

Lebanon School District

Year Ended June 30, 2015



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

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# Lebanon School District

## Financial Statements with Supplementary Information

Year Ended June 30, 2015

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# Lebanon School District

## Financial Statements with Supplementary Information

Year Ended June 30, 2015

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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, 2015, 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, 2015, 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 pensions as a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. 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 management's discussion and analysis on pages 4 through 13, the budgetary comparison information on pages 59 and 60, the other postemployment benefits (OPEB) health care benefits plan information on pages 62 through 65, and the schedule of employer contributions and the schedule of school's proportionate share of the net pension liability on pages 66 through 68, 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 nonmajor 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 13, 2015, 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 13, 2015  
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, 2015

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, 2015. 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 financial statements and notes to the financial statements to enhance the understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2015 are as follows:

- In total, net position increased \$4,168,673. Net assets of governmental activities increased \$3,963,968 while net assets of business-type activities increased \$204,705.
- Revenues totaled \$68,738,439. General revenues accounted for \$45,152,430 or 66 percent of total revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$23,586,009 or 34 percent of total revenues.
- Total liabilities increased and net position decreased by \$79,975,268 from the originally issued 2014 statements, as a result of implementation of GASB 68 to recognize the School District's share of the unfunded Public School Employees' Retirement System (PSERS) projected liability for pension costs.
- The School District had \$61,424,545 in expenses related to governmental activities; \$20,239,926 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes and unrestricted grants and subsidies) of \$45,148,587 were adequate to provide for these programs.
- Among major funds, the general fund had \$65,434,223 in revenues and other financing sources and \$60,859,186 in expenditures and other financing uses. Revenues exceeded expenditures at year end by \$4,575,037 resulting in a fund balance of \$20,328,522. The School District used a tax increase of 0.62 mills and cost reduction strategies to offset increases in salaries, health care, pensions, and special education costs. During the fiscal year, back payments owed by the state for their share of debt for the high school renovation project were finally received and contributed significantly to the excess of revenue over expenditures. A long term financing strategy has resulted in the School District assigning \$10,000,000 of this general fund balance toward the construction of a new Northwest Elementary building reducing by 40 percent the amount required to be borrowed for this project.

**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, 2015

**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, 2015

**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 2015 compared to 2014:

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Assets</b>						
Current and						
Other Assets	27,696,339	22,070,448	2,113,651	1,839,787	29,809,990	23,910,235
Capital Assets	<u>67,029,135</u>	<u>68,393,031</u>	<u>380,302</u>	<u>418,542</u>	<u>67,409,437</u>	<u>68,811,573</u>
<b>Total Assets</b>	<b>94,725,474</b>	<b>90,463,479</b>	<b>2,493,953</b>	<b>2,258,329</b>	<b>97,219,427</b>	<b>92,721,808</b>
<b>Deferred Outflow</b>						
<b>Of Resources</b>	<b>6,122,052</b>	<b>4,536,009</b>	<b>70,309</b>	<b>50,767</b>	<b>6,192,361</b>	<b>4,586,776</b>
<b>Liabilities</b>						
Current Liabilities	9,634,727	8,394,656	25,682	13,341	9,660,409	8,407,997
Noncurrent						
Liabilities	<u>138,754,236</u>	<u>143,869,207</u>	<u>991,965</u>	<u>1,023,793</u>	<u>139,746,201</u>	<u>144,893,000</u>
<b>Total</b>	<b>148,388,963</b>	<b>152,263,863</b>	<b>1,017,647</b>	<b>1,037,134</b>	<b>149,406,610</b>	<b>153,300,997</b>
<b>Deferred Inflow</b>						
<b>Of Resources</b>	<b>5,758,971</b>	<b>-0-</b>	<b>69,947</b>	<b>-0-</b>	<b>5,828,918</b>	<b>-0-</b>
<b>Net Assets</b>						
Net Investment in						
Capital Assets	8,113,298	6,872,209	380,302	418,542	8,493,600	7,290,751
Restricted	72,271	63,682	-0-	-0-	72,271	63,682
Unrestricted	<u>(61,485,977)</u>	<u>(64,200,267)</u>	<u>1,096,366</u>	<u>853,421</u>	<u>(60,389,611)</u>	<u>(63,346,846)</u>
<b>Total Net Position</b>	<b>(53,300,408)</b>	<b>(57,264,376)</b>	<b>1,476,668</b>	<b>1,271,963</b>	<b>(51,823,740)</b>	<b>(55,992,413)</b>

**Lebanon School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2015

**The School District as a Whole (Continued)**

Table 2 shows the changes in net position for fiscal year 2015 compared to 2014:

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
Program Revenues:						
Charges for Services	168,315	100,835	449,824	472,051	618,139	572,886
Operating Grants	16,609,187	14,202,413	2,896,259	2,628,895	19,505,446	16,831,308
Capital Grants	3,462,424	1,741,611	-0-	-0-	3,462,424	1,741,611
General Revenue:						
Property Taxes	17,007,451	16,262,883	-0-	-0-	17,007,451	16,262,883
Unrestricted Grants and Subsidies	25,983,002	25,964,495	-0-	-0-	25,983,002	25,964,495
Other	<u>2,158,134</u>	<u>2,115,373</u>	<u>3,843</u>	<u>3,475</u>	<u>2,161,977</u>	<u>2,118,848</u>
<b>Total Revenues</b>	<b>65,388,513</b>	<b>60,387,610</b>	<b>3,349,926</b>	<b>3,104,421</b>	<b>68,738,439</b>	<b>63,492,031</b>
<b>Expenses</b>						
Instruction	38,328,509	34,809,562	-0-	-0-	38,328,509	34,809,562
Support Services:						
Instructional						
Student Support	6,802,171	5,923,736	-0-	-0-	6,802,171	5,923,736
Administrative and Financial Support Services	5,550,333	4,946,693	-0-	-0-	5,550,333	4,946,693
Operation and Maintenance of						
Plant Services	5,795,394	5,395,359	-0-	-0-	5,795,394	5,395,359
Pupil Transportation	1,315,541	1,216,775	-0-	-0-	1,315,541	1,216,775
Student Activities	1,263,776	1,206,125	-0-	-0-	1,263,776	1,206,125
Community Services	-0-	5,574	-0-	-0-	-0-	5,574
Interest on Long- Term Debt	2,368,821	2,786,975	-0-	-0-	2,368,821	2,786,975
Food Service	-0-	-0-	<u>3,145,221</u>	<u>2,918,048</u>	<u>3,145,221</u>	<u>2,918,048</u>
<b>Total Expenses</b>	<b>61,424,545</b>	<b>56,290,799</b>	<b>3,145,221</b>	<b>2,918,048</b>	<b>64,569,766</b>	<b>59,208,847</b>
<b>Increase in Net Position</b>	<b>3,963,968</b>	<b>4,096,811</b>	<b>204,705</b>	<b>186,373</b>	<b>4,168,673</b>	<b>4,283,184</b>

**Lebanon School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2015

**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**

	2015		2014	
	Total Cost	Net Cost	Total Cost	Net Cost
Instruction	38,328,509	25,456,952	34,809,562	23,701,535
Support Services:				
Instructional Student Support	6,802,171	4,728,136	5,923,736	4,350,940
Administrative and Financial Support Services	5,550,333	4,972,099	4,946,693	4,468,395
Operation and Maintenance of Plant Services	5,795,394	5,293,289	5,395,359	4,995,954
Pupil Transportation	1,315,541	714,875	1,216,775	608,31
Student Activities	1,263,776	1,112,871	1,206,125	1,076,300
Community Services	-0-	-0-	5,574	(865)
Interest on Long-Term Debt	<u>2,368,821</u>	<u>(1,093,603)</u>	<u>2,786,975</u>	<u>1,045,364</u>
<b>Total Expenses</b>	<b>61,424,545</b>	<b>41,184,619</b>	<b>56,290,799</b>	<b>40,245,940</b>

**Table 4**  
**Business-Type Activities**

	2015		2014	
	Total Cost	Net Cost	Total Cost	Net Cost
Food Services	3,145,221	(200,862)	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 69 percent of the total governmental revenues. The community, as a whole, is the primary financial support for **Lebanon School District** students, although 31 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 \$3,349,926 and expenses of \$3,145,221 for fiscal year 2015. Business-type activities receive no support from tax revenues.

**Lebanon School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2015

**The School District's Funds**

The governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$65,494,409 and other financing sources of \$14,339,690. Those same funds had expenditures of \$61,240,473 and other financing uses of \$14,010,000. The net change in fund balance for all governmental funds was \$4,583,626. The net change in fund balance for the general fund shows an increase of \$4,575,037 due to the implementation of cost reduction strategies, an increase in state funding after adoption of the final budget, and payment for state share of high school construction debt obligations owed from prior years.

**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 modified accrual basis of accounting. The most significant budgeted fund is the general fund.

During the course of fiscal 2015, 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 \$61,115,351, but the School District realized actual revenues and other sources of \$65,434,223. The budgeted expenditures were \$62,987,028 plus a budgetary reserve for unexpected building repairs of \$2,000,000. The School District expended \$60,859,186 without the need to utilize the budgetary reserve. The School District received additional state revenue after adoption of the final 2015 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, 2015

**Capital Assets and Debt Administration**

**Capital Assets** - At the end of fiscal 2015, the School District had \$67.41 million invested in land, buildings, and equipment, with \$67.03 million in governmental activities. Table 5 shows the fiscal 2015 balance compared to 2014:

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	682,029	682,029	-0-	-0-	682,029	682,029
Land Improvements	2,212,248	2,423,482	-0-	-0-	2,212,248	2,423,482
School Buildings	62,861,101	64,443,557	-0-	-0-	62,861,101	64,443,557
Furniture, Fixtures, and Equipment	515,857	532,685	367,698	400,897	883,555	933,582
Vehicles	173,230	119,657	12,604	17,645	185,834	137,302
Construction in Progress	<u>584,670</u>	<u>191,621</u>	<u>-0-</u>	<u>-0-</u>	<u>584,670</u>	<u>191,621</u>
<b>Totals</b>	<b>67,029,135</b>	<b>68,393,031</b>	<b>380,302</b>	<b>418,542</b>	<b>67,409,437</b>	<b>68,811,573</b>

**Debt Administration** - At June 30, 2015, the School District had \$58.425 million in bonds and notes outstanding, with \$2.92 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 market value balance of \$20,558 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, 2015

**Capital Assets and Debt Administration (Continued)**

**Debt Administration (Continued)**

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

	<b>Governmental Activities</b>	
	<b>2015</b>	<b>2014</b>
General Obligation Bonds and Notes:		
2009A Bonds	-0-	8,820
2009AA Bonds	-0-	5,190
Series B of 2010 Notes	15,000	15,000
Series of 2011	7,475	8,145
Series of 2012	13,885	13,890
Series of 2013	2,985	3,015
Series of 2014	6,810	7,420
Series A of 2014	4,275	-0-
Series of 2015	<u>7,995</u>	<u>-0-</u>
	<b>58,425</b>	<b>61,480</b>

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.

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.

**Lebanon School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2015

**Capital Assets and Debt Administration (Continued)**

**Debt Administration (Continued)**

The School District issued General Obligation Bonds, Series of 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 issued General Obligation Bonds, Series A of 2014, dated December 22, 2014, in the aggregate principal amount of \$5,140,000 to be used toward the current refunding of the School District's outstanding General Obligation Bonds, Series AA of 2009.

The School District issued General Obligation Bonds, Series of 2015, dated February 18, 2015, in the aggregate principal amount of \$8,665,000 to be used toward the current refunding of the School District's outstanding General Obligation Bonds, Series A of 2009.

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 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 Senior 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. The School District has assigned \$13,500,000 of the general fund balance to defer borrowing costs required for Northwest Elementary and Lebanon Middle School facility projects.

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

**Lebanon School District**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended June 30, 2015

**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, 2015

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 736,680	\$ 1,793,126	\$ 2,529,806
Investments	20,271,590	-0-	20,271,590
Taxes Receivable, net	1,648,445	-0-	1,648,445
Internal Balances	(226,383)	226,383	-0-
Due from Other Governments	5,218,786	38,265	5,257,051
Other Receivables	47,221	759	47,980
Inventories	-0-	55,118	55,118
<b>Total Current Assets</b>	<b>27,696,339</b>	<b>2,113,651</b>	<b>29,809,990</b>
<b>Noncurrent Assets</b>			
Land	682,029	-0-	682,029
Land Improvements, net of Accumulated Depreciation	2,212,248	-0-	2,212,248
School Buildings and Improvements, net of Accumulated Depreciation	62,861,101	-0-	62,861,101
Furniture, Fixtures, and Equipment, net of Accumulated Depreciation	515,857	367,698	883,555
Vehicles, net of Accumulated Depreciation	173,230	12,604	185,834
Construction in Progress	584,670	-0-	584,670
<b>Total Noncurrent Assets</b>	<b>67,029,135</b>	<b>380,302</b>	<b>67,409,437</b>
<b>TOTAL ASSETS</b>	<b>94,725,474</b>	<b>2,493,953</b>	<b>97,219,427</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Bond Insurance Costs, net of Accumulated Amortization	231,559	-0-	231,559
Loss on Bond Refunding, net of Accumulated Amortization	101,749	-0-	101,749
Deferred Outflows - Pension	5,788,744	70,309	5,859,053
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 6,122,052</b>	<b>\$ 70,309</b>	<b>\$ 6,192,361</b>

See notes to financial statements.

# Lebanon School District

## STATEMENT of NET POSITION

(Continued)

June 30, 2015

	Governmental Activities	Business-type Activities	Total
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 816,722	\$ 13,223	\$ 829,945
Current Portion of Long-Term Debt	2,920,000	-0-	2,920,000
Current Portion of Earned Income Tax Settlement Payable	32,609	-0-	32,609
Accrued Salaries and Benefits	3,418,016	65	3,418,081
Accrued Interest on Long-Term Debt	378,137	-0-	378,137
Payroll Deductions and Withholdings	1,787,564	-0-	1,787,564
Unearned Revenues	281,679	12,380	294,059
Due to Other Governmental Agencies	-0-	14	14
<b>Total Current Liabilities</b>	<b>9,634,727</b>	<b>25,682</b>	<b>9,660,409</b>
<b>Noncurrent Liabilities</b>			
Bonds Payable, net of Amortized Discount	55,995,837	-0-	55,995,837
Earned Income Tax Settlement Payable	163,044	-0-	163,044
Compensated Absences	1,270,112	13,530	1,283,642
Net Other Postemployment Benefit (OPEB) Liability	767,401	-0-	767,401
Net Pension Liability	80,557,842	978,435	81,536,277
<b>Total Noncurrent Liabilities</b>	<b>138,754,236</b>	<b>991,965</b>	<b>139,746,201</b>
<b>TOTAL LIABILITIES</b>	<b>148,388,963</b>	<b>1,017,647</b>	<b>149,406,610</b>
<b>DEFERRED INFLOWS of RESOURCES - PENSION</b>	<b>5,758,971</b>	<b>69,947</b>	<b>5,828,918</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	8,113,298	380,302	8,493,600
Restricted	72,271	-0-	72,271
Unrestricted	(61,485,977)	1,096,366	(60,389,611)
<b>TOTAL NET POSITION</b>	<b>\$ (53,300,408)</b>	<b>\$ 1,476,668</b>	<b>\$ (51,823,740)</b>

See notes to financial statements.

## Lebanon School District

### STATEMENT of ACTIVITIES

Year Ended June 30, 2015

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	\$ 38,328,509	\$ 77,648	\$ 12,793,909	\$ -0-	\$ (25,456,952)	\$ -0-	\$ (25,456,952)
Instructional Student Support	6,802,171	-0-	2,074,035	-0-	(4,728,136)	-0-	(4,728,136)
Administrative and Financial							
Support Services	5,550,333	-0-	578,234	-0-	(4,972,099)	-0-	(4,972,099)
Operation and Maintenance of							
Plant Services	5,795,394	44,826	457,279	-0-	(5,293,289)	-0-	(5,293,289)
Pupil Transportation	1,315,541	-0-	600,666	-0-	(714,875)	-0-	(714,875)
Student Activities	1,263,776	45,841	105,064	-0-	(1,112,871)	-0-	(1,112,871)
Interest on Long-Term Debt	<u>2,368,821</u>	<u>-0-</u>	<u>-0-</u>	<u>3,462,424</u>	<u>1,093,603</u>	<u>-0-</u>	<u>1,093,603</u>
<b>Total Governmental</b>							
<b>Activities</b>	<b>61,424,545</b>	<b>168,315</b>	<b>16,609,187</b>	<b>3,462,424</b>	<b>(41,184,619)</b>	<b>-0-</b>	<b>(41,184,619)</b>
Business-Type Activities:							
Food Service	<u>3,145,221</u>	<u>449,824</u>	<u>2,896,259</u>	<u>-0-</u>	<u>-0-</u>	<u>200,862</u>	<u>200,862</u>
<b>Total Government</b>	<b><u>\$ 64,569,766</u></b>	<b><u>\$ 618,139</u></b>	<b><u>\$ 19,505,446</u></b>	<b><u>\$ 3,462,424</u></b>	<b>\$ (41,184,619)</b>	<b>\$ 200,862</b>	<b>\$ (40,983,757)</b>

See notes to financial statements.

**Lebanon School District**

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2015

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					\$ 17,007,451	\$ -0-	\$ 17,007,451
Public Utility Realty, Earned Income, Occupation, and Per Capita Taxes Levied for General Purposes, net					2,053,606	-0-	2,053,606
Unrestricted Grants and Subsidies					25,983,002	-0-	25,983,002
Unrestricted Investment Earnings					11,445	2,939	14,384
Miscellaneous Income					96,266	904	97,170
Loss on Capital Asset Dispositions					(3,183)	-0-	(3,183)
<b>Total General Revenues</b>					<b>45,148,587</b>	<b>3,843</b>	<b>45,152,430</b>
<b>CHANGES in NET POSITION</b>					<b>3,963,968</b>	<b>204,705</b>	<b>4,168,673</b>
<b>NET POSITION</b>							
Beginning, As Originally Stated					21,751,189	2,231,666	23,982,855
Cumulative Effect of Change in Accounting Principle (Note 18)					(79,015,565)	(959,703)	(79,975,268)
Beginning, Restated					<b>(57,264,376)</b>	<b>1,271,963</b>	<b>(55,992,413)</b>
<b>Ending</b>					<b>\$ (53,300,408)</b>	<b>\$ 1,476,668</b>	<b>\$ (51,823,740)</b>

See notes to financial statements.

**Lebanon School District**  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2015

	<b>Major Fund</b>		<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
	<b>General Fund</b>			
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 684,967		\$ 51,713	\$ 736,680
Investments	20,251,032		20,558	20,271,590
Taxes Receivable, net	1,648,445		-0-	1,648,445
Due from Other Funds	46,570		-0-	46,570
Due from Other Governments	5,218,786		-0-	5,218,786
Other Receivables	47,018		-0-	47,018
<b>TOTAL ASSETS</b>	<b>27,896,818</b>		<b>72,271</b>	<b>27,969,089</b>
<b>LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	816,722		-0-	816,722
Due to Other Funds	272,750		-0-	272,750
Accrued Salaries and Benefits	3,418,016		-0-	3,418,016
Payroll Deductions and Withholdings	1,787,564		-0-	1,787,564
Unearned Revenues	281,679		-0-	281,679
<b>TOTAL LIABILITIES</b>	<b>6,576,731</b>		<b>-0-</b>	<b>6,576,731</b>
<b>DEFERRED INFLOWS of RESOURCES</b>				
Delinquent Real Estate Taxes	991,565		-0-	991,565
<b>FUND BALANCES</b>				
Restricted	-0-		72,271	72,271
Committed	195,653		-0-	195,653
Assigned	13,500,000		-0-	13,500,000
Unassigned	6,632,869		-0-	6,632,869
<b>TOTAL FUND BALANCES</b>	<b>20,328,522</b>		<b>72,271</b>	<b>20,400,793</b>
<b>TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES</b>	<b>\$ 27,896,818</b>		<b>\$ 72,271</b>	<b>\$ 27,969,089</b>

See notes to financial statements.

**Lebanon School District**  
 RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET  
 to the STATEMENT of NET POSITION  
 June 30, 2015

Total Fund Balances - Governmental Funds \$ 20,400,793

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 \$89,267,360, and the accumulated depreciation is \$22,238,225. 67,029,135

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. 991,565

Certain accrued obligations not expected to be liquidated with expendable available financial resources are not reported as liabilities in the fund financial statements. (195,653)

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:

Net Pension Liability	(80,557,842)
Bonds Payable	(58,425,000)
Accrued Interest on Long-Term Debt	(378,137)
Bond Issue Costs and Loss on Refunding, net of Amortization	333,308
Bond Discount, net of Amortization	(490,837)
Accrued Other Postemployment Benefit (OPEB) Liability	(767,401)
Compensated Absences	(1,270,112)

Deferred inflows of resources - pension are not due and payable in the current period and, therefore, are not reported in the funds. (5,758,971)

Deferred outflows of resources - pension are not due and collectable in the current period and, therefore, are not reported in the funds. 5,788,744

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ (53,300,408)**

See notes to financial statements.

## Lebanon School District

STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2015

	<b>Major Fund</b>	<b>Nonmajor</b>	<b>Total</b>
	<b>General Fund</b>	<b>Governmental Funds</b>	<b>Governmental Funds</b>
<b>REVENUES</b>			
Local Sources:			
Real Estate Taxes	\$ 15,389,998	\$ -0-	\$ 15,389,998
Other Taxes	1,911,248	-0-	1,911,248
Investment Earnings	9,420	2,025	11,445
Other Revenue	2,279,525	60,186	2,339,711
Total Local Sources	19,590,191	62,211	19,652,402
State Sources	40,519,979	-0-	40,519,979
Federal Sources	5,322,028	-0-	5,322,028
<b>Total Revenues</b>	<b>65,432,198</b>	<b>62,211</b>	<b>65,494,409</b>
<b>EXPENDITURES</b>			
Instructional Services	35,919,180	-0-	35,919,180
Support Services	18,125,284	318,832	18,444,116
Noninstructional Services	1,207,697	-0-	1,207,697
Capital Outlay	395,560	-0-	395,560
Refund of Prior Years' Revenues	4,066	-0-	4,066
Debt Service	5,202,941	66,913	5,269,854
<b>Total Expenditures</b>	<b>60,854,728</b>	<b>385,745</b>	<b>61,240,473</b>
<b>EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES</b>	<b>4,577,470</b>	<b>(323,534)</b>	<b>4,253,936</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Refunding Bond Proceeds	-0-	13,805,000	13,805,000
Debt Service (Payment to Bond Escrow Agent)	-0-	(14,010,000)	(14,010,000)
Bond Premium on Refunding Bond Proceeds	-0-	532,665	532,665
Transfers In (Out)	(4,458)	4,458	-0-
Proceeds from Sale of Fixed Assets	2,025	-0-	2,025
<b>Net Other Financing Sources (Uses)</b>	<b>(2,433)</b>	<b>332,123</b>	<b>329,690</b>
<b>NET CHANGES in FUND BALANCES</b>	<b>4,575,037</b>	<b>8,589</b>	<b>4,583,626</b>
<b>FUND BALANCES</b>			
Beginning	15,753,485	63,682	15,817,167
<b>Ending</b>	<b>\$ 20,328,522</b>	<b>\$ 72,271</b>	<b>\$ 20,400,793</b>

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, 2015

Total Net Changes in Fund Balances - Governmental Funds \$ 4,583,626

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	(1,936,626)	
Capital Outlays	577,939	
Net Book Value of Assets Sold	<u>(5,209)</u>	(1,363,896)

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. Unearned revenues decreased by this amount this year.

(135,322)

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.

32,609

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.

(14,277,874)

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

16,860,000

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

\$ 7,516

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, 2015

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.

\$ (242,672)

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.

12,485

In the statement of activities, deferred inflows of resources - pension, deferred outflows of resources - pension, and pension expense are recognized in conjunction with net pension liability. Whereas in the governmental funds, pension expense is recorded when required contributions are payable.

(1,512,504)

**CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES**

**\$ 3,963,968**

See notes to financial statements.

**Lebanon School District**

STATEMENT of NET POSITION -

PROPRIETARY FUND

June 30, 2015

	<u>Enterprise Fund</u>
	<u>Food Service</u>
	<u>Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 1,793,126
Due from Other Funds	272,750
Due from Other Governments	38,265
Other Receivables	759
Inventories	55,118
<b>Total Current Assets</b>	<b>2,160,018</b>
<b>Noncurrent Assets</b>	
Equipment and Vehicles, net of Accumulated Depreciation	<b>380,302</b>
<b>TOTAL ASSETS</b>	<b>2,540,320</b>
<b>DEFERRED OUTFLOWS of RESOURCES - PENSION</b>	<b>70,309</b>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable	13,223
Accrued Salaries and Benefits	65
Due to Other Funds	46,367
Due to Other Governmental Agencies	14
Unearned Revenues	12,380
<b>Total Current Liabilities</b>	<b>72,049</b>
<b>Noncurrent Liabilities</b>	
Compensated Absences	13,530
Net Pension Liability	978,435
<b>Total Noncurrent Liabilities</b>	<b>991,965</b>
<b>TOTAL LIABILITIES</b>	<b>1,064,014</b>
<b>DEFERRED INFLOWS of RESOURCES - PENSION</b>	<b>69,947</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	380,302
Unrestricted	1,096,366
<b>TOTAL NET POSITION</b>	<b>\$ 1,476,668</b>

See notes to financial statements.

# Lebanon School District

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

### PROPRIETARY FUND

Year Ended June 30, 2015

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
<b>OPERATING REVENUES</b>	
Food Service Revenue	\$ 449,824
Miscellaneous	904
<b>Total Operating Revenues</b>	<b>450,728</b>
<b>OPERATING EXPENSES</b>	
Salaries	345,966
Employee Benefits	249,579
Purchased Professional and Technical Services	8,960
Other Purchased Services	920,829
Repairs and Maintenance	1,268
Supplies	1,573,165
Depreciation	45,454
<b>Total Operating Expenses</b>	<b>3,145,221</b>
<b>OPERATING LOSS</b>	<b>(2,694,493)</b>
<b>NONOPERATING REVENUES</b>	
Investment Earnings	2,939
State Sources	173,037
Federal Sources	2,723,222
<b>Total Nonoperating Revenues</b>	<b>2,899,198</b>
<b>CHANGES in NET POSITION</b>	<b>204,705</b>
<b>NET POSITION</b>	
Beginning, as Originally Stated	2,231,666
Cumulative Effect of Change in Accounting Principle (Note 18)	(959,703)
Beginning, as Restated	<b>1,271,963</b>
<b>Ending</b>	<b><u>\$ 1,476,668</u></b>

See notes to financial statements.

**Lebanon School District**

STATEMENT of CASH FLOWS -

PROPRIETARY FUND

Year Ended June 30, 2015

	<u>Enterprise Fund</u>
	<u>Food Service</u>
	<u>Fund</u>
<b>CASH FLOWS from OPERATING ACTIVITIES</b>	
Cash Received from Users	\$ 451,815
Cash Payments to Employees for Services	(838,547)
Cash Payments to Suppliers for Goods and Services	<u>(2,345,705)</u>
<b>Net Cash Used by Operating Activities</b>	<b>(2,732,437)</b>
<b>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</b>	
Cash Payments for Purchase of Capital Assets	<b>(7,214)</b>
<b>CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES</b>	
State Sources	173,037
Federal Sources	<u>2,580,417</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>2,753,454</b>
<b>CASH FLOWS from INVESTING ACTIVITIES</b>	
Investment Earnings	<u>2,939</u>
<b>INCREASE in CASH and CASH EQUIVALENTS</b>	<b>16,742</b>
<b>CASH and CASH EQUIVALENTS</b>	
Beginning of Year	<u>1,776,384</u>
<b>End of Year</b>	<u><b>1,793,126</b></u>
<b>RECONCILIATION of OPERATING LOSS to NET</b>	
<b>CASH USED by OPERATING ACTIVITIES</b>	
Operating Loss	<b>(2,694,493)</b>
<b>ADJUSTMENTS to RECONCILE OPERATING LOSS</b>	
<b>to NET CASH USED by OPERATING ACTIVITIES</b>	
Depreciation	45,454
Donated Commodities Used	140,490
Increase in Accounts Receivable	(32)
Increase in Due from Other Funds	(272,750)
Decrease in Inventory	6,884
Increase in Accounts Payable	10,239
Increase in Due to Other Funds	11,105
Decrease in Accrued Salaries and Benefits	273
Increase in Unearned Revenues	2,023
Pension - Related Changes Other than Periodic Pension Costs	<u>18,370</u>
<b>Total Adjustments</b>	<u><b>(37,944)</b></u>
<b>Net Cash Used by Operating Activities</b>	<u><b>\$ (2,732,437)</b></u>

See notes to financial statements.

**Lebanon School District**

STATEMENT of CASH FLOWS -

PROPRIETARY FUND

(Continued)

Year Ended June 30, 2015

**Enterprise Fund**  
**Food Service**  
**Fund**

**SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION**

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

Receipt of USDA Donated Commodities

135,238

Use of USDA Donated Commodities

(140,490)

See notes to financial statements.

**Lebanon School District**  
 STATEMENT of NET POSITION -  
 FIDUCIARY FUNDS  
 June 30, 2015

	<b>Private Purpose Trust</b>	<b>Agency Fund</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	<u>\$ 333,411</u>	<u>\$ 148,777</u>
<b>LIABILITIES</b>		
Due to Other Funds	-0-	203
Other Current Liabilities	<u>-0-</u>	<u>148,574</u>
<b>TOTAL LIABILITIES</b>	<u><u>-0-</u></u>	<u><u>148,777</u></u>
<b>NET POSITION</b>		
Restricted for Scholarships	<u>\$ 333,411</u>	<u>\$ -0-</u>

See notes to financial statements.

**Lebanon School District**  
 STATEMENT of CHANGES in NET POSITION -  
 FIDUCIARY FUND  
 Year Ended June 30, 2015

	<b>Private Purpose Trust</b>
<b>ADDITIONS</b>	
Investment Earnings	\$ 623
Gifts and Contributions	<u>70,120</u>
<b>Total Additions</b>	<b>70,743</b>
<b>DEDUCTIONS</b>	
Scholarships Awarded	<u>17,942</u>
<b>CHANGES in NET POSITION</b>	<b>52,801</b>
<b>NET POSITION</b>	
Beginning	<u>280,610</u>
<b>Ending</b>	<b><u>\$ 333,411</u></b>

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 and 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, 2015, was approximately \$936,624 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. Note 16 describes the operating lease that the School District has entered into with the Authority. 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 of the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The Authority is not reported as part of the School District's reporting entity. The School District did not have any financial transactions with the Authority during the year ended June 30, 2015. 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, 2015, was approximately \$2,395,402. 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, 2015, was approximately \$250,788 (recognized as food service revenue in the food service fund). At June 30, 2015, \$684,956 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, 2015, which are not intended to finance fiscal 2015 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 fair value.

**Taxes Receivable and Deferred Inflows of Tax Revenues**

The portion of delinquent real estate taxes receivable that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other taxes receivable is recorded as deferred inflows of resources. Taxes receivable are recorded net of an estimated amount considered to be uncollectible (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, 2015. Any unused commodities donated by the federal government at June 30, 2015, 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.

**Lebanon School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

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

**Long-Term Obligations (Continued)**

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.

**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.

**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 the 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 has made all required contributions for the year ended June 30, 2015, and has recognized them as expenditures in the governmental funds.

In the government-wide financial statements and in the proprietary funds, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS), and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**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, 2015, the School District had no encumbrances.

**Interfund Activity**

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

**Lebanon School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

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

**Interfund Activity (Continued)**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Fund Balance Classification**

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the School Board. Commitments may be changed only by the 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. Significant estimates used in preparation of these financial statements include depreciation, estimated uncollectible taxes, compensated absences, pension related items, and other postemployment benefits. Actual results could differ from those estimates.

**Lebanon School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

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

**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 the fiscal year 2015.

**Accounting Standards Adopted in the Year Ended June 30, 2015**

During the current year, the School District adopted GASB 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. As a result of implementation of this standard in 2015, the School District reports an actuarial calculation of its proportionate share of net pension liability. Disclosures and required supplementary information related to the pension plan have been expanded to improve decision usefulness, support assessments of accountability, and create additional transparency.

Since this statement was implemented retroactively, the beginning net position of the governmental activities, the business-type activities, and proprietary funds financial statements have been restated, as discussed in Note 18, to account for the cumulative effect.

Commensurate with implementation of GASB Statement No. 68, the School District adopted GASB 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*. This statement amends GASB Statement No. 68 and requires that, at transition, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. As a result of implementation of this standard in 2015, the School District recognizes a deferred outflow of resources for its pension contribution made after the measurement date of the beginning net pension liability.

During the current year, the School District adopted GASB 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 School District's beginning balances and current year results were not affected by the implementation of this new standard.

**Pending Changes in Accounting Principles**

In March 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The provisions of this statement are effective for the School District's 2016 financial statements.

**Lebanon School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

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

**Pending Changes in Accounting Principles (Continued)**

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and accountability. The provisions of this statement are effective for the School District's 2016 financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and accountability. The provisions of this statement are effective for the School District's 2017 financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of this statement is to improve accounting and financial reporting for state and local governments for postemployment benefits other than pensions (OPEB). The provisions of this statement are effective for the School District's 2018 financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify the hierarchy of generally accepted accounting principles (GAAP) in the context of the current governmental financial reporting environment. The provisions of this statement are effective for the School District's 2017 financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. The provisions of this statement are effective for the School District's June 30, 2016 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 or the policy of the School District.

**Cash and Cash Equivalents - Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk. 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, 2015, \$3,819,532 of the School District's bank balance of \$4,069,532 was exposed to custodial credit risk as follows:

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>3,819,532</u>
	<b>3,819,532</b>

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

Uninsured Amount Above	3,819,532
Plus: Insured Amount	<u>250,000</u>
Bank Balance	4,069,532
Outstanding Checks	<u>(1,058,198)</u>
Carrying Amount - Bank Balances	3,011,334
Petty Cash	<u>660</u>
<b>Total Cash and Cash Equivalents Per Financial Statements</b>	<b>3,011,994</b>

**Investments**

As of June 30, 2015, the School District had the following investments:

Investments	Fair Value
PA Local Government Investment Trust	20,216,708
PA School District Liquid Asset Fund	34,324
US Treasuries	<u>20,558</u>
	<b>20,271,590</b>

**Interest Rate Risk**

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

**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, 2015, the School District investments were rated as:

Investments	Standard & Poor's
PA Local Government Investment Trust	AAAm
PA School District Liquid Asset Fund	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	99%
General Fund:	
PA Local Government Investment Trust	99%
Debt Service Fund:	
US Treasuries	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 investments 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, 2015, was 18.67 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2015, 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)

**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.

**Lebanon School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 4 - TAXES RECEIVABLE and DEFERRED TAXES (Continued)**

The balances at June 30, 2015, are as follows:

	<b>Taxes Receivable</b>	<b>Estimated Uncollectible</b>	<b>Net Taxes Receivable</b>	<b>Revenue Recognized</b>	<b>Deferred Revenues</b>
Real Estate Taxes	1,257,496	-0-	1,257,496	314,554	942,942
Per Capita Taxes	247,730	194,491	53,239	4,617	48,622
Local Services Taxes	10,271	-0-	10,271	10,271	-0-
Realty Transfer Taxes	16,073	-0-	16,073	16,073	-0-
Earned Income Taxes	<u>311,366</u>	<u>-0-</u>	<u>311,366</u>	<u>311,366</u>	<u>-0-</u>
	<b>1,842,936</b>	<b>194,491</b>	<b>1,648,445</b>	<b>656,881</b>	<b>991,564</b>

**NOTE 5 - INTERFUND ACCOUNTS**

Individual fund receivable and payable balances at June 30, 2015, are as follows:

<b>Fund</b>	<b>Due from Other Funds</b>	<b>Due to Other Funds</b>
General Fund	46,570	272,750
Food Service Fund	272,750	46,367
Student Activity Fund	<u>-0-</u>	<u>203</u>
	<b>319,320</b>	<b>319,320</b>

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.

A transfer is pending from the student activity fund to the general fund for costs of the student activity fund paid with general fund monies.

A transfer is pending from the general fund to the food service fund to transfer food service receipts received electronically by the general fund.

Interfund transfers for the year ended June 30, 2015, are as follows:

<b>Fund</b>	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	-0-	4,458
Debt Service Fund	<u>4,458</u>	<u>-0-</u>
	<b>4,458</b>	<b>4,458</b>

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

**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, 2015, the following amounts are due from other governmental units:

Due From	General Fund	Food Service Fund
Federal Grants	1,331,965	20,847
State Debt Service Reimbursement	1,220,087	-0-
State Retirement Subsidy	1,689,419	-0-
State FICA Subsidy	194,437	-0-
Other State and Local Subsidies	<u>782,878</u>	<u>17,418</u>
	<b>5,218,786</b>	<b>38,265</b>

**NOTE 7 - CHANGES in CAPITAL ASSETS**

Capital asset activity for governmental activities for the year ended June 30, 2015, is as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<b>Historical Cost:</b>				
Capital Assets not Being				
Depreciated:				
Land	682,029	-0-	-0-	682,029
Construction in Progress	<u>191,621</u>	<u>393,049</u>	<u>-0-</u>	<u>584,670</u>
<b>Total Cost</b>	<b>873,650</b>	<b>393,049</b>	<b>-0-</b>	<b>1,266,699</b>
Capital Assets Being				
Depreciated:				
Land Improvements	4,686,392	18,492	-0-	4,704,884
School Buildings and Improvements	81,883,152	-0-	-0-	81,883,152
Furniture, Fixtures, and Equipment	895,372	75,048	-0-	970,420
Vehicles	<u>387,845</u>	<u>91,350</u>	<u>36,990</u>	<u>442,205</u>
<b>Total Cost</b>	<b>87,852,761</b>	<b>184,890</b>	<b>36,990</b>	<b>88,000,661</b>
Accumulated Depreciation:				
Land Improvements	2,262,910	229,726	-0-	2,492,636
School Buildings	17,439,595	1,582,456	-0-	19,022,051
Furniture, Fixtures, and Equipment	362,687	91,876	-0-	454,563
Vehicles	<u>268,188</u>	<u>32,568</u>	<u>31,781</u>	<u>268,975</u>
<b>Total Accumulated     Depreciation</b>	<b><u>20,333,380</u></b>	<b><u>1,936,626</u></b>	<b><u>31,781</u></b>	<b><u>22,238,225</u></b>
<b>Net Capital Assets Being Depreciated</b>	<b><u>67,519,381</u></b>	<b><u>(1,751,736)</u></b>	<b><u>(5,209)</u></b>	<b><u>65,762,436</u></b>

**Lebanon School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

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

Capital asset activity for governmental activities for the year ended June 30, 2015, is as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<b>Net Capital Assets</b>	<b>68,393,031</b>	<b>(1,358,687)</b>	<b>(5,209)</b>	<b>67,029,135</b>

Capital asset activity for business-type activities for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<b>Historical Cost:</b>				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	655,177	7,214	-0-	662,391
Vehicles	<u>40,331</u>	<u>-0-</u>	<u>-0-</u>	<u>40,331</u>
<b>Total Cost</b>	<b>695,508</b>	<b>7,214</b>	<b>-0-</b>	<b>702,722</b>
Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	254,280	40,413	-0-	294,693
Vehicles	<u>22,686</u>	<u>5,041</u>	<u>-0-</u>	<u>27,727</u>
<b>Total Accumulated Depreciation</b>	<b>276,966</b>	<b>45,454</b>	<b>-0-</b>	<b>322,420</b>
<b>Net Capital Assets</b>	<b>418,542</b>	<b>(38,240)</b>	<b>-0-</b>	<b>380,302</b>

Depreciation expenses were charged to governmental functions as follows:

Instruction	1,228,271
Instructional Student Support	194,380
Administrative and Financial Support Services	173,135
Operation and Maintenance of Plant Services	263,268
Pupil Transportation	39,106
Student Activities	<u>38,466</u>
	<b>1,936,626</b>

**NOTE 8 - ACCRUED SALARIES and BENEFITS**

At June 30, 2015, the School District was liable for \$2,658,325 of payroll, which is payable during July and August 2015, 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, 2015, 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, 2015.

**Lebanon School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 8 - ACCRUED SALARIES and BENEFITS (Continued)**

Accrued salaries and benefits as of June 30, 2015, are as follows:

Accrued Salaries	2,658,325
Accrued Benefits:	
Retirement	566,757
Social Security	<u>192,934</u>
	<b>3,418,016</b>

**NOTE 9 - UNEARNED REVENUES**

Unearned revenues consists of the following as of June 30, 2015:

	General Fund	Food Service Fund
Unearned Grant Revenues	281,679	-0-
Prepaid Lunch Sales	<u>-0-</u>	<u>12,380</u>
	<b>281,679</b>	<b>12,380</b>

**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, 2015, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2015
Series B of 2010	March 1, 2029	6.495%	15,000,000
Series of 2011	June 15, 2024	2.00% - 3.375%	7,475,000
Series of 2012	June 15, 2033	2.50% - 4.00%	13,885,000
Series of 2013	June 15, 2024	1.25% - 2.25%	2,985,000
Series of 2014	June 15, 2024	2.00% - 2.875%	6,810,000
Series A of 2014	June 15, 2024	1.00 - 4.00%	4,275,000
Series of 2015	June 15, 2024	.30% - 4.00%	<u>7,995,000</u>
			<b>58,425,000</b>

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 School District refunded these bonds during the current year with the proceeds of the General Obligation Bonds Series of 2015.

**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 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 School District refunded these bonds during the current year with the proceeds of the General Obligation Bonds Series A of 2014.

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, 2015, 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, 2015, was \$7,475,000 and is due in various amounts as described in the indenture through June 2024. Principal due within one year is \$680,000. 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, 2015, was \$13,885,000 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%.

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, 2015, was \$2,985,000 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%.

**Lebanon School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

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

**General Obligation Debt (Continued)**

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, 2015, was \$6,810,000 and is due in various amounts as described in the indenture through June 2024. Principal due within one year is \$630,000. The interest rate varies from 2.00% to 2.875%.

On December 12, 2014, the General Obligation Bonds, Series A of 2014 were issued in the aggregate principal amount of \$5,140,000 to be used towards the current refunding of the School District's outstanding General Obligation Bonds Capital Project Series, Series AA of 2009 and for the payment of bond issuance costs. The principal amount of the Series A of 2014 Bonds outstanding at June 30, 2015, was \$4,275,000 and is due in various amounts as described in the indenture through June 2024. Principal due within one year is \$885,000. The interest rate varies from 1.00% to 4.00%. As a result of this refunding, the School District reduced its total debt service requirements by \$205,576, which resulted in an economic gain of approximately \$181,000.

On February 18, 2015, the General Obligation Bonds, Series of 2015 were issued in the aggregate principal amount of \$8,665,000 to be used towards the current refunding of the School District's outstanding General Obligation Bonds Capital Project Series, Series A of 2009 and for the payment of bond issuance costs. The principal amount of the Series of 2015 Bonds outstanding at June 30, 2015, was \$7,995,000 and is due in various amounts as described in the indenture through June 2024. Principal due within one year is \$690,000. The interest rate varies from 0.30% to 4.00%. As a result of this refunding, the School District reduced its total debt service requirements by \$626,824, which resulted in an economic gain of approximately \$551,000.

Long-term obligation activity can be summarized as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2015</b>
General Obligation Debt	61,480,000	13,805,000	16,860,000	58,425,000
Bond Premium, net of				
Bond Discount	40,822	532,665	82,650	490,837
Earned Income Tax				
Settlement Payable	228,262	-0-	32,609	195,653
Estimated Liability for				
Compensated Absences	1,027,440	242,672	-0-	1,270,112
Net Other Postemployment				
Benefit (OPEB) Liability	<u>779,886</u>	<u>-0-</u>	<u>12,485</u>	<u>767,401</u>
	<b>63,556,410</b>	<b>14,580,337</b>	<b>16,987,744</b>	<b>61,149,003</b>

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, 2015, the School District has made deposits of \$20,000 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
2016	2,291,427	2,920,000	5,000	5,216,427
2017	2,224,351	2,985,000	5,000	5,214,351
2018	2,137,876	3,155,000	5,000	5,297,876
2019	2,049,526	3,245,000	5,000	5,299,526
2020	1,958,701	3,325,000	5,000	5,288,701
2021-2025	8,471,900	14,215,000	3,179,000	25,865,900
2026-2030	5,948,800	4,485,000	11,776,000	22,209,800
2031-2033	<u>737,000</u>	<u>9,095,000</u>	<u>-0-</u>	<u>9,832,000</u>
	<b>25,819,581</b>	<b>43,425,000</b>	<b>14,980,000</b>	<b>84,224,581</b>

**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, 2015:

	Governmental Activities	Business-Type Activities
Accumulated Sick Leave	1,062,010	13,032
Accumulated Vacation Leave	104,833	-0-
Accumulated Personal Leave	87,083	-0-
Employer Social Security and Medicare on Leave Amounts Above	<u>16,186</u>	<u>498</u>
	<b>1,270,112</b>	<b>13,530</b>

**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, 2015, the School District has the following restricted balances:

<b>Public Purpose Trust Fund:</b>	
Restricted for Land Development, Scholarships, and Educational Purposes	51,713
<b>Debt Service Fund:</b>	
Restricted for Debt Service	20,558

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, 2015, the School District has included the following as committed fund balances:

<b>General Fund:</b>	
Committed for Payment of Overpaid EIT Funds as Calculated Under the Grumbine Plan	196,653

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, 2015, the School District has the following assigned fund balances:

<b>General Fund:</b>	
Assigned for Potential Building and Systems Replacements	13,500,000

**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, 2015, 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, 2015, and the two previous fiscal years, no settlements exceeded insurance coverage.

**NOTE 14 - DEFINED BENEFIT PENSION PLAN**

**General Information about the Pension Plan**

**Plan Description**

The School District contributes to a governmental cost-sharing multi-employer defined benefit pension plan administered by PSERS. PSERS provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania.

PSERS issues a publicly available financial report that can be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

**Benefits Provided**

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

**Lebanon School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)**

**General Information about the Pension Plan (Continued)**

**Contributions**

The contribution policy is set by the Code and requires contributions by active members, participating employers, and the Commonwealth of Pennsylvania. 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.

**Member Contributions**

Active members who joined the plan before July 22, 1983, are required to contribute 5.25% of their compensation if they are in Class T-C or 6.50% for Class T-D. Members who joined on or after July 22, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25% for Class T-C or 7.50% for Class T-D. Members who joined the plan after June 30, 2001 and before July 1, 2011, are automatically in Class T-D and are required to contribute 7.50%.

Members who joined the plan after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.3% (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 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%

**Employer Contributions**

The School Districts' contractually required contribution rate for fiscal year ended June 30, 2015, was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School District were \$5,657,818 for the year ended June 30, 2015.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the School District reported a liability of \$81,536,277 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS's total pension liability as of June 30, 2013 to June 30, 2014. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School District's proportion was .2060 percent, which was an increase of .0003 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension expense of \$7,188,693. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Lebanon School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)**

**General Information about the Pension Plan (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

	<b>Deferred Outflows Of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between Expected and Actual Experience	-0-	-0-
Changes in Assumptions	-0-	-0-
Net Difference between Projected and Actual Investment Earnings	-0-	5,828,918
Net Change in Proportions	98,963	-0-
Difference between Employer Contributions and Proportionate Share of Total Contributions	102,272	-0-
Contributions Subsequent to the Measurement Date	<u>5,657,818</u>	<u>-0-</u>
	<b>5,859,053</b>	<b>5,828,918</b>

\$5,657,818 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2016	1,505,720
2017	1,505,720
2018	1,505,720
2019	1,505,718
2020	<u>7,275</u>
	<b>6,030,153</b>

**Actuarial Assumptions**

The total pension liability as of June 30, 2014, was determined by rolling forward PSERS's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

**Actuarial Cost Method** - Entry age normal

**Investment Rate of Return** - 7.5%, including inflation at 3.0%

**Salary Increases** - Effective average of 5.5%, which reflects an allowance for inflation of 3.0%, real wage growth of 1.0%, and merit or seniority increases of 1.5%.

**Lebanon School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)**

**Actuarial Assumptions (Continued)**

**Mortality Rates** - Based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Markets Global Equity	19%	5.0%
Private Markets (Equity)	21%	6.5%
Private Real Estate	13%	4.7%
Global Fixed Income	8%	2.0%
U.S. Long Treasuries	3%	1.4%
TIPS	12%	1.2%
High Yield Bonds	6%	1.7%
Cash	3%	0.9%
Absolute Return	10%	4.8%
Risk Parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	<u>(9%)</u>	1.1%
	100%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

**Lebanon School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 14 - DEFINED BENEFIT PENSION PLAN (Continued)**

**Actuarial Assumptions (Continued)**

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

	<b>1% Decrease 6.50%</b>	<b>Current Discount 7.50%</b>	<b>1% Increase 8.50%</b>
School District's Proportionate Share of the Net Pension Liability	101,705,000	81,536,277	64,318,000

**Pension Plan Fiduciary Net Position**

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS' website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

**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 \$767,401.

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.

**Lebanon School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**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.

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	594,049
Interest on OPEB Obligation	35,095
Adjustment to Annual Required Contribution	<u>(66,616)</u>
Annual OPEB Cost	<b>562,528</b>
Contributions Made (Estimated)	<u>(575,013)</u>
Estimated Decrease in Net OPEB Obligation	(12,485)
Net OPEB Obligation - Beginning of Year	<u>779,886</u>
Net OPEB Obligation - End of Year	<b>767,401</b>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015, 2014, and 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation - End of Year
6/30/2013	647,134	94%	771,429
6/30/2014	644,741	99%	779,886
6/30/2015	562,528	102%	767,401

**Funding Status and Funding Progress**

As of July 1, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled \$4,477,138, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,477,138. The covered payroll (annual payroll of active employees covered by the plan) equaled \$23,084,929, and the ratio of the UAAL to the covered payroll equaled 19.39%.

**Lebanon School District**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**Funding Status and Funding Progress (Continued)**

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.

**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, 2014, 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 6.5% in 2014, 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 School District's lease payment to the Authority for the year ended June 30, 2015, was \$108,839 and the District's share of the Lease Revenue Bonds is \$1,975,081. 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, 2015, was \$91,501.

**Lebanon School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 16 - OPERATING LEASES (Continued)**

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2015, for each of the next five years and in the aggregate are as follows:

2016	200,690
2017	109,911
2018	110,555
2019	110,238
2020	109,870
2021-2025	548,015
2026-2030	548,300
2031-2033	<u>329,004</u>
	<b>2,066,583</b>

**NOTE 17 - CONTINGENCIES and COMMITMENTS**

**General**

The School District is involved in various claims, including real estate tax assessment appeals, and legal actions arising in the ordinary course of business. The outcome of these matters cannot be determined at this time.

**Grant Revenue**

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.

**Capital Projects - Athletic Stadium and Maintenance Facilities**

The School District has entered into various contracts for upgrades to the athletic stadium and maintenance facilities. The amount remaining on the outstanding contracts is \$198,629.

**NOTE 18 - CHANGE in ACCOUNTING PRINCIPLE**

As part of the implementation of GASB Statement Nos. 68 and 71, the School District restated the beginning net position of the governmental activities, the business-type activities, and proprietary funds.

In prior years, the School District did not record a net pension liability. GASB Statement No. 68 as amended by GASB Statement No. 71 requires the School District to recognize a liability for its proportionate share of the PSERS net pension liability. Therefore, net position as of July 1, 2014, has been restated as follows:

**Lebanon School District**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 18 - CHANGE in ACCOUNTING PRINCIPLE (Continued)**

	<b>Governmental Activities</b>	<b>Business-Type Activities and Proprietary Funds</b>
<b>Net Position as Previously Reported at June 30, 2014:</b>	<b>21,751,189</b>	<b>2,231,666</b>
<b>Prior period adjustment:</b>		
Net Pension Liability (Measurement Date as of June 30, 2013)	(83,195,407)	(1,010,470)
<b>Deferred outflows:</b>		
School District Contributions Made During Fiscal Year 2014	<u>4,179,842</u>	<u>50,767</u>
<b>Total Prior Period Adjustment</b>	<b><u>(79,015,565)</u></b>	<b><u>(959,703)</u></b>
<b>Net Position as Restated, July 1, 2014</b>	<b>(57,264,376)</b>	<b>1,271,963</b>

# Lebanon School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -  
BUDGET and ACTUAL -  
GENERAL FUND  
Year Ended June 30, 2015

REVENUES	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Local Sources:				
Real Estate Taxes	\$ 14,898,981	\$ 14,898,981	\$ 15,389,998	\$ 491,017
Other Taxes	1,876,200	1,876,200	1,911,248	35,048
Investment Earnings	10,000	10,000	9,420	(580)
Other Revenue	1,978,530	1,978,530	2,279,525	300,995
<b>Total Local Sources</b>	<b>18,763,711</b>	<b>18,763,711</b>	<b>19,590,191</b>	<b>826,480</b>
State Sources	38,386,555	38,386,555	40,519,979	2,133,424
Federal Sources	3,965,085	3,965,085	5,322,028	1,356,943
<b>Total Revenues</b>	<b>61,115,351</b>	<b>61,115,351</b>	<b>65,432,198</b>	<b>4,316,847</b>
<b>EXPENDITURES</b>				
Instructional Services:				
Regular Programs	24,709,594	24,888,219	24,076,230	811,989
Special Programs	8,839,340	8,829,339	8,509,093	320,246
Vocational Programs	1,055,375	1,055,375	1,045,014	10,361
Other Instructional Programs	525,730	535,257	782,698	(247,441)
Pre Kindergarten Programs	1,342,035	1,342,035	1,506,145	(164,110)
Support Services:				
Pupil Personnel	2,740,044	2,740,044	2,977,134	(237,090)
Instructional Staff	2,541,976	2,538,203	2,889,423	(351,220)
Administrative	3,569,936	3,545,922	3,537,443	8,479
Pupil Health	489,866	489,866	493,143	(3,277)
Business	1,084,199	1,084,199	965,868	118,331
Operation of Plant and				
Maintenance	5,717,428	5,717,428	5,573,759	143,669
Student Transportation	1,203,700	1,203,700	1,276,435	(72,735)
Central	432,607	432,607	401,216	31,391
Other Support	11,800	11,800	10,863	937
Noninstructional Services:				
Student Activities	1,142,216	1,139,952	1,207,697	(67,745)
Capital Outlay	2,100,000	1,951,900	395,560	1,556,340
Refund of Prior Years' Revenues	44,000	44,000	4,066	39,934
Debt Service:				
Principal	2,850,000	2,850,000	3,824,239	(974,239)
Interest and Other Charges	2,582,182	2,582,182	1,378,702	1,203,480
<b>Total Expenditures</b>	<b>62,982,028</b>	<b>62,982,028</b>	<b>60,854,728</b>	<b>2,127,300</b>
<b>EXCESS (DEFICIENCY) of REVENUES</b>				
<b>over EXPENDITURES</b>	<b>\$ (1,866,677)</b>	<b>\$ (1,866,677)</b>	<b>\$ 4,577,470</b>	<b>\$ 6,444,147</b>

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, 2015

	<u>Budgeted Amounts</u>		<b>Actual Budgetary Basis</b>	<b>Variance with Final Budget - Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In (Out)	\$ (5,000)	\$ (5,000)	\$ (4,458)	\$ 542
Proceeds from Sale of Fixed Assets	-0-	-0-	2,025	2,025
Budgetary Reserve	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>-0-</u>	<u>2,000,000</u>
<b>Net Other Financing Sources (Uses)</b>	<b><u>(2,005,000)</u></b>	<b><u>(2,005,000)</u></b>	<b><u>(2,433)</u></b>	<b><u>2,002,567</u></b>
<b>NET CHANGES in FUND BALANCES</b>	<b><u>\$ (3,871,677)</u></b>	<b><u>\$ (3,871,677)</u></b>	<b>4,575,037</b>	<b><u>\$ 8,446,714</u></b>
<b>FUND BALANCES</b>				
Beginning			<u>15,753,485</u>	
<b>Ending</b>			<b><u>\$ 20,328,522</u></b>	

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.

See independent auditors' report.

**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]
07/01/2010	-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%
07/01/2014	-0-	4,477,138	4,477,138	0.00%	23,084,929	19.39%

See independent auditors' report.

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

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Contributions from Employer (Estimated)</b>	<b>Percentage Contributed</b>
June 30, 2013	647,134	610,137	94.3%
June 30, 2014	644,741	636,284	98.7%
June 30, 2015	562,528	575,013	102.2%

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 62 and 63 was determined as part of the actuarial valuations at the dates indicated. Key factors used in the actuarial valuations are as follows:

Valuation Dates	07/01/2010	07/01/2012	07/01/2014
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			
Administrators and Supervisory Employees	100%	100%	100%
110/43 Eligible Only Employees	50%	50%	50%
Percent Married with Election of Spousal Coverage by Plan	25%	25%	25%
Per Capita Claims Cost			
Female (Age 45 - 64)	\$7,274 - \$9,882	\$7,264 - \$9,868	\$8,676 - \$11,786
Male (Age 45 - 64)	\$5,037 - \$10,603	\$5,030 - \$10,587	\$6,007 - \$12,645
Demographic Information			
Active Participants	459	444	446
Retired Participants	<u>80</u>	<u>83</u>	<u>64</u>
Total Participants	<b>539</b>	<b>527</b>	<b>510</b>
Health Care Cost Trend Rate	7.5% decreasing 0.5% per year to 5.5% in 2014 and 4.2% through 2089	7.5% decreasing 0.5% per year to 5.5% in 2016 and 4.2% through 2089	6.5% 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

### SCHEDULE of SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET PENSION LIABILITY

#### PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years

For the Fiscal Year Ended June 30	School District's Proportion of the Net Pension Liability (Asset)	School District's Proportionate Share of the Net Pension Liability (Asset)	School District's Covered- Employee Payroll	School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.2060%	81,536,277	26,280,974	310.25%	57.24%

Note : This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The data provided in the schedule is based on the measurements date, which is the beginning of the School District's fiscal year.

See independent auditors' report.

**Lebanon School District**  
 SCHEDULES of EMPLOYER CONTRIBUTIONS -  
 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
 Last 10 Fiscal Years

	<b>Contractually Required Contribution</b>	<b>Contributions from Employer</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Employee Payroll</b>	<b>Contributions as a Percentage of Covered Employee Payroll</b>
<b>Defined Benefit Pension Plan:</b>					
2006	\$ 890,795	\$ 890,795	\$ -0-	\$ 22,269,872	4.00%
2007	1,316,385	1,316,385	-0-	23,013,731	5.72%
2008	1,579,746	1,579,746	-0-	24,530,224	6.44%
2009	1,056,323	1,056,323	-0-	26,408,067	4.00%
2010	1,007,896	1,007,896	-0-	25,197,406	4.00%
2011	1,337,277	1,337,277	-0-	26,745,550	5.00%
2012	2,011,304	2,011,304	-0-	25,141,295	8.00%
2013	3,065,337	3,065,337	-0-	26,398,802	11.50%
2014	4,230,609	4,230,609	-0-	26,280,974	16.00%
2015	\$ 5,479,574	\$ 5,479,574	\$ -0-	\$ 26,729,629	20.50%

See independent auditors' report.

**Lebanon School District**  
NOTES to REQUIRED SUPPLEMENTARY INFORMATION -  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

**Changes of Benefit Terms:**

None.

**Changes of Assumptions:**

None.

See independent auditors' report.

**Lebanon School District**  
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2015

	Debt Service Fund	Public Purpose Trust Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -0-	\$ 51,713	\$ 51,713
Investments	<u>20,558</u>	<u>-0-</u>	<u>20,558</u>
<b>TOTAL ASSETS</b>	<b><u>20,558</u></b>	<b><u>51,713</u></b>	<b><u>72,271</u></b>
<b>LIABILITIES and FUND BALANCES</b>			
<b>LIABILITIES</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>FUND BALANCES</b>			
Restricted	<u>20,558</u>	<u>51,713</u>	<u>72,271</u>
<b>TOTAL LIABILITIES and FUND BALANCES</b>	<b><u>\$ 20,558</u></b>	<b><u>\$ 51,713</u></b>	<b><u>\$ 72,271</u></b>

See independent auditors' report.

## Lebanon School District

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

Year Ended June 30, 2015

	Debt Service Fund	Public Purpose Trust Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Local Sources:			
Investment Earnings	\$ 1,184	\$ 841	\$ 2,025
Other Local Revenue	<u>-0-</u>	<u>60,186</u>	<u>60,186</u>
<b>Total Revenues</b>	<b>1,184</b>	<b>61,027</b>	<b>62,211</b>
<b>EXPENDITURES</b>			
Support Services	260,752	58,080	318,832
Debt Service	<u>66,913</u>	<u>-0-</u>	<u>66,913</u>
<b>Total Expenditures</b>	<b><u>327,665</u></b>	<b><u>58,080</u></b>	<b><u>385,745</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUES over EXPENDITURES</b>	<b>(326,481)</b>	<b>2,947</b>	<b>(323,534)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Refunding Bond Proceeds	13,805,000	-0-	13,805,000
Debt Service (Payment to Bond Escrow Agent)	(14,010,000)	-0-	(14,010,000)
Bond Premium on Refunding Bond Proceeds	532,665	-0-	532,665
Transfers In	<u>4,458</u>	<u>-0-</u>	<u>4,458</u>
<b>Net Other Financing Sources</b>	<b><u>332,123</u></b>	<b><u>-0-</u></b>	<b><u>332,123</u></b>
<b>NET CHANGES in FUND BALANCES</b>	<b>5,642</b>	<b>2,947</b>	<b>8,589</b>
<b>FUND BALANCES</b>			
Beginning	<u>14,916</u>	<u>48,766</u>	<u>63,682</u>
<b>Ending</b>	<b><u>\$ 20,558</u></b>	<b><u>\$ 51,713</u></b>	<b><u>\$ 72,271</u></b>

See independent auditors' report.

**Lebanon School District**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 Year Ended June 30, 2015

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, 2014	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2015
<b>U.S. Department of Agriculture</b>									
<b>Passed Through the Pennsylvania</b>									
<b>Department of Education:</b>									
School Breakfast Program (Note 3)	I	10.553	N/A	07/01/14 - 06/30/15	N/A	\$ -0-	\$ 580,973	\$ 580,973	\$ -0-
National School Lunch Program (Note 3)	I	10.555	N/A	07/01/14 - 06/30/15	N/A	-0-	1,835,943	1,835,943	-0-
Summer Food Service Program for Children (Note 3)	I	10.559	N/A	07/01/14 - 06/30/15	N/A	-0-	11,146	20,526	9,380
Summer Food Service Program for Children (Note 3)	I	10.559	N/A	07/01/13 - 06/30/14	N/A	2,908	2,908	-0-	-0-
Fresh Fruit and Vegetable Program	I	10.582	N/A	07/01/14 - 06/30/15	N/A	-0-	139,074	150,540	11,466
Fresh Fruit and Vegetable Program	I	10.582	N/A	07/01/13 - 06/30/14	N/A	<u>15,610</u>	<u>15,610</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Passed Through the Pennsylvania Department of Education</b>						<b>18,518</b>	<b>2,585,654</b>	<b>2,587,982</b>	<b>20,846</b>
<b>Passed Through the Pennsylvania</b>									
<b>Department of Agriculture:</b>									
National School Lunch Program (Notes 2 and 3)	I	10.555	N/A	07/01/14 - 06/30/15	N/A	<u>(16,185) A)</u>	<u>135,238</u>	<u>140,490</u> C)	<u>(10,933)</u> D)
<b>Total U.S. Department of Agriculture</b>						<b>2,333</b>	<b>2,720,892</b>	<b>2,728,472</b>	<b>9,913</b>
<b>U.S. Department of Education</b>									
<b>Passed Through the Pennsylvania</b>									
<b>Department of Education:</b>									
Title I Grants to Local Educational Agencies	I	84.010	013-150224	07/01/14 - 09/30/15	2,911,386	-0-	1,907,221	2,868,588	961,367
Title I Grants to Local Educational Agencies (Note 4)	I	84.010	013-130224	07/16/13 - 09/30/14	2,064,068	587,152	716,837	43,242	(86,443)
Title I Grants to Local Educational Agencies	I	84.010	042-130224	05/06/13 - 09/30/14	252,015	29,649	29,649	-0-	-0-
Twenty-First Century Community Learning Centers	I	84.287	FC-4100068068	10/01/14 - 09/30/15	400,000	-0-	193,099	295,360	102,261
Twenty-First Century Community Learning Centers	I	84.287	FC-4100058690	10/01/13 - 09/30/14	492,000	\$ 91,901	\$ 122,241	\$ 30,340	\$ -0-

See independent auditors' report.

**Lebanon School District**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 (Continued)  
 Year Ended June 30, 2015

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, 2014	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2015
<b>U.S. Department of Education (Continued)</b>									
<b>Passed Through the Pennsylvania Department of Education (Continued):</b>									
English Language Acquisition Grants	I	84.365	010-150224	07/01/14 - 09/30/15	168,944	\$ -0-	\$ 123,892	\$ 165,796	\$ 41,904
English Language Acquisition Grants	I	84.365	010-140224	07/16/13 - 09/30/14	168,279	26,927	44,874	40,385	22,438
Improving Teacher Quality State Grants	I	84.367	020-150224	07/01/14 - 09/30/15	293,304	-0-	215,242	293,304	78,062
Improving Teacher Quality State Grants	I	84.367	020-140224	07/16/13 - 09/30/14	310,962	57,836	77,836	20,000	-0-
School Improvement Grant	I	84.377	142-143224	09/08/14 - 09/30/15	399,655	-0-	276,684	389,342	112,658
School Improvement Grant	I	84.377	142-132224	07/24/13 - 09/30/14	343,430	<u>98,074</u>	<u>160,267</u>	<u>62,193</u>	<u>-0-</u>
<b>Total Passed Through the Pennsylvania Department of Education</b>						<b>891,539</b>	<b>3,867,842</b>	<b>4,208,550</b>	<b>1,232,247</b>
<b>Passed Through Lancaster-Lebanon Intermediate Unit No. 13:</b>									
Special Education - Grants to States (Note 3)	I	84.027	062-150013	07/01/14 - 09/30/15	980,137	-0-	980,137	980,137	-0-
Special Education - Preschool Grants (Note 3)	I	84.173	131-140013	07/01/14 - 06/30/15	10,098	-0-	10,098	10,098	-0-
Special Education - Preschool Grants (Note 3)	I	84.173	131-130013	07/01/13 - 06/30/14	9,190	<u>4,595</u>	<u>4,595</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Passed Through Lancaster-Lebanon Intermediate Unit No. 13</b>						<b>4,595</b>	<b>994,830</b>	<b>990,235</b>	<b>-0-</b>
<b>Total U.S. Department of Education</b>						<b>896,134</b>	<b>4,862,672</b>	<b>5,198,785</b>	<b>1,232,247</b>
<b>U.S. Department of Health and Human Services</b>									
<b>Passed Through Pennsylvania Department of Public Welfare:</b>									
Medical Assistance Program (Note 3)	I	93.778	N/A	07/01/14 - 06/30/15	60,610	-0-	47,335	60,610	13,275
Medical Assistance Program (Note 3 and 5)	I	93.778	N/A	07/01/13 - 06/30/14	91,269	<u>28,135</u>	<u>28,135</u>	<u>-0-</u>	<u>-0-</u>
<b>Total U.S. Department of Health and Human Services</b>						<b>\$ 28,135</b>	<b>\$ 75,470</b>	<b>\$ 60,610</b>	<b>\$ 13,275</b>

See independent auditors' report.

**Lebanon School District**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 (Continued)  
 Year Ended June 30, 2015

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, 2014	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2015
<b>TOTAL EXPENDITURES of FEDERAL AWARDS</b>						<u>\$ 926,602</u>	<u>\$ 7,659,034</u>	<u>\$ 7,987,867</u>	<u>\$ 1,255,435</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, 2015

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**

The amount listed in the last column on the schedule represents funds which were returned to the grantor agency during the year ended June 30, 2015

**NOTE 5 - ACCRUAL (DEFERRAL) ADJUSTMENTS at June 30, 2015**

Project Title	Source Code	Grantor's Number	Grant Period Beginning/ Ending Date	Accrual(Deferral) Shown at June 30, 2014	Correct Accrual (Deferral) at June 30, 2015
Medical Assistance Program	I	NA	07/01/13 - 06/30/14	31,088	28,135

**NOTE 6 - 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, 2015, was \$169,443, which is listed on the PDE confirmation as program #044-007224.

See independent auditors' report.

**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, 2015, 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 13, 2015.

**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 #2015-001 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 Finding**

**Lebanon School District's** response to the finding 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 13, 2015  
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, 2015. **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 each 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, 2015.

## 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 13, 2015  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*  
TROUT, EBERSOLE, & GROFF, LLP  
Certified Public Accountants

**Lebanon School District**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
Year Ended June 30, 2015

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.

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, Fresh Fruit and Vegetable Program Grants - CFDA #10.582, Special Education - Grants to States - CFDA #84.027, Special Education Preschool Grants - CFDA #84.173, and Improving Teachers State Quality Grant - CFDA # 84.367.

7. The threshold for distinguishing type A and B programs was \$300,000.
8. **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, 2015

B. Findings - Financial Statements Audit

**Material Weakness**

#2015-001 - 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 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 District.

C. Findings - Major Federal Awards Programs Audit

None

**Lebanon School District**  
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS  
Year Ended June 30, 2015

There were no findings from the prior year.

November 13, 2015

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

**Subject: Responses to Schedule of Findings and Questioned Costs: 2014-2015 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, 2015. The District's response to each of the numbered deficiencies is outlined below.

**2015-001 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