Capital Project 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 certain general long-term debt principal and interest.

Public Purpose Trust Fund - The public purpose trust fund accounts for contributions and maintains the principal and earnings on invested principal balances in trust arrangements for school purposes. The activities of the Cedar Foundation are recorded in this fund.

The School District reports the following major proprietary fund:

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

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, deferred inflows and outflows or resources, 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.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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, 2014, which are not intended to finance fiscal 2014 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.

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 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. The School District may elect to selectively spend unassigned balances first to defer use of these classified balances.

Cash and Cash Equivalents

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

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are recorded at market value.

Taxes Receivable and Deferred 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 inflows of resources. All taxes receivable are considered to be fully collectible (Note 4).

Inventories

There is no inventory recorded in the general fund. Items such as textbooks, office supplies, and cleaning materials are expensed as incurred.

Inventories in the food service fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2014. Any unused commodities donated by the federal government at June 30, 2014, were reported as deferred revenues since title does not pass to the School District until the commodities are used.

Capital Assets and Depreciation

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

School Buildings & Improvements	25 - 50 Years
Land Improvements	20 Years
Furniture, Fixtures, and Equipment	5 - 20 Years
Vehicles	8 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 position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. They are re-categorized as loss on bond refinancing in the event that debt is refinanced. Amortization continues over the life of the new or refinanced debt, whichever is shorter.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

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

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

Additional amounts are accrued for salary-related payments associated with the payment of compensated absences using the rates in effect at the balance sheet date. The School District has accrued the employer's share of social security and Medicare taxes.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. Encumbrances outstanding at year end are included with committed or assigned fund balances, as appropriate, because they do not constitute expenditures or liabilities. As of June 30, 2014, 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, 2014, 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.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

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 government 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.

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 typically considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. However, the School District reserves the right to selectively spend unassigned resources first to defer the use of the classified balances.

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. Neither type of transaction occurred during fiscal year 2014.

Current Year Changes in Accounting Principles

During the current year, the School District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for the School District's June 30, 2014 financial statements. The significant effects are as follows: (1) the School District's effected unamortized deferred bond issuance costs not related to bond insurance as of June 30, 2013 were written off in a beginning balance restatement of the governmental activities, (2) the School District's loss on bond refinancings has been reclassified to a deferred outflow of resources of the governmental activities, and (3) the general fund's delinquent real estate deferred revenue is now presented as a deferred inflow of resources in that fund.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Year Changes in Accounting Principles (Continued)

During the current year, the School District adopted GASB Statement No. 66, *Technical Corrections, an Amendment of GASB Statements No. 10 and 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*.

During the current year, the School District adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

Pending Changes in Accounting Principles

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this statement are effective for the School District's June 30, 2015 financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of governmental operations. The provisions of this statement are effective for the School District's June 30, 2015 financial statements.

In November 2013, the GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of this statement are effective for the School District's June 30, 2015 financial statements.

The effects of implementation of these standards have not yet been determined.

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.

Lebanon School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

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

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 deposits and investments of the School District adhere to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes of the School District.

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk although the public school code requires that all deposits of the School District which are not insured are collateralized by the depository institution. As of June 30, 2014, \$2,887,784 of the School District's bank balance of \$3,137,784 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>2,887,784</u>
	2,887,784

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	2,887,784
Plus: Insured Amount	<u>250,000</u>
Bank Balance	3,137,784
Outstanding Checks	<u>(430,948)</u>
Carrying Amount - Bank Balances	2,706,836
Petty Cash	<u>660</u>
Total Cash and Cash Equivalents Per Financial Statements	2,707,496

Investments

As of June 30, 2014, the School District had the following investments:

Investments	Fair Value
PA Local Government Investment Trust	16,369,389
US Treasuries	14,916
Wells Fargo Bank Stock	<u>807</u>
	16,385,112

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.

Lebanon 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, 2014, the School District investments were rated as:

Investments	Standard & Poor's
PA Local Government Investment Trust	AAAm

Concentration of Credit Risk

The School District places no limit on the amount they may invest in any one issuer. Investments that exceed 5% of the reporting unit's total investments, excluding federal government secured investments are as follows:

Governmental Activities:	
PA Local Government Investment Trust	100%
General Fund:	
PA Local Government Investment Trust	100%
Capital Project Fund:	
PA Local Government Investment Trust	100%
Debt Service Fund:	
US Treasuries	100%
Public Purpose Trust Fund:	
Wells Fargo Bank Stock	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 tax collectors bill and collect property taxes on behalf of the School District. The School District tax rate for the year ended June 30, 2014, was 18.05 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2014, 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 (Lebanon County Tax Collection Committee)

Lebanon 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. 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, 2014, are as follows:

	Taxes Receivable	Estimated Uncollectible	Net Taxes Receivable	Revenue Recognized	Deferred Revenues
Real Estate Taxes	1,206,188	-0-	1,206,188	112,952	1,093,236
Interim Real Estates Taxes	985	-0-	985	985	-0-
Per Capita Taxes	168,256	134,605	33,651	-0-	33,651
Local Services Taxes	9,687	-0-	9,687	9,687	-0-
Realty Transfer Taxes	12,586	-0-	12,586	12,586	-0-
Earned Income Taxes	<u>302,755</u>	<u>-0-</u>	<u>302,755</u>	<u>302,755</u>	<u>-0-</u>
	1,700,456	134,605	1,565,852	438,965	1,126,887

NOTE 5 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2014, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	35,262	-0-
Food Service Fund	<u>-0-</u>	<u>35,262</u>
	35,262	35,262

Interfund balances exist due to the timing of transfers and reimbursements between the respective funds.

A transfer is pending from the food service fund to the general fund to pay for costs of the food service fund paid with general fund monies.

Interfund transfers for the year ended June 30, 2014, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	350,857
Capital Project Fund	346,195	-0-
Debt Service Fund	<u>4,662</u>	<u>-0-</u>
	350,857	350,857

Transfers from the general fund to the debt service fund were made for purposes of mandatory sinking fund deposits. Transfers from the general fund to the capital project fund were made to restore the fund balance.

Lebanon School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 6 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2014, the following amounts are due from other governmental units:

Due From	General Fund	Food Service Fund
Federal Grants	922,626	18,518
State Debt Service Reimbursement	801,798	-0-
State Retirement Subsidy	1,273,779	-0-
State FICA Subsidy	181,324	-0-
Other State and Local Subsidies	<u>382,916</u>	<u>-0-</u>
	3,562,443	18,518

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Historical Cost:				
Capital Assets not Being				
Depreciated:				
Land	682,029	-0-	-0-	682,029
Construction in Progress	<u>625,975</u>	<u>296,846</u>	<u>731,200</u>	<u>191,621</u>
Total Cost	1,308,004	296,846	731,200	873,650
Capital Assets Being				
Depreciated:				
Land Improvements	4,686,392	-0-	-0-	4,686,392
School Buildings	81,207,952	731,200	56,000	81,883,152
Furniture, Fixtures, and				
Equipment	816,623	78,749	-0-	895,372
Vehicles	<u>368,964</u>	<u>18,881</u>	<u>-0-</u>	<u>387,845</u>
Total Cost	87,079,931	828,830	56,000	87,852,761
Accumulated Depreciation:				
Land Improvements	2,031,985	230,925	-0-	2,262,910
School Buildings	15,927,763	1,567,832	56,000	17,439,595
Furniture, Fixtures, and				
Equipment	271,451	91,236	-0-	362,687
Vehicles	<u>241,420</u>	<u>26,768</u>	<u>-0-</u>	<u>268,188</u>
Total Accumulated				
Depreciation	18,472,619	1,916,761	56,000	20,333,380
Net Capital Assets Being				
Depreciated	68,607,312	(1,087,931)	-0-	67,519,381

Lebanon School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Net Capital Assets	69,915,316	(791,085)	731,200	68,393,031

Capital asset activity for business-type activities for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Historical Cost:				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	648,272	6,905	-0-	655,177
Vehicles	<u>40,331</u>	<u>-0-</u>	<u>-0-</u>	<u>40,331</u>
Total Cost	688,603	6,905	-0-	695,508
 Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	210,832	43,448	-0-	254,280
Vehicles	<u>17,645</u>	<u>5,041</u>	<u>-0-</u>	<u>22,686</u>
Total Accumulated Depreciation	228,477	48,489	-0-	276,966
Net Capital Assets	460,126	(41,584)	-0-	418,542

Depreciation expenses were charged to governmental functions as follows:

Instruction	1,245,282
Instructional Student Support	183,062
Administrative and Financial Support Services	183,281
Operation and Maintenance of Plant Services	229,333
Pupil Transportation	38,395
Student Activities	<u>37,408</u>
	1,916,761

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2014, the School District was liable for \$2,564,662 of payroll, which is payable during July and August 2014, 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, 2014, and to retiring professional employees who are receiving a payout of their accumulated compensated absences and bonuses.

The School District was also liable for the following benefits on payroll paid prior to or accrued as of June 30, 2014.

Lebanon School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 8 - ACCRUED SALARIES and BENEFITS (Continued)

Accrued salaries and benefits as of June 30, 2014, are as follows:

Accrued Salaries	2,564,662
Accrued Benefits:	
Retirement	431,163
Social Security	<u>188,151</u>
	3,183,976

NOTE 9 - DEFERRED REVENUES

Deferred revenues consists of the following as of June 30, 2014:

	General Fund	Food Service Fund
Deferred Grant Revenue	6,152	-0-
Prepaid Lunch Sales	<u>-0-</u>	<u>10,357</u>
	6,152	10,357

NOTE 10 - LONG-TERM DEBT

General Obligation Debt

The School District issues general obligation bonds and notes 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. Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2014, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2014
Series A of 2009	June 15, 2024	2.50% - 4.15%	8,820,000
Series AA of 2009	June 15, 2024	2.50% - 4.15%	5,190,000
Series B of 2010	March 1, 2029	6.495%	15,000,000
Series of 2011	June 15, 2024	2.00% - 3.375%	8,145,000
Series of 2012	June 15, 2033	2.50% - 4.00%	13,890,000
Series of 2013	June 15, 2024	1.25% - 2.25%	3,015,000
Series of 2014	June 15, 2024	2.00% - 2.875%	<u>7,420,000</u>
			61,480,000

On December 15, 2006, the General Obligation Bonds, Series of 2006, were issued in the aggregate principal amount of \$8,500,000 for the costs of acquiring, designing, constructing, furnishing and equipping additions, improvements and renovations to the Southeast Elementary School and the Southwest Elementary School and paying the costs of issuing the bonds. The School District refunded these bonds during the current year with the proceeds of the General Obligation Bonds, Series 2014.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

On June 15, 2009, the General Obligation Bonds, Series A of 2009, were issued in the aggregate principal amount of \$9,500,000 for the costs of planning, designing, acquiring, constructing, furnishing and equipping alterations, additions, improvements and renovations to the existing Lebanon Senior High School and paying the costs of issuing the bonds. The principal amount of the Series A of 2009 Bonds outstanding at June 30, 2014, was \$8,820,000 and is due in various amounts as described in the indenture through June 2024. Principal due within one year is \$670,000. The interest rate varies from 2.50% to 4.15%.

On June 15, 2009, the General Obligation Bonds, Series AA of 2009, were issued in the aggregate principal amount of \$12,995,000 and were used to (1) currently refund the School District's General Obligation Notes, Series of 2002, (2) currently refund the School District's General Obligation Notes, Series of 2003, (3) currently refund the School District's General Obligation Bonds, Series B of 2003, (4) currently refund the School District's General Obligation Bonds, Series of 2004, and (5) pay the costs of issuing the bonds. The principal amount of the Series AA of 2009 Bonds outstanding at June 30, 2014, was \$5,190,000 and is due in various amounts as described in the indenture through June 2024. Principal due within one year is \$865,000. The interest rate varies from 2.50% to 4.15%.

On December 8, 2010, the General Obligation Notes, Series B of 2010, were issued for the costs of planning, designing, acquiring, constructing, furnishing and equipping alterations, additions, improvements and renovations to the existing Lebanon Senior High School and paying the costs of issuing the notes. The notes with a principal amount of \$15,000,000 were an allocation from the State Public School Building Authority Federally Taxable Revenue Bonds, Series B of 2010, which is a Qualified School Construction Bond Program under the American Recovery & Reinvestment Act (ARRA) of 2009. The principal amount of Series B of 2010 Notes outstanding at June 30, 2014, was \$15,000,000. As described in the indenture, the School District is required to make deposits to a mandatory sinking fund due in various amounts through March 2029. The mandatory sinking fund deposits are recorded as investments in the debt service fund and at the time of maturity the sinking fund deposits will be used to pay the principal of the notes. The interest rate is 6.495% and is subsidized by federal revenue.

On September 20, 2011, the General Obligation Bonds, Series of 2011 were issued in the aggregate principal amount of \$9,245,000 to be used towards the current refunding of the School District's outstanding General Obligation Bonds Capital Project Series, Subseries of 2005 and for the payment of bond issuance costs. The principal amount of the Series of 2011 Bonds outstanding at June 30, 2014, was \$8,145,000 and is due in various amounts as described in the indenture through June 2024. Principal due within one year is \$670,000. The interest rate varies from 2.00% to 3.375%.

On January 17, 2012, the General Obligation Bonds, Series of 2012 were issued in the aggregate principal amount of \$13,900,000 to fund costs related to planning, designing, acquiring, constructing, furnishing and equipping alterations, additions, renovations, and improvements to the existing Lebanon Senior High School, and for the payment of bond issuance costs. The principal amount of the Series of 2012 Bonds outstanding at June 30, 2014, was \$13,890,000 and is due in various amounts as described in the indenture through June 2033. Principal due within one year is \$5,000. The interest rate varies from 2.50% to 4.00%.

Lebanon School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

On February 19, 2013, the General Obligation Bonds, Series of 2013 were issued in the aggregate principal amount of \$3,055,000 to be used towards the current refunding of the School District's outstanding General Obligation Bonds Capital Project Series, Series of 2007 and for the payment of bond issuance costs. The principal amount of the Series of 2013 Bonds outstanding at June 30, 2014, was \$3,015,000 and is due in various amounts as described in the indenture through June 2024. Principal due within one year is \$30,000. The interest rate varies from 1.25% to 2.25%.

On February 13, 2014, the General Obligation Bonds, Series of 2014 were issued in the aggregate principal amount of \$7,980,000 to be used towards the current refunding of the School District's outstanding General Obligation Bonds Capital Project Series, Series of 2006 and for the payment of bond issuance costs. The principal amount of the Series of 2014 Bonds outstanding at June 30, 2014, was \$7,420,000 and is due in various amounts as described in the indenture through June 2024. Principal due within one year is \$610,000. The interest rate varies from 2.00% to 2.875%. As a result of this refunding, the School District reduced its total debt service requirements by \$405,151, which resulted in an economic gain of approximately \$354,000.

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
General Obligation Debt	63,910,000	7,980,000	10,410,000	61,480,000
Bond Premium, net of				
Bond Discount	(24,328)	89,772	24,622	40,822
Earned Income Tax				
Settlement Payable	260,871	-0-	32,609	228,262
Estimated Liability for				
Compensated Absences	1,067,993	-0-	40,553	1,027,440
Net Other Postemployment				
Benefit (OPEB) Liability	<u>771,429</u>	<u>8,457</u>	<u>-0-</u>	<u>779,886</u>
	65,985,965	8,078,229	10,507,784	63,556,410

The general fund is used to liquidate long-term liabilities.

Lebanon School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

As of June 30, 2014, the School District has made deposits of \$15,000 to a sinking fund designated for payment of the General Obligation Notes, Series B of 2010, at maturity. The following schedule reveals the remaining aggregate annual debt service requirements and mandatory sinking fund deposits to maturity for the general obligation debt:

Year Ending June 30	Interest	Principal	Sinking Fund Deposits	Total
2015	2,473,792	2,850,000	5,000	5,328,792
2016	2,403,920	2,925,000	5,000	5,333,920
2017	2,329,005	3,000,000	5,000	5,334,005
2018	2,247,117	3,160,000	5,000	5,412,117
2019	2,164,642	3,245,000	5,000	5,414,642
2020-2024	9,320,368	17,460,000	240,000	27,020,368
2025-2029	6,988,394	1,940,000	14,720,000	23,648,394
2030-2033	<u>1,213,000</u>	<u>11,900,000</u>	<u>-0-</u>	<u>13,113,000</u>
	29,140,238	46,480,000	14,985,000	90,605,238

NOTE 11 - COMPENSATED ABSENCES

A summary of the amount recorded as a liability in the governmental activities and business-type activities for compensated absences is as follows as of June 30, 2014:

	Governmental Activities	Business-Type Activities
Accumulated Sick Leave	859,728	12,831
Accumulated Vacation Leave	94,842	-0-
Accumulated Personal Leave	60,024	-0-
Employer Social Security and Medicare on Leave Amounts Above	<u>12,846</u>	<u>491</u>
	1,027,440	13,322

NOTE 12 - 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.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 12 - FUND BALANCE CLASSIFICATIONS (Continued)

At June 30, 2014, the School District has the following restricted balances:

Public Purpose Trust Fund:	
Restricted for Land Development, Scholarships and Educational Purposes	48,766
Debt Service Fund:	
Restricted for Debt Service	14,916

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the School Board. At June 30, 2014, the School District has included the following as committed fund balances:

General Fund:	
Committed for Payment of Overpaid EIT Funds as Calculated Under the Grumbine Plan	228,262

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 body to which the governing body delegates the authority. At June 30, 2014, the School District has the following assigned fund balances:

General Fund:	
Assigned for Potential Building and Systems Replacements	6,000,000

NOTE 13 - RISK MANAGEMENT

Health

The School District has a fully-insured health plan covering all full-time employees.

Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for sixteen 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 reinsurance 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, 2014, the School District is not aware of any additional assessments relating to the Fund.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 13 - RISK MANAGEMENT (Continued)

Other Risks

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2014, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 14 - 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 health care insurance premium assistance to qualifying annuitants. 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 Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. The CAFR is also available on the publications page of the PSERS website.

Funding Policy

The contribution policy is set by the Code and requires contributions by active employees, by participating employers, and the Commonwealth. Plan members may belong to four membership classes. Class T-C, Class T-D, Class T-E and Class T-F are available to plan members. Active members who joined the system prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the system on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the system after June 30, 2001, and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the system after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)

The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period for which the amount is determined. For fiscal year ended June 30, 2014, the rate of employer contribution was 16.93% of covered payroll. The 16.93% rate is comprised of a pension contribution rate of 16.00% for pension benefits and .93% for health insurance premium assistance. The School District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth of Pennsylvania in an amount equal to the Commonwealth of Pennsylvania'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. **Lebanon School District's** contributions to PSERS for the years ending June 30, 2014, 2013, and 2012, were \$4,476,513, \$3,294,571, and \$2,174,722, respectively. Those amounts are equal to the required contribution for each year.

NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The School District follows 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, the statement of net position reflects a long-term liability and related expenses of \$779,886.

The School District maintains a single employer defined benefit plan to provide postemployment health benefits to School District employees who, in most cases, have retired with at least five years of PSERS service or attained age 62 or older with at least one year of PSERS service. Such benefits are available to retirees and retiree dependents until the retired employee reaches age 65, provided the retired employee provides payment equal to the premium determined for the purpose of COBRA.

The plan does not issue a stand-alone financial report.

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.

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 the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years.

Lebanon School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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	694,626
Interest on OPEB Obligation	34,714
Adjustment to Annual Required Contribution	<u>(84,599)</u>
Annual OPEB Cost	644,741
Contributions Made (Estimated)	<u>(636,284)</u>
Estimated Increase in Net OPEB Obligation	8,457
Net OPEB Obligation - Beginning of Year	<u>771,429</u>
Net OPEB Obligation - End of Year	779,886

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013, and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation - End of Year
6/30/2012	746,042	78%	734,432
6/30/2013	647,134	94%	771,429
6/30/2014	644,741	99%	771,429

Funding Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled \$4,675,798, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,675,798. The covered payroll (annual payroll of active employees covered by the plan) equaled \$21,924,382, and the ratio of the UAAL to the covered payroll equaled 21.33%.

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 health care 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 schedule of funding progress, presented as RSI following the notes to the financial statements, is 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.

Lebanon School District
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS (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, 2012, 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 postemployment medical benefits. Actuarial assumptions included an interest rate of 4.5% per annum, medical inflation of 7.5% in 2012, decreasing by 0.5% per year to 5.5% in 2016, and then gradually decreasing from 5.3% in 2017 to 4.2% in 2089 and later.

NOTE 16 - OPERATING LEASES

In May 2008, Lease Revenue Bonds, Series of 2008 were issued by the Lebanon County Area Career and Technology Center Authority (Authority) to provide funds for upgrading and modernization of the Lebanon County Career and Technology Center (LCCTC) facilities. The LCCTC Board and six member school districts have entered into a lease agreement with the Authority and each school district will pay its proportionate share of the lease rentals in order to fund the Lease Revenue Bonds. In August 2013, the Authority refinanced the 2008 bonds. The minimum future rental payment schedule below reflects the changes to the School District's lease rental as a result of this refinancing.

In July 2011, the School District entered into an agreement to lease all School District copiers from a vendor. The 60 month lease requires the School District to make monthly lease payments of \$7,625. The School District's total lease expense incurred related to this agreement for the year ended June 30, 2014, was \$91,501.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2014, for each of the next five years and in the aggregate are as follows:

2015	199,891
2016	200,690
2017	109,911
2018	110,555
2019	110,238
2020-2024	547,634
2025-2029	549,251
2030-2033	<u>438,303</u>
	2,266,473

Lebanon School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 17 - CONTINGENCIES and COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. 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.

Subsequent to June 30, 2014, the School District settled an outstanding claim with contractor's insurance carrier to reimburse the district for damage caused during construction, the approximately \$169,000, settlement is not accrued or reflected in these statements.

NOTE 18 - PRIOR PERIOD ADJUSTMENTS

Capital Asset Inventory

The beginning net assets of the governmental activities and business-type activities have been adjusted to reflect the capital asset balances determined through a capital asset inventory undertaken during this fiscal year. The governmental activities capital assets decreased by \$341,100 and the business type activities capital assets increased \$300,992.

Tax Collection Liability

During the fiscal year ended June 30, 2007, a preliminary investigation revealed that a theft of funds had occurred at the Lebanon County Earned Income Tax Bureau. It was further determined that some of the member districts could have been overpaid, while other districts may have been underpaid in prior years. According to the analysis prepared by the Bureau's consultant, the overpayments to Lebanon County School District totaled \$326,089, due in ten annual installments of \$32,609. The districts remaining obligation as of July 1, 2013 has been recorded on the government wide financial statements as a prior period adjustment which has decreased governmental wide net assets by \$260,871.

Change in Accounting Principle

As part of the implementation of GASB 65, the School District restated the beginning net position of the governmental activities.

In prior years, the School District capitalized bond issuance costs and amortized them over the life of the bond issue. GASB 65 requires that bond issuance costs, other than prepaid bond insurance, be expensed when incurred. Therefore, these bond issuance costs capitalized in the past not relating to bond insurance were written off in a prior period adjustment as of July 1, 2013 as follows:

Previously Capitalized Bond Issuance Costs on Active Bond Issues	835,722
Previously Capitalized Bond Issuance Costs on Refinanced Bond Issues, Including Deferred Loss on Bond Refinancing	<u>84,385</u>
	920,107

Lebanon School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
 BUDGET and ACTUAL -
 GENERAL FUND
 Year Ended June 30, 2014

REVENUES	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Local Sources:				
Real Estate Taxes	\$ 14,323,612	\$ 14,323,612	\$ 14,346,242	\$ 22,630
Other Taxes	1,848,840	1,848,840	1,852,319	3,479
Investment Earnings	12,500	12,500	8,718	(3,782)
Other Revenue	1,980,456	1,980,456	2,186,320	205,864
Total Local Sources	18,165,408	18,165,408	18,393,599	228,191
State Sources	35,461,093	35,461,093	37,123,671	1,662,578
Federal Sources	4,900,712	4,900,712	4,662,658	(238,054)
Total Revenues	58,527,213	58,527,213	60,179,928	1,652,715
EXPENDITURES				
Instructional Services:				
Regular Programs	23,743,195	23,806,830	22,905,815	901,015
Special Programs	8,123,557	8,121,502	7,862,770	258,732
Vocational Programs	924,000	924,000	817,793	106,207
Other Instructional Programs	934,387	941,782	735,159	206,623
Pre Kindergarten Programs	1,331,819	1,331,819	1,258,097	73,722
Support Services:				
Pupil Personnel	2,176,138	2,450,874	2,567,467	(116,593)
Instructional Staff	2,255,846	2,269,673	2,688,287	(418,614)
Administrative	3,697,624	3,853,952	3,610,778	243,174
Pupil Health	463,276	463,276	478,537	(15,261)
Business	1,051,372	1,032,438	933,730	98,708
Operation of Plant and				
Maintenance	5,590,523	5,592,103	5,276,769	315,334
Student Transportation				
Central	1,080,900	1,080,900	1,178,380	(97,480)
Other Support	398,899	398,899	373,329	25,570
Other Support	11,800	11,800	10,987	813
Noninstructional Services:				
Student Activities	1,053,101	1,069,843	1,174,231	(104,388)
Community	258,254	-0-	5,574	(5,574)
Capital Outlay	865,600	1,365,600	656,251	709,349
Refund of Prior Years Revenue	-0-	-0-	79,717	(79,717)
Debt Service:				
Principal	2,520,000	2,520,000	3,551,710	(1,031,710)
Interest and Other Charges	2,886,105	2,886,105	1,591,909	1,294,196
Total Expenditures	59,366,396	60,121,396	57,757,290	2,364,106
EXCESS (DEFICIENCY) of REVENUES				
over EXPENDITURES	\$ (839,183)	\$ (1,594,183)	\$ 2,422,638	\$ 4,016,821

See independent auditors' report.

Lebanon School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
 BUDGET and ACTUAL -
 GENERAL FUND
 (Continued)
 Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		Actual Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	\$ (5,000)	\$ (5,000)	\$ (350,857)	\$ (345,857)
Budgetary Reserve	<u>(2,000,000)</u>	<u>(1,245,000)</u>	<u>-0-</u>	<u>1,245,000</u>
Net Other Financing Sources (Uses)	<u>(2,005,000)</u>	<u>(1,250,000)</u>	<u>(350,857)</u>	<u>899,143</u>
NET CHANGES in FUND BALANCES	<u>\$ (2,844,183)</u>	<u>\$ (2,844,183)</u>	2,071,781	<u>\$ 4,915,964</u>
FUND BALANCES				
Beginning			<u>13,681,704</u>	
Ending			<u>\$ 15,753,485</u>	

See independent auditors' report.

Lebanon School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE of
REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND

Lebanon School District adheres to 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 School Board for consideration, a draft operating budget projection or other information to review for the fiscal year commencing the following July 1. The School Board determines if it will approve a resolution to keep any tax increase below the index.
2. If the School 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 School 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 with 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 School Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.
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.
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.

Lebanon School District
 SCHEDULE of FUNDING PROGRESS -
 OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
 POSTRETIREMENT HEALTH CARE BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] / c)
07/01/2008	-0-	5,664,224	5,664,224	0.00%	21,642,620	26.17%
07/01/2010	-0-	6,490,973	6,490,973	0.00%	22,674,336	28.63%
07/01/2012	-0-	4,675,798	4,675,798	0.00%	21,924,382	21.33%

See independent auditors' report.

Lebanon School District
SCHEDULE of EMPLOYER CONTRIBUTIONS -
OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
POSTRETIREMENT HEALTH CARE BENEFITS PLAN

Fiscal Year Ended	Annual OPEB Cost	Contributions from Employer (Estimated)	Percentage Contributed
June 30, 2012	746,042	580,703	77.8%
June 30, 2013	647,134	610,137	94.3%
June 30, 2014	644,741	636,284	98.7%

See independent auditors' report.

Lebanon School District
 NOTES to REQUIRED SUPPLEMENTARY INFORMATION -
 OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
 POSTRETIREMENT HEALTH CARE BENEFITS PLAN

The information presented on the required supplementary schedules on pages 57 and 58 was determined as part of the actuarial valuations at the dates indicated. Key factors used in the actuarial valuations are as follows:

Valuation Dates	07/01/2008	07/01/2010	07/01/2012
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar Method	Level Dollar Method	Level Dollar Method
Remaining Amortization Period	30 Years	30 Years	30 Years
Discount Rate	4.5%	4.5%	4.5%
Mortality	Same as Rates as in the PSERS Actuarial Valuation	Same as Rates as in the PSERS Actuarial Valuation	Same as Rates as in the PSERS Actuarial Valuation
Retirement	Retirement Rate Based on PSERS Plan Experience	Retirement Rate Based on PSERS Plan Experience	Retirement Rate Based on PSERS Plan Experience
Coverage Election			
Full-time Employees	90%	90%	90%
Part-time Employees	0%	0%	0%
Percent Married with Election of Spousal Coverage by Plan	75%	75%	75%
Per Capita Claims Cost			
Female (Age 45 - 64)	\$5,637 - \$7,659	\$7,274 - \$9,882	\$7,264 - \$9,868
Male (Age 45 - 64)	\$3,903 - \$8,217	\$5,037 - \$10,603	\$5,030 - \$10,587
Demographic Information			
Active Participants	466	459	444
Retired Participants	<u>67</u>	<u>80</u>	<u>83</u>
Total Participants	533	539	527
Health Care Cost Trend Rate	8.5% decreasing to 0.5% per year to 5.0% in 2015 and later	7.5% decreasing 0.5% per year to 5.5% in 2014 and 4.2% through 2099	7.5% decreasing 0.5% per year to 5.5% in 2016 and 4.2% through 2089

See independent auditors' report.

Lebanon School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION -
OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
POSTRETIREMENT HEALTH CARE BENEFITS PLAN
(Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Accordingly, actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective, and, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of cost-sharing between the employer and plan members at the time of the valuations.

See independent auditors' report.

Lebanon School District

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2014

	Debt Service Fund	Capital Project Fund	Public Purpose Trust Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ -0-	\$ -0-	\$ 47,959	\$ 47,959
Investments	14,916	-0-	807	15,723
TOTAL ASSETS	<u><u>14,916</u></u>	<u><u>-0-</u></u>	<u><u>48,766</u></u>	<u><u>63,682</u></u>
 LIABILITIES and FUND BALANCES				
LIABILITIES	-0-	-0-	-0-	-0-
 FUND BALANCES				
Restricted	<u>14,916</u>	<u>-0-</u>	<u>48,766</u>	<u>63,682</u>
TOTAL LIABILITIES and FUND BALANCES	<u><u>\$ 14,916</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 48,766</u></u>	<u><u>\$ 63,682</u></u>

See independent auditors' report.

Lebanon School District

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

Year Ended June 30, 2014

	Debt Service Fund	Capital Project Fund	Public Purpose Trust Fund	Total Nonmajor Governmental Funds
REVENUES				
Local Sources:				
Investment Earnings	\$ 445	\$ 33	\$ 57	\$ 535
Other Local Revenue	<u>-0-</u>	<u>-0-</u>	<u>33,103</u>	<u>33,103</u>
Total Revenues	445	33	33,160	33,638
EXPENDITURES				
Support Services	158,967	-0-	48,963	207,930
Debt Service	<u>55,805</u>	<u>-0-</u>	<u>-0-</u>	<u>55,805</u>
Total Expenditures	<u>214,772</u>	<u>-0-</u>	<u>48,963</u>	<u>263,735</u>
EXCESS (DEFICIENCY) OF REVENUES over EXPENDITURES	(214,327)	33	(15,803)	(230,097)
OTHER FINANCING SOURCES (USES)				
Refunding Bond Proceeds	7,980,000	-0-	-0-	7,980,000
Debt Service (Payment to Bond Escrow Agent)	(7,855,000)	-0-	-0-	(7,855,000)
Bond Premium on Refunding Bond Proceeds	89,772	-0-	-0-	89,772
Transfers In	<u>4,662</u>	<u>346,195</u>	<u>-0-</u>	<u>350,857</u>
Net Other Financing Sources	<u>219,434</u>	<u>346,195</u>	<u>-0-</u>	<u>565,629</u>
NET CHANGES in FUND BALANCES	5,107	346,228	(15,803)	335,532
FUND BALANCES				
Beginning	<u>9,809</u>	<u>(346,228)</u>	<u>64,569</u>	<u>(271,850)</u>
Ending	<u>\$ 14,916</u>	<u>\$ -0-</u>	<u>\$ 48,766</u>	<u>\$ 63,682</u>

See independent auditors' report.

Lebanon School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 Year Ended June 30, 2014

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, 2013	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2014
U.S. Department of Agriculture									
Passed Through the Pennsylvania									
Department of Education:									
School Breakfast Program (Note 3)	I	10.553	N/A	07/01/13 - 06/30/14	N/A	\$ -0-	\$ 509,051	\$ 509,051	\$ -0-
School Breakfast Program (Note 3)	I	10.553	N/A	07/01/12 - 06/30/13	N/A	6,318	6,318	-0-	-0-
National School Lunch Program (Note 3)	I	10.555	N/A	07/01/13 - 06/30/14	N/A	-0-	1,672,368	1,672,368	-0-
National School Lunch Program (Note 3)	I	10.555	N/A	07/01/12 - 06/30/13	N/A	20,281	20,281	-0-	-0-
Summer Food Service Program for Children (Note 3)	I	10.559	N/A	07/01/13 - 06/30/14	N/A	-0-	21,099	24,007	2,908
Fresh Fruit and Vegetable Program	I	10.582	N/A	07/01/13 - 06/30/14	N/A	-0-	138,633	154,243	15,610
Fresh Fruit and Vegetable Program	I	10.582	N/A	07/01/12 - 06/30/13	N/A	<u>17,751</u>	<u>17,751</u>	<u>-0-</u>	<u>-0-</u>
Total Passed Through the Pennsylvania Department of Education						44,350	2,385,501	2,359,669	18,518
Passed Through the Pennsylvania									
Department of Agriculture:									
National School Lunch Program (Notes 2 and 3)	I	10.555	N/A	07/01/12 - 06/30/13	N/A	<u>(8,874) A)</u>	<u>113,265</u>	<u>105,954 C)</u>	<u>(16,185) D)</u>
Total U.S. Department of Agriculture						35,476	2,498,766	2,465,623	2,333
U.S. Department of Education									
Passed Through the Pennsylvania									
Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-140224	07/16/13 - 09/30/14	2,064,068	-0-	1,433,674	2,020,826	587,152
Title I Grants to Local Educational Agencies	I	84.010	013-130224	07/01/12 - 09/30/13	2,172,703	686,355	850,015	163,660	-0-
Title I Grants to Local Educational Agencies	I	84.010	042-130224	05/06/13 - 09/30/14	252,015	-0-	222,366	252,015	29,649
Title I Grants to Local Educational Agencies	I	84.010	042-120224	06/04/12 - 09/30/13	153,744	24,788	48,045	23,257	-0-
Twenty-First Century Community Learning Centers	I	84.287	FC-4100052164	07/01/12 - 06/30/13	390,000	\$ 122,488	\$ 122,488	\$ -0-	\$ -0-

See independent auditors' report.

Lebanon School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2014

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, 2013	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2014
U.S. Department of Education (Continued)									
Passed Through the Pennsylvania Department of Education (Continued):									
Twenty-First Century Community Learning Centers	I	84.287	FC-4100058690	10/01/13 - 09/30/14	492,000	\$ -0-	\$ 261,545	\$ 353,446	\$ 91,901
Twenty-First Century Community Learning Centers	I	84.287	FC-4100058690	10/01/12 - 09/30/13	492,000	109,245	109,245	-0-	-0-
Twenty-First Century Community Learning Centers (Note 4)	I	84.287	FC-4100033738	10/01/06 - 09/30/09	873,990	(73,020)	-0-	-0-	(73,020)
English Language Acquisition Grants	I	84.365	010-140224	07/16/13 - 09/30/14	168,279	-0-	100,967	127,894	26,927
English Language Acquisition Grants	I	84.365	010-130224	07/01/12 - 09/30/13	153,989	29,658	51,330	21,672	-0-
Improving Teacher Quality State Grants	I	84.367	020-140224	07/16/13 - 09/30/14	310,962	-0-	233,126	290,962	57,836
Improving Teacher Quality State Grants	I	84.367	020-130224	07/01/12 - 09/30/13	306,592	82,829	101,437	18,608	-0-
Improving Teacher Quality State Grants	I	84.367	020-120224	07/01/11 - 09/30/12	353,491	50,000	50,000	-0-	-0-
School Improvement Grant	I	84.377	142-130224	07/24/13 - 09/30/14	343,430	-0-	183,163	281,237	98,074
School Improvement Grant	I	84.377	142-120224	08/20/12 - 09/30/13	816,133	<u>439,556</u>	<u>466,362</u>	<u>26,806</u>	<u>-0-</u>
Total Passed Through the Pennsylvania Department of Education						1,471,899	4,233,763	3,580,383	818,519
Passed Through Lancaster-Lebanon Intermediate Unit No. 13:									
Special Education - Grants to States (Note 3)	I	84.027	062-140013	07/01/13 - 09/30/14	895,068	-0-	895,068	895,068	-0-
Special Education - Preschool Grants (Note 3)	I	84.173	131-130013	07/01/13 - 06/30/14	9,190	-0-	4,595	9,190	4,595
Special Education - Preschool Grants (Note 3)	I	84.173	131-120013	07/01/12 - 06/30/13	11,458	<u>11,458</u>	<u>11,458</u>	<u>-0-</u>	<u>-0-</u>
Total Passed Through Lancaster-Lebanon Intermediate Unit No. 13						11,458	911,121	904,258	4,595
Total U.S. Department of Education						\$ 1,483,357	\$ 5,144,884	\$ 4,484,641	\$ 823,114

See independent auditors' report.

Lebanon School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2014

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, 2013	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2014
U.S. Department of Health and Human Services Passed Through Pennsylvania Department of Public Welfare:									
Medical Assistance Program (Note 3)	I	93.778	N/A	07/01/13 - 06/30/14	91,269	\$ -0-	\$ 60,181	\$ 91,269	\$ 31,088
Medical Assistance Program (Note 3)	I	93.778	N/A	07/01/12 - 06/30/13	35,896	<u>12,802</u>	<u>12,802</u>	<u>-0-</u>	<u>-0-</u>
Total U.S. Department of Health and Human Services						<u>12,802</u>	<u>72,983</u>	<u>91,269</u>	<u>31,088</u>
TOTAL EXPENDITURES of FEDERAL AWARDS						<u>\$ 1,531,635</u>	<u>\$ 7,716,633</u>	<u>\$ 7,041,533</u>	<u>\$ 856,535</u>

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

Lebanon School District
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS
 (Continued)
 Year Ended June 30, 2014

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 - NATIONAL SCHOOL LUNCH PROGRAM

- A) Beginning inventory at July 1.
- B) Total amount of commodities received from the U.S. Department of Agriculture.
- C) Total amount of commodities used.
- D) Ending inventory at June 30.

NOTE 3 - 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
Summer Food Service Program for Children	10.559	Child Nutrition Cluster
Special Education - Grants to States	84.027	Special Education Cluster
Special Education - Preschool Grants	84.173	Special Education Cluster
Medical Assistance Program	93.778	Medicaid Cluster

NOTE 4 - RETURNED MONEY

For the grant on the preceding schedule of expenditures of federal awards, which designates that this note applies, the amount listed in the last column on the schedule of expenditures of federal awards represents funds which were returned to the grantor agency during the year ended June 30, 2014.

NOTE 5 - ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local education agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements are federal money but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the schedule of expenditures of federal awards, ACCESS reimbursements are not included on the schedule of expenditures of federal awards. The amount of ACCESS funding received for the year ended June 30, 2014, was \$165,610, which is listed on the PDE confirmation as program #044-007224.

**INDEPENDENT AUDITORS' 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
Lebanon School District
Lebanon County, Pennsylvania

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Lebanon School District**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **Lebanon School District's** basic financial statements, and have issued our report thereon dated November 12, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Lebanon School District's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Lebanon School District's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Lebanon School District's** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as item #2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Lebanon School District's** financial statements are free from 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*.

Lebanon School District's Response to Findings

Lebanon School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Lebanon School District's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November 12, 2014
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP

TROUT, EBERSOLE, & GROFF, LLP
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT on COMPLIANCE for each MAJOR PROGRAM and on INTERNAL CONTROL
over COMPLIANCE as REQUIRED by OMB CIRCULAR A-133**

To the Board Officers and Members
Lebanon School District
Lebanon County, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited **Lebanon 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 **Lebanon School District's** major federal programs for the year ended June 30, 2014. **Lebanon School District's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **Lebanon School District's** major federal programs based on our audit of the types of compliance requirements referred to above. 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 **Lebanon 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 on compliance for each major federal program. However, our audit does not provide a legal determination of **Lebanon School District's** compliance.

Opinion on Each Major Federal Program

In our opinion, **Lebanon School District** has complied, in all material respects, with the types of 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, 2014.

Report on Internal Control over Compliance

Management of **Lebanon School District** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Lebanon School District's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 **Lebanon 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. 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.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

November 12, 2014
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP
TROUT, EBERSOLE, & GROFF, LLP
Certified Public Accountant

Lebanon School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2014

A. Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of **Lebanon School District**.
2. One material weakness relating to the audit of the financial statements is reported in the Independent Auditors' 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*. No significant deficiencies are reported.
3. No instances of noncompliance material to the financial statements of **Lebanon School District** were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal programs are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance as Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for **Lebanon School District** expresses an unmodified opinion.
6. Audit findings relative to the major federal award programs for **Lebanon 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, Summer Food Service Program for Children - CFDA #10.559, Special Education - Grants to States - CFDA #84.027, Special Education - Preschool Grants - CFDA #84.173, and Twenty-First Century Community Learning Centers - CFDA #84.287.
8. The threshold for distinguishing type A and B programs was \$300,000.
9. **Lebanon School District** was not determined to be a low-risk auditee.

Lebanon School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2014

B. Findings - Financial Statements Audit

Material Weakness

#2014-001 - Internal Control over Financial Reporting

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Statement of Condition: The School District has designated an individual 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 related notes to the financial statements and accepted responsibility for them. However, the School District's designee does not possess the expertise necessary to prepare the financial statements and the notes to the financial statements for **Lebanon School District** in conformity with generally accepted accounting principles.

Cause and Effect: It is not uncommon for entities to lack the expertise necessary to prepare the financial statements and the notes to the financial statements. The School District has evaluated the costs and benefits of developing this expertise, and determined that it is more beneficial to engage its independent auditors to provide this service.

School District's Response: The School District continued to analyze various solutions to correct this weakness, and has concluded that the current process will be maintained due to the additional costs that would be incurred to prepare the financial statements and notes to the financial statements in conformity with the accounting principles generally accepted in the United States of America. The **Lebanon School District's** Assistant Business Manager evaluates the adequacy and results of the financial statements prepared by Trout, Ebersole & Groff, LLP on behalf of the School District.

C. Findings - Major Federal Awards Programs Audit

None

Lebanon School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

DEPARTMENT of EDUCATION

#2013-2, #2012-3, #2011-3, #2010-3, #2009-5, and #2008-9 - Twenty-First Century Community Learning Centers - CFDA #84.287, for the years ended June 30, 2013, June 30, 2012, June 30, 2011, June 30, 2010, June 30, 2009, and June 30, 2008.

The School District did not provide appropriate documentation that the required monthly expenditure report for the Twenty-First Century Community Learning Centers COHORT 6 grant were filed in a timely manner for the COHORT 6 2012-2013 reports. The School District did not file a monthly expenditure report for April 2013, as required.

The School District also did not file the required expenditure reports for the other prior years in a timely manner.

Recommendation: The School District should maintain support documentation for the filing of expenditure reports and verify that all expenditure reports have been filed in a complete and timely manner.

Current Status: The required expenditure reports for Twenty-First Century Community Learning Centers filed during the year ended June 30, 2014, have been filed in a timely manner.

November 12, 2014

Ms. Krista Showers, CPA/Partner
Trout Ebersole & Groff, LLP
1705 Oregon Pike
Lancaster, PA 17601

Subject: Responses to Schedule of Findings and Questioned Costs: 2013-2014 Audit

Dear Ms. Showers:

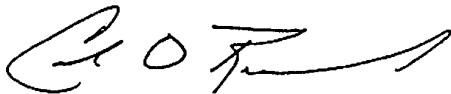
The Lebanon School District has prepared this letter to address each of the findings listed in the Schedule of Findings and Questioned Cost for the year ending June 30, 2014. The District's response to each of the numbered deficiencies is outlined below.

2014-001 Internal Control over Financial Reporting

The District continued to analyze various solutions to correct this weakness, and has concluded that the current process will be maintained due to the additional costs that would be incurred to prepare the financial statements and notes to the financial statements in conformity with the accounting principles generally accepted in the United State of America. The Lebanon School District's Assistant Business Manager evaluates the adequacy and results of the financial statements prepared by Trout, Ebersole & Groff, LLP on behalf of the District.

We appreciate the cooperation of Trout, Ebersole & Groff, LLP to work with the District in our effort to create a more efficient business operation in compliance with federal and state grant requirements and generally acceptable accounting practices.

Sincerely,



Curtis O. Richards
Business Manager