



**Lampeter-Strasburg
School District
Lampeter, Pennsylvania
Lancaster County**

Financial Statements
Year Ended June 30, 2017



1835 Market Street, 26th Floor
Philadelphia, PA 19103

215/567-7770 | bbdcpa.com

LAMPETER-STRASBURG SCHOOL DISTRICT

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
<i>Statement of Net Position (Deficit)</i>	14
<i>Statement of Activities</i>	15
Fund Financial Statements	
<i>Balance Sheet – Governmental Funds</i>	16
<i>Reconciliation of Governmental Funds Balance Sheet to Net Position (Deficit) of Governmental Activities on the Statement of Net Position (Deficit)</i>	17
<i>Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds</i>	18
<i>Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Change in Net Position (Deficit) of Governmental Activities on the Statement of Activities</i>	19
<i>Statement of Net Position (Deficit) – Proprietary Funds</i>	20
<i>Statement of Revenues, Expenses and Changes in Net Position (Deficit) – Proprietary Funds</i>	21
<i>Statement of Cash Flows – Proprietary Funds</i>	22
<i>Statement of Net Position – Fiduciary Funds</i>	23
<i>Statement of Changes in Net Position – Fiduciary Fund</i>	24
Notes to Financial Statements	25
REQUIRED SUPPLEMENTARY INFORMATION	
<i>Budgetary Comparison Schedule – General Fund</i>	46
<i>Other Post-Employment Benefits Schedule of Funding Progress</i>	47
<i>Schedule of the District's Proportionate Share of the Net Pension Liability</i>	48
<i>Schedule of the District's Pension Plan Contributions</i>	49
SINGLE AUDIT	
<i>Schedule of Expenditures of Federal Awards</i>	50
<i>Notes to Schedule of Expenditures of Federal Awards</i>	52
<i>Summary Schedule of Prior Audit Findings</i>	53

LAMPETER-STRASBURG SCHOOL DISTRICT

CONTENTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	54
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	56
<i>Schedule of Findings and Questioned Costs</i>	58



INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
Lampeter-Strasburg School District
Lampeter, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lampeter School District, Lampeter, Pennsylvania as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Lampeter-Strasburg 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.

Auditor's 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 auditor's 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 auditor considers 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.

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 Lampeter-Strasburg School District, Lampeter, Pennsylvania as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the other post-employment benefits schedule of funding progress and the schedules of the District's proportionate share of the net pension liability and pension plan contributions on pages 3 through 13 and 46 through 49 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 Lampeter-Strasburg School District's basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards and certain state grants is 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 October 16, 2017, on our consideration of Lampeter-Strasburg 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 Lampeter-Strasburg School District's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
October 16, 2017**

LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Management's discussion and analysis ("**MD&A**") of the financial performance of the Lampeter-Strasburg School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2017. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of two elementary schools, a middle school and a high school consisting of approximately 3,043 students. The District covers 36.2 square miles southeast of the City of Lancaster and is comprised of the Townships of Strasburg and West Lampeter and the Borough of Strasburg. During 2016-2017, there were 435 employees in the District, consisting of 222 teachers, 13 administrators, including general administration, principals, and supervisors, and 200 support personnel including administrative assistants, maintenance staff, custodial staff, transportation staff, food service staff, technology staff, school monitors and staff nurses.

The District is committed to providing, in an accountable partnership with the parents and the community, opportunities for each learner to acquire the knowledge, skills and values to become a responsible, productive citizen.

FINANCIAL HIGHLIGHTS

- On a government-wide basis including all governmental activities and the business type activities, the liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources of the District resulting in a deficit in total net position at the close of the 2016-2017 fiscal year of \$34,757,137. During the 2016-2017 fiscal year, the District had an increase in total net position of \$2,499,576. The net position of governmental activities increased by \$2,543,467 and the net position of the business-type activities decreased by \$43,891.
- The General Fund reported an increase of fund balance of \$548,872, bringing the cumulative balance to \$6,236,468 at the conclusion of the 2016-2017 fiscal year.
- At June 30, 2017, the General Fund fund balance includes non-spendable inventory of \$56,038, \$1,300,000 assigned to retirement rate stabilization, \$554,000 assigned to technology initiatives, \$470,000 assigned for property tax assessment appeals, and an unassigned amount of \$3,856,430 or 7.44% of the \$51,842,040 2017-2018 General Fund expenditure budget. Guidelines prescribed by the Pennsylvania Department of Education allow a District to maintain a maximum General Fund unassigned fund balance of 8% of the following year's expenditure budget.
- Total General Fund revenues and other financing sources were \$1,112,863 more than budgeted amounts and total General Fund expenditures and other financing uses were \$193,169 less than budgeted amounts resulting in a net positive variance of \$1,306,032.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position (Deficit)* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 14 and 15 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three major individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 16 through 19 of this report.

Proprietary Funds

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund and School Age Child Care Fund are reported as enterprise funds of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses its internal service fund to account for the District's self-funded healthcare program. Because an internal service fund predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements provide separate financial information for its major fund and internal service fund. The proprietary fund financial statements can be found on Pages 20 through 22 of this report.

Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, consisting of scholarship and student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on Pages 23 and 24 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 25 through 45 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, a schedule of the District's progress in funding its obligation to provide other post-employment benefits and schedules of net pension liability and the District's pension contributions.

The required supplementary information can be found on Pages 46 through 49 of this report.

LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2016-2017 fiscal year the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$34,757,137. The following table presents condensed information for the *Statement of Net Position* of the District at June 30, 2017 and 2016.

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
ASSETS						
Current assets	\$ 21,026,097	\$ 19,034,973	\$ 447,822	\$ 400,124	\$ 21,473,919	\$ 19,435,097
Noncurrent assets	<u>47,984,293</u>	<u>50,504,817</u>	<u>121,261</u>	<u>113,560</u>	<u>48,105,554</u>	<u>50,618,377</u>
Total assets	<u>69,010,390</u>	<u>69,539,790</u>	<u>569,083</u>	<u>513,684</u>	<u>69,579,473</u>	<u>70,053,474</u>
DEFERRED OUTFLOWS						
Deferred charges – pensions	15,570,646	6,676,000	615,057	264,000	16,185,703	6,940,000
Deferred amounts on debt refunding	<u>91,062</u>	<u>134,558</u>	<u>-</u>	<u>-</u>	<u>91,062</u>	<u>134,558</u>
Total deferred outflows	<u>15,661,708</u>	<u>6,810,558</u>	<u>615,057</u>	<u>264,000</u>	<u>16,276,765</u>	<u>7,074,558</u>
LIABILITIES						
Current liabilities	5,799,366	10,863,570	75,788	62,498	5,875,154	10,926,068
Noncurrent liabilities	<u>109,957,755</u>	<u>98,957,998</u>	<u>3,209,022</u>	<u>2,765,679</u>	<u>113,166,777</u>	<u>101,723,677</u>
Total liabilities	<u>115,757,121</u>	<u>109,821,568</u>	<u>3,284,810</u>	<u>2,828,177</u>	<u>119,041,931</u>	<u>112,649,745</u>
DEFERRED INFLOWS						
Deferred credits – pensions	<u>1,511,730</u>	<u>1,669,000</u>	<u>59,714</u>	<u>66,000</u>	<u>1,571,444</u>	<u>1,735,000</u>
NET POSITION (DEFICIT)						
Net investment in capital assets	20,677,163	18,090,536	121,261	113,560	20,798,424	18,204,096
Restricted	7,121,555	5,239,572	-	-	7,121,555	5,239,572
Unrestricted (deficit)	<u>(60,395,471)</u>	<u>(58,470,328)</u>	<u>(2,281,645)</u>	<u>(2,230,053)</u>	<u>(62,677,116)</u>	<u>(60,700,381)</u>
Total net position (deficit)	<u>\$ (32,596,753)</u>	<u>\$ (35,140,220)</u>	<u>\$ (2,160,384)</u>	<u>\$ (2,116,493)</u>	<u>\$ (34,757,137)</u>	<u>\$ (37,256,713)</u>

The District's total assets as of June 30, 2017 were \$69,579,473 of which \$17,796,490, or 25.58%, consisted of cash and investments and \$48,105,554, or 69.14%, consisted of the District's net investment in capital assets. The District's total liabilities as of June 30, 2017 were \$119,041,931 of which \$27,398,192, or 23.02% consisted of general obligation debt used to acquire and construct capital assets and \$81,967,000, or 68.86%, consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of \$62,677,116 at June 30, 2017. The District's unrestricted net position decreased by \$1,976,735 during 2016-2017 primarily due to the results of current year operations and the change in the District's actuarially determined net pension liability.

A portion of the District's net position reflects its restricted net position which totaled \$7,121,555 as of June 30, 2017. Most of the District's restricted net position is related to amounts restricted for capital expenditures. A small portion, \$13,306, is restricted for student activities at the elementary schools.

LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2017, the District's net investment in capital assets, increased by \$2,594,328 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other long-term debt.

The following table presents condensed information for the *Statement of Activities* of the District for 2017 and 2016:

	Governmental Activities		Business-Type Activities		Totals	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
REVENUES						
Program revenues						
Charges for services	\$ 203,298	\$ 237,369	\$1,285,721	\$1,293,283	\$ 1,489,019	\$ 1,530,652
Operating grants and contributions	8,132,995	7,285,200	669,529	661,669	8,802,524	7,946,869
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes levied for general purposes	34,494,119	33,343,418	-	-	34,494,119	33,343,418
Other taxes levied for general purposes	3,471,508	3,487,234	-	-	3,471,508	3,487,234
Grants and entitlements not restricted to specific programs	4,567,762	3,964,257	-	-	4,567,762	3,964,257
Investment earnings	150,215	70,987	2,748	439	152,963	71,426
Loss on sale of capital assets	(198,671)	(37,492)	-	-	(198,671)	(37,492)
Total revenues	<u>50,821,226</u>	<u>48,350,973</u>	<u>1,957,998</u>	<u>1,955,391</u>	<u>52,779,224</u>	<u>50,306,364</u>
EXPENSES						
Instruction	32,519,588	31,592,271	-	-	32,519,588	31,592,271
Instructional student support services	3,427,216	3,000,638	-	-	3,427,216	3,000,638
Administrative and financial support services	5,202,017	4,888,585	-	-	5,202,017	4,888,585
Operation and maintenance of plant services	3,747,041	3,622,958	-	-	3,747,041	3,622,958
Pupil transportation	1,544,010	1,574,250	-	-	1,544,010	1,574,250
Student activities	1,091,264	1,065,719	-	-	1,091,264	1,065,719
Community services	3,750	3,000	-	-	3,750	3,000
Interest and amortization expense related to non-current liabilities	703,847	800,408	-	-	703,847	800,408
Food service	-	-	1,575,975	1,600,229	1,575,975	1,600,229
Child care	-	-	464,940	433,630	464,940	433,630
Total expenses	<u>48,238,733</u>	<u>46,547,829</u>	<u>2,040,915</u>	<u>2,033,859</u>	<u>50,279,648</u>	<u>48,581,688</u>
Change in net position before transfers	2,582,493	1,803,144	(82,917)	(78,468)	2,499,576	1,724,676
Transfers	(39,026)	(34,859)	39,026	34,859	-	-
CHANGE IN NET POSITION (DEFICIT)	<u>\$ 2,543,467</u>	<u>\$ 1,768,285</u>	<u>\$ (43,891)</u>	<u>\$ (43,609)</u>	<u>\$ 2,499,576</u>	<u>\$ 1,724,676</u>

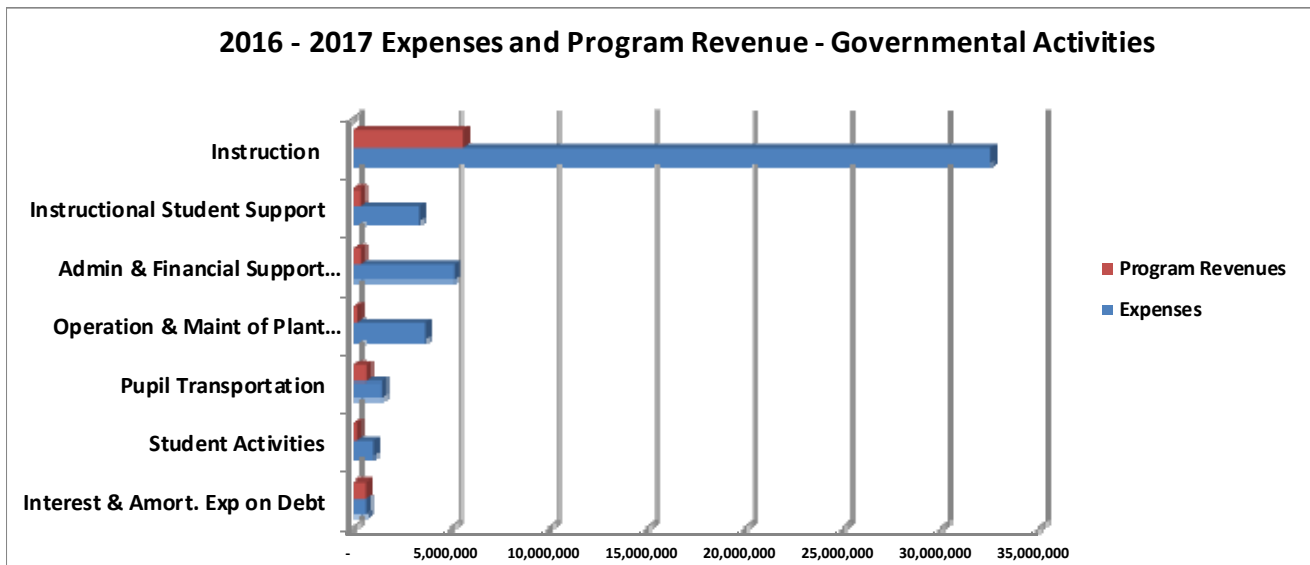
LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

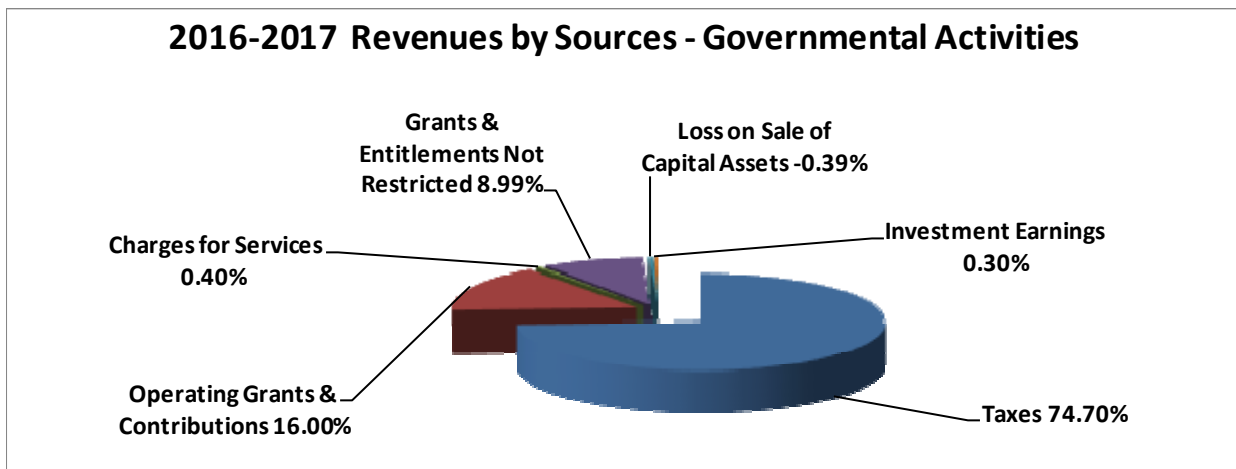
June 30, 2017

During 2016-2017, the District's net position increased by \$2,499,576 in part due to savings in medical costs, salary and other benefit costs, and utility costs and increased revenue. Future pension contributions, state-mandated programs and negotiated contracts have a potential to offset these gains in future fiscal years. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A significant portion of the District's property tax base is in the form of residential housing. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities.

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

GOVERNMENTAL FUNDS

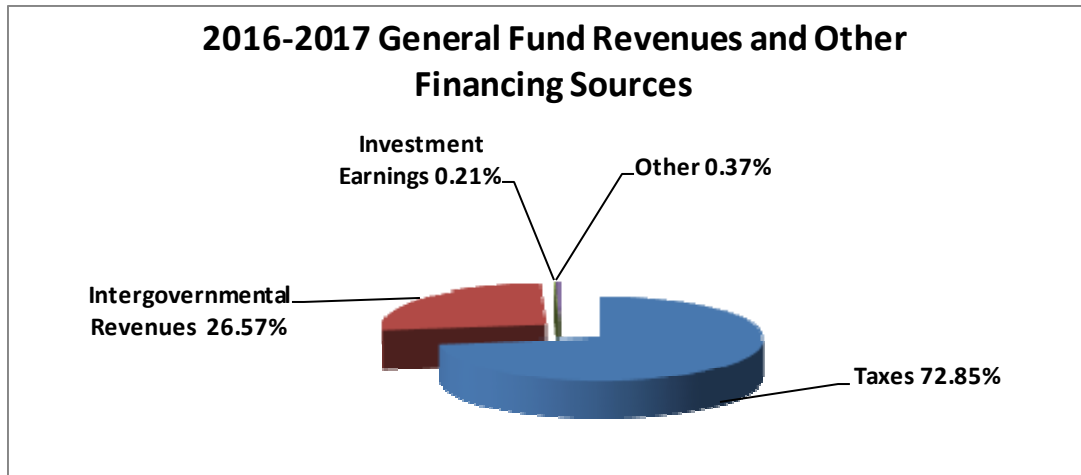
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2017, the District's governmental funds reported a combined fund balance of \$13,358,023 which is an increase of \$2,430,855 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2017 and 2016 and the total 2017 change in governmental fund balances.

	<u>2017</u>	<u>2016</u>	<u>Change</u>
General Fund	\$ 6,236,468	\$ 5,687,596	\$ 548,872
Capital Projects Fund	7,108,249	5,229,354	1,878,895
Public Purpose Trust Fund	<u>13,306</u>	<u>10,218</u>	<u>3,088</u>
	<u>\$13,358,023</u>	<u>\$10,927,168</u>	<u>\$2,430,855</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2016-2017 fiscal year, the General Fund fund balance was \$6,236,438 representing an increase of \$548,872 in relation to the prior year. The increase in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2016-2017 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 72.85% of General Fund revenues are derived from local taxes.



General Fund Revenues and Other Financing Sources

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$37,439,300	\$36,215,239	\$1,224,061	3.38
Intergovernmental revenues	13,656,271	11,452,305	2,203,966	19.24
Investment earnings	105,415	60,788	44,627	73.41
Other	<u>189,487</u>	<u>158,083</u>	<u>31,404</u>	<u>19.87</u>
	<u>\$51,390,473</u>	<u>\$47,886,415</u>	<u>\$3,504,058</u>	<u>7.32</u>

LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

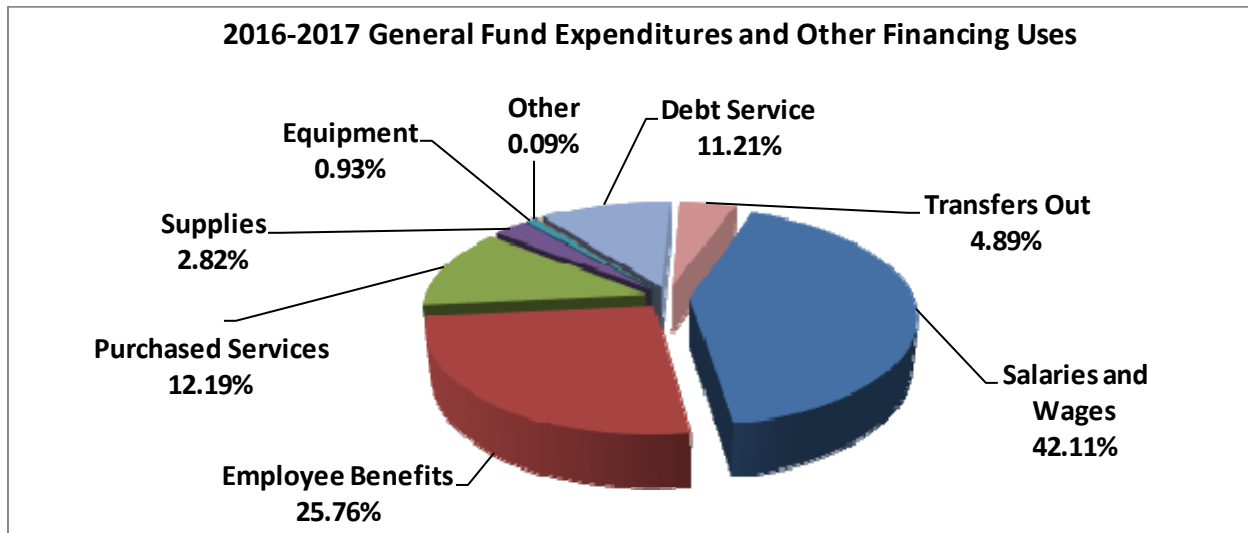
June 30, 2017

Net tax revenues increased by \$1,224,061 or 3.38% due to several factors. A millage increase of 1.90% in 2016-2017 and an increase in collections for earned income taxes and delinquent taxes accounted for a majority of the current year increase in tax revenue. The increase in tax collections indicates an improvement to the economy of our local community. The following table summarizes the changes in the District's tax revenues for 2017 compared to 2016:

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Real estate tax	\$32,992,950	\$31,996,436	\$ 996,514	3.11
Interim tax	212,128	239,521	(27,393)	(11.44)
PURTA tax	39,526	40,459	(933)	(2.31)
Earned income tax	3,036,807	2,941,942	94,865	3.22
Transfer tax	434,563	518,127	(83,564)	(16.13)
Delinquent tax	<u>723,326</u>	<u>478,754</u>	<u>244,572</u>	<u>51.09</u>
	<u>\$37,439,300</u>	<u>\$36,215,239</u>	<u>\$1,224,061</u>	<u>3.38</u>

Intergovernmental revenues increased primarily due to receipt of the rental and sinking fund subsidy. These state reimbursements for construction projects were deferred in 2015-2016. The deferred subsidy from 2015-2016 and the 2016-2017 subsidy were both recognized in 2016-2017. In addition, intergovernmental revenues increased as a direct result of the state retirement subsidy which increased commensurate with the employer annual contribution percentage.

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



General Fund Expenditures and Other Financing Uses

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$21,412,090	\$21,052,053	\$ 360,037	1.71
Employee benefits	13,095,214	12,207,144	888,070	7.28
Purchased services	6,195,487	6,550,885	(355,398)	(5.43)
Supplies	1,434,054	1,553,639	(119,585)	(7.70)
Equipment	472,544	426,750	45,794	10.73
Other	46,036	41,964	4,072	9.70
Debt service	5,699,176	5,588,221	110,955	1.99
Transfers out	<u>2,487,000</u>	<u>380,000</u>	<u>2,107,000</u>	<u>554.47</u>
	<u>\$50,841,601</u>	<u>\$47,800,656</u>	<u>\$3,040,945</u>	<u>6.36</u>

LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Salaries and wages increased by \$360,037 or 1.71% in 2016-2017 compared to 2015-2016 as a result of scheduled salary increases within the District's negotiated collective bargaining agreement as well as increases for other staff.

Employee benefits increased primarily due to an increase in the required annual retirement contribution to 30.03% from 25.84% which represents a 16.22% increase over the prior year.

Transfers out increased commensurate with additional amounts appropriated by the School Board to the Capital Projects fund for anticipated future capital needs.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2016-2017, the Capital Projects Fund reported an increase in fund balance of \$1,878,895 due to transfers from the General Fund in excess of amounts expended for capital expenditures. The remaining fund balance of \$7,108,249 as of June 30, 2017 is restricted for future capital expenditures. The transfer of \$2,487,000 from the General Fund to the Capital Projects Fund is based upon future capital improvements that may be dictated by an upcoming facility master plan.

GENERAL FUND BUDGET INFORMATION

Actual revenues and other financing sources were \$1,112,863 more than budgeted amounts and actual expenditures and other financing uses were \$193,169 less than budgeted amounts resulting in a net overall positive variance of \$1,306,032. Major budgetary highlights for 2016-2017 were as follows:

- Actual local revenues received were \$787,583 more than budgeted amounts primarily due to greater than expected real estate, earned income, and delinquent tax collections; charges for services associated with the District providing special education services to surrounding school districts; and higher returns on investments than projected.
- Total actual expenditures were under budget by \$1,807,349. This surplus is due to savings in the areas of salaries, medical insurance, other employee benefits, utilities, and special education contracts.
- Other financing sources (uses) were over budget by \$1,610,111 due to an unbudgeted transfer of funds to the Capital Projects Fund as noted above.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2016-2017, the net position of the business-type activities decreased by \$43,891. The net position of the Food Service Fund decreased by \$42,789 and the net position of the School-Age Child Care Fund decreased by \$1,102. As of June 30, 2017, the business-type activities had a deficit in net position of \$2,160,384. The Food Service Fund had an increase in net position of \$17,058 and the School-Age Child Care Fund had an increase in net position of \$30,232 prior to the recognition of the changes in the net pension liability and other noncurrent liabilities.

CAPITAL ASSETS

The District's net capital assets for its governmental and business-type activities as of June 30, 2017 amounted to \$48,105,554 net of accumulated depreciation. This investment in capital assets includes land and improvements, buildings and improvements and furniture and equipment. The total decrease in the District's net investment in capital assets for the current fiscal year was \$2,512,823 4.96%. The decrease was the result of current year depreciation expense and loss on disposals in excess of current capital additions.

LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

Current year depreciation expense and loss on disposals were \$3,041,943 and capital expenditures were \$529,120.

Major capital additions for the current fiscal year included the following:

- High School Ventilator Replacement \$ 88,098
- Asphalt Repair \$110,000
- Athletic Field Project – Construction in Progress \$156,626

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$27,398,192 consisting of \$5,435,000 in bonds payable, \$21,662,000 in notes payable, and \$301,192 unamortized bond premiums. The entire amount is backed by the full faith and credit of the District. The District's general obligation debt (net of unamortized premium) decreased by \$5,016,089 or 15.47% during the fiscal year.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is \$108,290,132 which exceeds the District's outstanding general obligation debt as of June 30, 2017.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in the Pennsylvania State Employee Retirement System ("**PSERS**"). The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$81,967,000 as of June 30, 2017. The District's net pension liability increased by \$11,493,000 or 16.31% during the fiscal year.

The District maintains an AA rating from Standard and Poor's.

Other noncurrent liabilities consist of the District's liabilities for capital leases, accrued retirement bonuses, compensated absences and its net obligation for post-employment benefits, which totaled \$3,801,585 as of June 30, 2017. These liabilities increased by \$160,488 or 4.41% during the fiscal year.

FACTORS BEARING ON THE DISTRICT'S FUTURE

While the District continues to be strong financially, there continues to be concerns regarding the economic and political outlook for the state and the local community. As the preceding information shows, the District maintains a healthy investment in capital assets to support and provide comprehensive educational services. The District also considers future implications of current and ongoing financial obligations and prudently manages its financial assets. Strong academic performance is supported by reasonable and competitive per pupil spending.

The District adopted a 2017-2018 budget totaling \$51,842,040 which used \$378,730 of General Fund fund balance as of June 30, 2017 and the real estate tax millage was increased by 1.50%.

As we have seen throughout the nation, the economic situation is having an effect on the public sector. Challenges face many school districts in Pennsylvania on a number of issues. With the passage of Act 1 of 2006, our District is faced with a cap on the amount of money that can be funded from a property tax increase without voter referendums. This cap is based upon a percentage calculated and provided by the Pennsylvania Department of Education. While some exceptions may apply that would allow for a tax increase in excess of the index, the District will face pressure to keep tax increases at or below the allowable increase for the foreseeable future. In addition, recent legislation has severely hampered the potential benefits of using special exceptions in future years. Another implication of the new law includes earlier budgetary planning cycles.

LAMPETER-STRASBURG SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2017

In addition to demonstrating proficiency of the Pennsylvania Core and Academic Standards, our District is faced with additional challenges from the mandates imposed by the Federal government through the reauthorization of the Elementary and Secondary Education Act, or the Every Student Succeeds Act ("**ESSA**"). ESSA has far-reaching requirements on standardized testing; reporting academic performance; adequate yearly progress goals; teacher qualifications, certifications, and training; disaggregation of student achievement data; the education of English Language Learners and extensive reporting to the community. It will require a continued, and possibly greater, emphasis on investment in curricular materials, staff development, and communication to comply with ESSA's mandates.

Many school districts face the common problem of escalating costs for employee benefits, particularly the retirement expenses of the Public School Employees' Retirement System ("**PSERS**") system and, as in the case for our District, self-insured medical costs. Both of these costs are set by outside influences and, therefore, are not discretionary costs that can be controlled by District management.

Market performance of the invested PSERS funds have resulted in estimated increases that will affect our employer contributions for years to come. While the actual effect of the current market has yet to be determined, higher employer costs in the short term and dramatically higher rates in the future are being planned for by the District through the use of an assigned fund balance integrated with millage increases. This condition will have an alarming effect on school district budgeting across the Commonwealth and may lead to significant reductions in programs and services. The portion of funds assigned in the District's fund balance to be used to contain the projected increases in the employer share of PSERS will not be enough to alleviate the problem, but it will allow the District to prudently plan for any potential changes. The District is fortunate to have anticipated the looming crisis and fortunate to have assigned funds to help lessen the dramatic impact that other school districts may experience.

The following table presents the projected employer contribution rates published by PSERS and the District's projected share of retirement contribution for General Fund expenses for the next five years.

<u>Fiscal Year</u>	<u>Employer Contributions Rate</u>	<u>Increase Over Previous Year</u>	<u>Total Contributions</u>	<u>Additional State Support</u>	<u>Additional Local Support</u>	<u>Mill Equivalent</u>	<u>% Mill Increase</u>
2017-2018	32.57%	8.46%	\$ 7,238,100	\$449,554	\$449,554	0.26	1.29%
2018-2019	34.18%	4.94%	\$ 7,804,773	\$283,337	\$283,337	0.16	0.80%
2019-2020	35.53%	3.95%	\$ 8,336,145	\$265,686	\$265,686	0.15	0.72%
2020-2021	35.59%	1.18%	\$ 8,666,145	\$165,000	\$165,000	0.09	0.44%
2021-2022	36.40%	1.25%	\$ 9,016,440	\$175,148	\$175,148	0.10	0.45%

The costs of medical benefits will continue to have an effect on the District budget, as the District continues to offer a competitive benefits package to employees through the District's self-insured plan. The District continues to implement various strategies to lower the pace of medical inflation

Maintaining an appropriate physical environment for learning requires investment in the construction, expansion, and renovation of school facilities. This is a well-planned and ongoing process in our District, accompanied by constant monitoring of enrollment trends and financial implications for the District.

In conclusion, the District has committed itself to financial and educational excellence for the future. The District's systems of budgeting and internal controls are well regarded and consistently followed. Continued diligence in all financial matters will be a key component of continued financial performance well into the future.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Lampeter-Strasburg School District, PO Box 428, Lampeter, PA 17537.

LAMPETER-STRASBURG SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and cash equivalents	\$ 3,357,022	\$ 153,390	\$ 3,510,412
Investments	14,035,448	250,630	14,286,078
Taxes receivable	1,140,720	-	1,140,720
Due from other governments	2,143,668	7,207	2,150,875
Internal balances	34,989	(34,989)	-
Other receivables	258,212	4,694	262,906
Inventories	56,038	66,890	122,928
Total current assets	<u>21,026,097</u>	<u>447,822</u>	<u>21,473,919</u>
NONCURRENT ASSETS			
Capital assets, net	<u>47,984,293</u>	<u>121,261</u>	<u>48,105,554</u>
Total assets	<u>69,010,390</u>	<u>569,083</u>	<u>69,579,473</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on proportionate share of pension	15,570,646	615,057	16,185,703
Deferred amounts on debt refunding	<u>91,062</u>	<u>-</u>	<u>91,062</u>
Total deferred outflows of resources	<u>15,661,708</u>	<u>615,057</u>	<u>16,276,765</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)			
CURRENT LIABILITIES			
Accounts payable	618,950	1,628	620,578
Accrued salaries, payroll withholdings and benefits	4,514,022	1,800	4,515,822
Due to other governments	449,064	-	449,064
Accrued interest payable	173,871	-	173,871
Unearned revenue	<u>43,459</u>	<u>72,360</u>	<u>115,819</u>
Total current liabilities	<u>5,799,366</u>	<u>75,788</u>	<u>5,875,154</u>
NONCURRENT LIABILITIES			
Due within one year	5,259,103	-	5,259,103
Due in more than one year	<u>104,698,652</u>	<u>3,209,022</u>	<u>107,907,674</u>
Total noncurrent liabilities	<u>109,957,755</u>	<u>3,209,022</u>	<u>113,166,777</u>
Total liabilities	<u>115,757,121</u>	<u>3,284,810</u>	<u>119,041,931</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred credits on proportionate share of pension	<u>1,511,730</u>	<u>59,714</u>	<u>1,571,444</u>
NET POSITION (DEFICIT)			
Net investment in capital assets	20,677,163	121,261	20,798,424
Restricted	7,121,555	-	7,121,555
Unrestricted (deficit)	<u>(60,395,471)</u>	<u>(2,281,645)</u>	<u>(62,677,116)</u>
Total net position (deficit)	<u>\$ (32,596,753)</u>	<u>\$ (2,160,384)</u>	<u>\$ (34,757,137)</u>

See accompanying notes

LAMPETER-STRASBURG SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position (Deficit)</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 32,519,588	\$ 73,561	\$ 5,565,263	\$ -	\$ (26,880,764)	\$ -	\$ (26,880,764)
Instructional student support	3,427,216	-	413,546	-	(3,013,670)	-	(3,013,670)
Administrative and financial support services	5,202,017	-	422,140	-	(4,779,877)	-	(4,779,877)
Operation and maintenance of plant services	3,747,041	-	232,122	-	(3,514,919)	-	(3,514,919)
Pupil transportation	1,544,010	8,402	726,372	-	(809,236)	-	(809,236)
Student activities	1,091,264	121,335	83,582	-	(886,347)	-	(886,347)
Community services	3,750	-	-	-	(3,750)	-	(3,750)
Interest and amortization expense related to noncurrent liabilities	703,847	-	689,970	-	(13,877)	-	(13,877)
Total governmental activities	<u>48,238,733</u>	<u>203,298</u>	<u>8,132,995</u>	<u>-</u>	<u>(39,902,440)</u>	<u>-</u>	<u>(39,902,440)</u>
BUSINESS-TYPE ACTIVITIES							
Food service	1,575,975	871,218	622,729	-	-	(82,028)	(82,028)
Child care	464,940	414,503	46,800	-	-	(3,637)	(3,637)
Total business-type activities	<u>2,040,915</u>	<u>1,285,721</u>	<u>669,529</u>	<u>-</u>	<u>-</u>	<u>(85,665)</u>	<u>(85,665)</u>
Total primary government	<u>\$ 50,279,648</u>	<u>\$ 1,489,019</u>	<u>\$ 8,802,524</u>	<u>\$ -</u>	<u>(39,902,440)</u>	<u>(85,665)</u>	<u>(39,988,105)</u>
GENERAL REVENUES							
Property taxes levied for general purposes					34,494,119	-	34,494,119
Other taxes levied for general purposes					3,471,508	-	3,471,508
Grants and entitlements not restricted to specific programs					4,567,762	-	4,567,762
Investment earnings					150,215	2,748	152,963
Loss on disposal of capital assets					(198,671)	-	(198,671)
TRANSFERS					<u>(39,026)</u>	<u>39,026</u>	<u>-</u>
Total general revenues and transfers					<u>42,445,907</u>	<u>41,774</u>	<u>42,487,681</u>
CHANGE IN NET POSITION (DEFICIT)					2,543,467	(43,891)	2,499,576
NET POSITION (DEFICIT)							
Beginning of year					<u>(35,140,220)</u>	<u>(2,116,493)</u>	<u>(37,256,713)</u>
End of year					<u>\$ (32,596,753)</u>	<u>\$ (2,160,384)</u>	<u>\$ (34,757,137)</u>

See accompanying notes

LAMPETER-STRASBURG SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	Major Funds			Total
	General Fund	Capital Projects Fund	Public Purpose Trust	
ASSETS				
Cash and cash equivalents	\$ 700,766	\$ 2,008,620	\$ 13,414	\$ 2,722,800
Investments	9,181,241	3,628,333	-	12,809,574
Taxes receivable, net	1,140,720	-	-	1,140,720
Due from other funds	129,697	1,500,000	-	1,629,697
Due from other governments	2,143,668	-	-	2,143,668
Other receivables	104,868	-	-	104,868
Inventories	56,038	-	-	56,038
Total assets	\$ 13,456,998	\$ 7,136,953	\$ 13,414	\$ 20,607,365
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 311,397	\$ 28,704	\$ -	\$ 340,101
Due to other funds	1,594,600	-	108	1,594,708
Accrued salaries, payroll withholdings and benefits	4,514,022	-	-	4,514,022
Due to other governments	449,064	-	-	449,064
Unearned revenue	68,130	-	-	68,130
Total liabilities	6,937,213	28,704	108	6,966,025
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - property taxes	283,317	-	-	283,317
FUND BALANCES				
Nonspendable				
Inventories	56,038	-	-	56,038
Restricted for				
Capital projects	-	7,108,249	-	7,108,249
Student organizations	-	-	13,306	13,306
Assigned to				
Employer retirement rate stabilization	1,300,000	-	-	1,300,000
Property tax assessment appeals	470,000	-	-	470,000
Technology initiatives	554,000	-	-	554,000
Unassigned	3,856,430	-	-	3,856,430
Total fund balances	6,236,468	7,108,249	13,306	13,358,023
Total liabilities, deferred inflows of resources and fund balances	\$ 13,456,998	\$ 7,136,953	\$ 13,414	\$ 20,607,365

See accompanying notes

LAMPETER-STRASBURG SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2017

TOTAL GOVERNMENTAL FUND BALANCES	\$ 13,358,023
Amounts reported for governmental activities in the statement of net position (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	47,984,293
Deferred outflows of resources for deferred amounts on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position (deficit).	91,062
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.	14,058,916
Some of the District's property taxes, per capita taxes and certain other receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources on the governmental funds balance sheet.	307,988
The Internal Service Fund is used by management to charge the cost of health insurance claims to the General Fund. The assets and liabilities of the District's Internal Service Fund are included in the governmental activities on the government-wide statement of net position (deficit).	1,734,591
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(109,957,755)
Accrued interest payable on long-term liabilities is included in the statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	<u>(173,871)</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (32,596,753)</u>

See accompanying notes

LAMPETER-STRASBURG SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2017

	Major Funds			Total
	General Fund	Capital Projects Fund	Public Purpose Trust	
REVENUES				
Local sources	\$ 38,047,783	\$ 95,794	\$ 13,470	\$ 38,157,047
State sources	12,405,118	-	-	12,405,118
Federal sources	933,503	-	-	933,503
Total revenues	<u>51,386,404</u>	<u>95,794</u>	<u>13,470</u>	<u>51,495,668</u>
EXPENDITURES				
Current				
Instruction	28,737,588	-	-	28,737,588
Support services	12,962,583	40,474	-	13,003,057
Operation of noninstructional services	955,254	-	10,382	965,636
Facilities acquisition, construction and improvement services	-	664,873	-	664,873
Debt service	5,699,176	-	-	5,699,176
Total expenditures	<u>48,354,601</u>	<u>705,347</u>	<u>10,382</u>	<u>49,070,330</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,031,803</u>	<u>(609,553)</u>	<u>3,088</u>	<u>2,425,338</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from extended term financing	-	40,474	-	40,474
Sale of/compensation for capital assets	4,069	-	-	4,069
Transfers in	-	2,487,000	-	2,487,000
Transfers out	(2,487,000)	(39,026)	-	(2,526,026)
Total other financing sources (uses)	<u>(2,482,931)</u>	<u>2,488,448</u>	<u>-</u>	<u>5,517</u>
NET CHANGE IN FUND BALANCES	548,872	1,878,895	3,088	2,430,855
FUND BALANCES				
Beginning of year	5,687,596	5,229,354	10,218	10,927,168
End of year	<u>\$ 6,236,468</u>	<u>\$ 7,108,249</u>	<u>\$ 13,306</u>	<u>\$ 13,358,023</u>

See accompanying notes

LAMPETER-STRASBURG SCHOOL DISTRICT

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 2,430,855

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 and reported as depreciation expense. This is the amount by which depreciation expense and the net book value of disposed assets exceeded capital outlays in the current period.

Capital outlay expenditures	\$ 490,094	
Net book value of disposed assets	(206,809)	
Depreciation expense	<u>(2,803,809)</u>	(2,520,524)

Because some property taxes and certain other receivables will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources decreased by this amount in the current period.

Deferred inflows of resources June 30, 2016	(942,935)	
Deferred inflows of resources June 30, 2017	<u>307,988</u>	(634,947)

The Internal Service Fund is used by management to charge the cost of health insurance and unemployment premiums and claims to the General Fund. The change in net position of the Internal Service Fund is reported with the governmental activities.

437,104

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Repayment of bonds and notes payable	4,799,000	
Proceeds from extended term financing	(40,474)	
Repayment of extended term financing	6,121	
Amortization of premiums and deferred amounts on refunding	<u>173,593</u>	4,938,240

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures on governmental funds.

Current year change in accrued interest payable	16,615	
Change in net pension liability and related deferred inflows and outflows	(2,004,338)	
Current year change in accrued retirement bonuses	(110,684)	
Current year change in compensated absences	(39,351)	
Current year change in net post-employment benefit (OPEB) obligation	<u>30,497</u>	<u>(2,107,261)</u>

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ 2,543,467

See accompanying notes

LAMPETER-STRASBURG SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUNDS

June 30, 2017

	Major Funds			Internal Service Fund
	Food Service Fund	School-Age Child Care Fund	Total	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash and cash equivalents	\$ 27,187	\$ 126,203	\$ 153,390	\$ 634,222
Investments	-	250,630	250,630	1,225,874
Due from other governments	7,207	-	7,207	-
Due from other funds	47,690	47,018	94,708	-
Other receivables	1,120	3,574	4,694	153,344
Inventories	66,890	-	66,890	-
Total current assets	150,094	427,425	577,519	2,013,440
NONCURRENT ASSETS				
Capital assets, net	121,261	-	121,261	-
Total assets	271,355	427,425	698,780	2,013,440
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on proportionate share of pension	427,303	187,754	615,057	-
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	\$ 811	\$ 817	\$ 1,628	\$ 278,849
Due to other funds	118,169	11,528	129,697	-
Accrued salaries, payroll withholdings and benefits	1,800	-	1,800	-
Unearned revenue	72,360	-	72,360	-
Total current liabilities	193,140	12,345	205,485	278,849
NONCURRENT LIABILITIES				
Due within one year	-	-	-	-
Due in more than one year	2,227,500	981,522	3,209,022	-
Total noncurrent liabilities	2,227,500	981,522	3,209,022	-
Total liabilities	2,420,640	993,867	3,414,507	278,849
DEFERRED INFLOWS OF RESOURCES				
Deferred credits on proportionate share of pension	41,486	18,228	59,714	-
NET POSITION (DEFICIT)				
Net investment in capital assets	121,261	-	121,261	-
Unrestricted (deficit)	(1,884,729)	(396,916)	(2,281,645)	1,734,591
Total net position (deficit)	\$(1,763,468)	\$(396,916)	\$(2,160,384)	\$ 1,734,591

See accompanying notes

LAMPETER-STRASBURG SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) - PROPRIETARY FUNDS

Year ended June 30, 2017

	Major Funds			Internal Service Fund
	Food Service Fund	School-Age Child Care Fund	Total	
OPERATING REVENUES				
Charges for services	\$ 871,218	\$ 414,503	\$ 1,285,721	\$ 5,762,282
OPERATING EXPENSES				
Salaries	527,646	267,996	795,642	-
Employee benefits	345,060	171,081	516,141	5,335,079
Purchased professional and technical services	35,969	-	35,969	-
Purchased services	-	289	289	-
Supplies	635,975	25,574	661,549	-
Depreciation	31,325	-	31,325	-
Total operating expenses	<u>1,575,975</u>	<u>464,940</u>	<u>2,040,915</u>	<u>5,335,079</u>
Operating income (loss)	<u>(704,757)</u>	<u>(50,437)</u>	<u>(755,194)</u>	<u>427,203</u>
NONOPERATING REVENUES				
Earnings on investments	213	2,535	2,748	9,901
State sources	131,191	46,800	177,991	-
Federal sources	491,538	-	491,538	-
Total nonoperating revenues	<u>622,942</u>	<u>49,335</u>	<u>672,277</u>	<u>9,901</u>
CHANGE IN NET POSITION (DEFICIT) BEFORE TRANSFERS	(81,815)	(1,102)	(82,917)	437,104
TRANSFERS IN	<u>39,026</u>	<u>-</u>	<u>39,026</u>	<u>-</u>
CHANGE IN NET POSITION (DEFICIT)	(42,789)	(1,102)	(43,891)	437,104
NET POSITION (DEFICIT)				
Beginning of year	<u>(1,720,679)</u>	<u>(395,814)</u>	<u>(2,116,493)</u>	<u>1,297,487</u>
End of year	<u>\$ (1,763,468)</u>	<u>\$ (396,916)</u>	<u>\$ (2,160,384)</u>	<u>\$ 1,734,591</u>

See accompanying notes

LAMPETER-STRASBURG SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2017

	Major Funds			Internal Service Fund
	Food Service Fund	School-Age Child Care Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 885,641	\$ 416,319	\$ 1,301,960	\$ -
Cash received from assessments made to other funds	-	-	-	5,608,938
Cash payments to employees for services	(865,917)	(415,286)	(1,281,203)	-
Cash payments for insurance claims	-	-	-	(5,577,707)
Cash payments to supplies for goods and services	(587,703)	(25,309)	(613,012)	-
Net cash provided by (used for) operating activities	<u>(567,979)</u>	<u>(24,276)</u>	<u>(592,255)</u>	<u>31,231</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State sources	135,478	46,800	182,278	-
Federal sources	452,341	-	452,341	-
Net cash provided by noncapital financing activities	<u>587,819</u>	<u>46,800</u>	<u>634,619</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(39,026)	-	(39,026)	-
Transfers in	39,026	-	39,026	-
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	213	2,535	2,748	9,901
Net sale (purchase) of investments	-	(2,268)	(2,268)	(94,075)
Net cash provided by (used for) investing activities	<u>213</u>	<u>267</u>	<u>480</u>	<u>(84,174)</u>
Net increase (decrease) in cash	20,053	22,791	42,844	(52,943)
CASH				
Beginning of year	<u>7,134</u>	<u>103,412</u>	<u>110,546</u>	<u>687,165</u>
Ending of year	<u>\$ 27,187</u>	<u>\$ 126,203</u>	<u>\$ 153,390</u>	<u>\$ 634,222</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (704,757)	\$ (50,437)	\$ (755,194)	\$ 427,203
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities				
Depreciation	31,325	-	31,325	-
Donated commodities used	92,851	-	92,851	-
(Increase) decrease in				
Due from other funds	(3,248)	(1,383)	(4,631)	(153,344)
Other receivables	(1,120)	3,199	2,079	-
Inventories	(9,421)	-	(9,421)	-
Increase (decrease) in				
Accounts payable	811	554	1,365	(242,628)
Due to other funds	(49,124)	570	(48,554)	-
Accrued salaries, payroll withholdings and benefits	(4,811)	(2,055)	(6,866)	-
Unearned revenue	18,791	-	18,791	-
Net pension liability and related pension items	60,724	25,276	86,000	-
Net cash provided by (used for) operating activities	<u>\$ (567,979)</u>	<u>\$ (24,276)</u>	<u>\$ (592,255)</u>	<u>\$ 31,231</u>
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity				
USDA donated commodities	\$ 92,851	\$ -	\$ 92,851	\$ -

See accompanying notes

LAMPETER-STRASBURG SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2017

	Private- Purpose Trust	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 205,748	\$ 165,293
Other accounts receivable	<u>-</u>	<u>530</u>
Total assets	<u>205,748</u>	<u>165,823</u>
LIABILITIES		
Accounts payable	12,350	27,105
Due to student groups	<u>-</u>	<u>138,718</u>
Total liabilities	<u>12,350</u>	<u>\$ 165,823</u>
NET POSITION		
Net position held in trust for scholarships	<u>\$ 193,398</u>	

LAMPETER-STRASBURG SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND

Year ended June 30, 2017

	Private- Purpose Trust
ADDITIONS	
Gifts and contributions	\$ 13,207
Investment earnings	<u>360</u>
Total additions	<u>13,567</u>
DEDUCTIONS	
Scholarships awarded and fees paid	<u>16,221</u>
CHANGE IN NET POSITION	(2,654)
NET POSITION	
Beginning of year	<u>196,052</u>
End of year	<u>\$ 193,398</u>

See accompanying notes

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lampeter-Strasburg School District (the "*District*") operates two elementary schools, one middle school and a high school to provide education and related services to the residents in the Townships of Strasburg and West Lampeter and the Borough of Strasburg. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "*School Board*").

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("*GAAP*") as applied to governmental units. The Governmental Accounting Standards Board ("*GASB*") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of the related cash flows. 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 as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary funds:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

The School-Age Child Care Fund accounts for tuition revenue and program expenses for a program designed to provide care for students after school hours.

The Internal Service Fund is used to account for hospitalization costs which are services provided to the District's employees as benefits.

These 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 proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the District's proprietary funds include payroll, employee benefits, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of the students in the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value based upon quoted market prices, except for certificates of deposit which are recorded at cost which approximates fair value.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the District. Unobservable inputs reflect the District's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the District has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not require a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the District's own assumptions.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 1 – August 31	- Discount period, 2% of gross levy
September 1 – October 31	- Face period
November 1 to collection	- Penalty period, 10% of gross levy
January 1	- Lien date

The County Board of Assessments determines assessed valuations of property and the District bills and collects its own property taxes. The tax on real estate for public school purposes for fiscal 2016-2017 was 20.2458 mills (\$20.25 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. An allowance for doubtful accounts of \$6,760 has been established by the District for property taxes receivable greater than 3 years old.

Taxpayers within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	- August 31
Installment Two	- October 31
Installment Three	- December 31

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

All inventories are valued at the lower of cost (first-in, first-out method) or market.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings – 40 years; building improvements – 20 years; land improvements – 20 years; furniture, fixtures and equipment – 5-12 years; vehicles – 5-10 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2017.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

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

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Non-spendable

Non-spendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Chief of Finance and Operations or (b) an appointed body (e.g., finance committee) or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes. Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Implementation of New Accounting Pronouncements

Effective July 1, 2016, the District adopted the provisions of GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 77, "Tax Abatement Disclosures"; GASB Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

The objective of GASB Statement No. 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77 is intended to improve financial reporting by requiring governments that enter into tax abatement agreements to disclose certain information about the agreements. The implementation of GASB Statement No. 77 had no impact on the financial statements of the District for the year ended June 30, 2017.

GASB Statement No. 78 amends the scope and applicability of GASB No. Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria. The implementation of GASB Statement No. 78 had no impact on the financial statements of the District for the year ended June 30, 2017.

The objective of GASB Statement No. 79 is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The implementation of GASB Statement No. 79 had no impact on the financial statements of the District for the year ended June 30, 2017.

GASB Statement No. 73 establishes requirement for defined benefit pensions that are not within the scope of GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions"*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *"Financial Reporting for Pension Plans"*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 74 replaces GASB Statements No. 43, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, as amended, and GASB Statement No. 57, *"OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans"*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans"*, as amended, GASB Statement No. 43, and GASB Statement No. 50, *"Pension Disclosures"*.

New Accounting Pronouncements

GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

GASB Statement No. 80 "*Blending Requirements for Certain Component Units-amendment of GASB Statement No. 14*" will be effective for the District for the year ended June 30, 2018. GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*".

GASB Statement No. 81 "*Irrevocable Split-Interest Agreements*" will be effective for the District for the year ended June 30, 2018. GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, GASB Statement No. 81 requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB Statement No. 81 requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB Statement No. 82 "*Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73*" will be effective for the District for the year ended June 30, 2018. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

The District is required to publish notice by advertisement at least once in a newspaper of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

(3) DEPOSITS AND INVESTMENTS

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2017, the carrying amount of the District's deposits was \$6,669,676 and the bank balance was \$6,689,541. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$250,000 was covered by federal depository insurance and \$3,651,318 was collateralized by the District's depositories in accordance with Act 72. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that its objective is to maintain a stable net assets value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2017, PSDLAF was rated as AAA by a nationally recognized statistical rating agency.

Investments

As of June 30, 2017, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>11 – 15</u>
PSDLAF collateralized investment pool	\$ 4,400,000	\$ 4,400,000	\$ -	\$ -	\$ -
Certificates of deposit	5,473,108	5,473,108	-	-	-
Government and agency bonds	<u>1,624,747</u>	<u>1,624,747</u>	-	-	-
	<u>\$11,497,855</u>	<u>\$11,497,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

PSDLAF collateralized investment pool and government and agency bonds were valued using Level 2 inputs.

Reconciliation of Investments to the Financial Statements

Total investments above	\$11,497,855
Time deposits classified as investments on balance sheet	<u>2,788,223</u>
Total investments per financial statements	<u>\$14,286,078</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral security that are in the possession of an outside party. The District had no investments subject to custodial credit risk as of June 30, 2017.

Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates. The District had no investments subject to interest rate risk as of June 30, 2017.

Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal and state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land and improvements	\$ 6,365,459	\$ -	\$205,559	\$ 6,159,900
Construction in progress	<u>40,425</u>	<u>344,838</u>	<u>228,637</u>	<u>156,626</u>
Total capital assets not being depreciated	<u>6,405,884</u>	<u>344,838</u>	<u>434,196</u>	<u>6,316,526</u>
Capital assets being depreciated				
Buildings and improvements	83,164,896	110,000	-	83,274,896
Furniture and equipment	<u>2,618,752</u>	<u>263,893</u>	<u>48,555</u>	<u>2,834,090</u>
Total capital assets being depreciated	<u>85,783,648</u>	<u>373,893</u>	<u>48,555</u>	<u>86,108,986</u>
Less accumulated depreciation for				
Buildings and improvements	(40,012,343)	(2,565,863)	-	(42,578,206)
Furniture and equipment	<u>(1,672,372)</u>	<u>(237,946)</u>	<u>(47,305)</u>	<u>(1,863,013)</u>
Total accumulated depreciation	<u>(41,684,715)</u>	<u>(2,803,809)</u>	<u>(47,305)</u>	<u>(44,441,219)</u>
Total capital assets being depreciated, net	<u>44,098,933</u>	<u>(2,429,916)</u>	<u>1,250</u>	<u>41,667,767</u>
Governmental activities, net	<u>\$ 50,504,817</u>	<u>\$ (2,085,078)</u>	<u>\$ 435,446</u>	<u>\$ 47,984,293</u>
Business-type activities				
Capital assets being depreciated				
Machinery and equipment	\$ 453,523	\$ 39,026	\$ -	\$ 492,549
Less accumulated depreciation				
Machinery and equipment	<u>(339,963)</u>	<u>(31,325)</u>	<u>-</u>	<u>(371,288)</u>
Business-type activities, net	<u>\$ 113,560</u>	<u>\$ 7,701</u>	<u>\$ -</u>	<u>\$ 121,261</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities	
Instruction	\$2,472,900
Administrative and financial support services	149,294
Operation and maintenance of plant services	63,936
Pupil transportation	15,869
Student activities	<u>101,810</u>
Total depreciation expense – governmental activities	<u>\$2,803,809</u>
Business-type activities	
Food service	<u>\$ 31,325</u>

As of June 30, 2017, the District had outstanding construction projects to be completed. The amount remaining on the outstanding contracts is approximately \$72,000.

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2017 is as follows:

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
School-Age Child Care Fund	\$ 35,490	General Fund	\$ 35,490
Capital Projects Fund	1,500,000	General Fund	1,500,000
General Fund	108	Public Purpose Trust Fund	108
General Fund	<u>70,479</u>	Food Service Fund	<u>70,479</u>
	<u>\$1,606,077</u>		<u>\$1,606,077</u>

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses and state subsidies.

A summary of interfund transfers for the year ended June 30, 2017 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	\$2,487,000	General Fund	\$2,487,000
Food Service Fund	<u>39,026</u>	Capital Projects Fund	<u>39,026</u>
	<u>\$2,526,026</u>		<u>\$2,526,026</u>

Transfers from the General Fund to the Capital Projects Fund represent transfers to subsidize costs associated with the acquisition of capital assets. A transfer was made from the Capital Projects Fund to the Food Service Fund for equipment.

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2017:

	<u>Balance</u>			<u>Balance</u>	<u>Amount</u>
	<u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2017</u>	<u>Due Within</u>
					<u>One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$ 5,920,000	\$ -	\$ 485,000	\$ 5,435,000	\$ 500,000
Notes payable	25,976,000	-	4,314,000	21,662,000	4,528,000
Bond premiums	<u>518,281</u>	<u>-</u>	<u>217,089</u>	<u>301,192</u>	<u>150,435</u>
Total general obligation debt	<u>32,414,281</u>	<u>-</u>	<u>5,016,089</u>	<u>27,398,192</u>	<u>5,178,435</u>
Other noncurrent liabilities					
Capital leases	-	40,474	6,121	34,353	7,659
Compensated absences	1,049,592	44,407	5,056	1,088,943	34,712
Accrued retirement bonuses	1,710,501	110,684	-	1,821,185	38,297
OPEB obligation	793,325	255,306	285,803	762,828	-
Net pension liability (See Note 7)	<u>67,796,000</u>	<u>11,056,254</u>	<u>-</u>	<u>78,852,254</u>	<u>-</u>
Total other noncurrent liabilities	<u>71,349,418</u>	<u>11,507,125</u>	<u>296,980</u>	<u>82,559,563</u>	<u>80,668</u>
Total governmental activities	<u>103,763,699</u>	<u>11,507,125</u>	<u>5,313,069</u>	<u>109,957,755</u>	<u>5,259,103</u>
Business-type activities					
Compensated absences	26,939	2,494	-	29,433	-
Accrued retirement bonuses	45,378	4,120	-	49,498	-
OPEB obligation	15,362	15,247	15,264	15,345	-
Net pension liability (See Note 7)	<u>2,678,000</u>	<u>436,746</u>	<u>-</u>	<u>3,114,746</u>	<u>-</u>
Total business-type activities	<u>2,765,679</u>	<u>458,607</u>	<u>15,264</u>	<u>3,209,022</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 106,529,378</u>	<u>\$ 11,965,732</u>	<u>\$ 5,328,333</u>	<u>\$ 113,166,777</u>	<u>\$ 5,259,103</u>

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Non-current liabilities of governmental activities are generally liquidated by the General Fund, while noncurrent liabilities of the business-type activities are liquidated by the Food Service and School-Age Child Care Funds.

General Obligation Debt

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted local sources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of June 30, 2017 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Original Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General obligation bonds				
Series of 2011	0.40% - 3.375%	\$ 8,245,000	03/01/2027	<u>\$ 5,435,000</u>
Total general obligation bonds				<u>5,435,000</u>
General obligation notes				
Series of 2002	2.01% - 2.64%	\$15,000,000	02/05/2022	5,217,000
Series of 2012	0.40% - 4.00%	\$11,625,000	06/01/2019	5,045,000
Series of 2014	0.50% - 3.00%	\$ 9,995,000	02/15/2022	9,815,000
Series of 2015	1.68%	\$ 2,060,000	02/15/2023	<u>1,585,000</u>
Total general obligation notes				<u>21,662,000</u>
Total general obligation debt				<u>\$27,097,000</u>

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2018	\$ 5,028,000	\$ 727,087	\$ 5,755,087
2019	5,188,000	563,337	5,751,337
2020	5,543,000	421,423	5,964,423
2021	5,753,000	263,868	6,016,868
2022	2,720,000	131,869	2,851,869
2023-2027	<u>2,865,000</u>	<u>282,031</u>	<u>3,147,031</u>
	<u>\$27,097,000</u>	<u>\$2,389,615</u>	<u>\$29,486,615</u>

Interest Rate Management Plan

The General Obligation Notes of the District have been issued to the Delaware Valley Regional Finance Authority ("**DVRFA**"). The DVRFA was formed by certain counties in Southeastern Pennsylvania to provide financing to local government units ("**participants**") for various projects. DVRFA obtained the funds used to finance these projects by issuing its Local Government Revenue Bonds. In order to reduce the interest costs of participants in its loan program and to enhance their ability to manage their interest rate risks, DVRFA and the participants in its loan program, including the District, have entered into an Interest Rate Management Plan, the provisions of which allow the participants to select fixed or variable rates of interest on their loans. In order to provide this option to participants, DVRFA has entered into interest rate swap agreements with financial institutions. In the event that the swap agreements between DVRFA and the financial institutions are terminated and the value of the swaps to DVRFA at the time of termination is a liability, the participants are required to pay their proportionate share of the liability. The value of the swap agreements relative to the General Obligation Notes at June 30, 2017 was an asset of \$744,111. The value of the swap agreements relative to the District's General Obligation Notes is not reflected on the District's statement of net position.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Capital Leases

The District has entered into long-term lease agreements for vehicles and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception dates. The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments as of June 30, 2017 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 7,659	\$1,411	\$ 9,070
2019	8,017	1,053	9,070
2020	8,391	679	9,070
2021	8,783	287	9,070
2022	<u>1,503</u>	<u>9</u>	<u>1,512</u>
	<u>\$34,353</u>	<u>\$3,439</u>	<u>\$37,792</u>

Accrued Retirement Bonuses

Upon voluntary retirement, a professional employee with qualifying years of service according to either the collective bargaining agreement or administrator agreement will receive a lump sum retirement bonus. A summary of the amount recorded as a liability for these accrued retirement bonuses is as follows for June 30, 2017:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accrued retirement benefit	\$1,691,765	\$45,980
Employer social security and Medicare share on above	<u>129,420</u>	<u>3,518</u>
	<u>\$1,821,185</u>	<u>\$49,498</u>

Other Post-Employment Benefits

The District's other post-employment benefits include a single-employer defined benefit plan that provides medical insurance to all retirees and their dependents. The School Board has the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("**ARC**"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2017, 2016 and 2015 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$213,337	114%	\$778,173
2016	\$379,900	85%	\$808,687
2015	\$380,434	96%	\$753,363

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

The following table shows the components of the District's OPEB cost for the year, the amount actually contributed by the District and changes in the District's net OPEB obligation:

Annual required contribution	\$ 238,206
Interest on net OPEB obligation	32,347
Adjustment to annual required contribution	<u>(57,216)</u>
Annual OPEB expense	213,337
Contributions made	<u>(243,851)</u>
Decrease in net OPEB obligation	(30,514)
Net OPEB obligation – beginning of year	<u>808,687</u>
Net OPEB obligation – end of year	<u>\$ 778,173</u>

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$2,246,791, all of which was unfunded. The covered payroll (annual payroll of active employees) was \$18,624,008 and the ratio of the unfunded actuarial accrued liability ("**UAAL**") to the covered payroll was 12.1%.

Actuarial valuations 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 future employment, mortality and benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District 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 required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on substantive benefits (the benefits as understood by the District and employees) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and retirees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

In the most recent actuarial valuation, 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 postretirement medical benefits. Actuarial assumptions included an interest rate of 4.0% per annum, medical inflation of 10.0% in 2016, decreasing by 1.0% per year to a rate of 9.0% in 2017, and gradually decreasing to 5.0% in 2021 and thereafter.

(7) PENSION PLAN

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.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the system include all full-time public 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.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 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 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% 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.

Contributions

Member Contributions

Active members who joined the system prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the system on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the system after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

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

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% 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 District were \$6,455,302 for the year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$81,967,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2015 to June 30, 2016. The 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, 2016, the District's proportion was 0.1654 percent, which was an increase of 0.0027 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$2,058,450. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ -	\$ 682,781
Changes in assumptions	2,958,831	-
Net difference between projected and actual investment earnings	4,568,464	-
Changes in proportions	1,985,200	888,663
Difference between employer contributions and proportionate share of total contributions	217,906	-
Contributions subsequent to the measurement date	<u>6,455,302</u>	<u>-</u>
	<u>\$16,185,703</u>	<u>\$1,571,444</u>

\$6,455,302 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:

2018	\$1,556,012
2019	1,556,012
2020	3,060,113
2021	<u>1,986,820</u>
	<u>\$8,158,957</u>

Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the system's total pension liability as the June 30, 2015 actuarial valuation to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016:

- The Investment Rate of Return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.00% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. 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 to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumptions changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective with the June 30, 2016 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	22.5 %	5.3%
Fixed income	28.5 %	2.1%
Commodities	8.0 %	2.5%
Absolute return	10.0 %	3.3%
Risk parity	10.0 %	3.9%
Infrastructure/MLPs	5.0 %	4.8%
Real estate	12.0 %	4.0%
Alternative investments	15.0 %	6.6%
Cash	3.0 %	0.2%
Financing (LIBOR)	<u>(14.0)%</u>	0.5%
	<u>100.0 %</u>	

The above was the PSERS' Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. 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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	<u>1% Decrease</u> <u>6.25%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
District's proportionate share of the net pension liability	\$100,268,000	\$81,967,000	\$66,589,000

Pension Plan Fiduciary Net Position

Detailed information about the PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the system's website at www.psers.state.pa.us.

(8) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Joint Ventures

Lancaster County Career and Technology Center

The District and the other 15 Lancaster County school districts participate in the Lancaster County Career and Technology Center ("**LCCTC**"). The LCCTC provides vocational-technical training and education to students of the participating school districts. The LCCTC is controlled by a joint board comprised of representative school board members of the participating school districts. District oversight of the LCCTC operations is the responsibility of the joint board. The District's share of operating costs for the LCCTC fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2015-2016 was \$446,917.

Lancaster County Career and Technology Center Authority

The District and the other 15 Lancaster County school districts also participate in a joint venture for the operation of the Lancaster County Career and Technology Center Authority (the "**Authority**"). The Authority oversees acquiring, holding, constructing, improving and maintaining the LCCTC school buildings and facilities. The Authority is controlled by a joint board comprised of representative school board members of the participating school districts in the Authority. As further described below, the participating school districts have entered into a long-term lease agreement with the Authority to provide rental payments sufficient to retire the Authority's outstanding debt obligations. The District's share of rent expense for 2016-2017 was \$67,219.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

On September 20, 2011, the Authority authorized the issuance of Guaranteed Lease Revenue Bonds, Series of 2011 (the "**2011 Revenue Bonds**"), in the maximum aggregate principal amount of \$43,000,000 to provide funds for the renovations and additions to the Brownstown, Mount Joy and Willow Street campuses of the LCCTC and pay for the costs of issuance. The District and the 15 Lancaster County school districts have entered into a long-term lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to retire the 2011 Revenue Bonds based on real estate market values as set forth in the LCCTC organization agreement. The 2011 Revenue Bonds were issued in three different series over three years. The amount of each series was not to exceed \$10,000,000 without the participating school districts' approval. The 2011 Revenue Bonds were intended to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed \$1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of \$1,330,000. On June 29, 2012, the Authority issued the first of three series in the total amount of \$9,995,000. On September 20, 2013 the Authority issued the second of three series in the total amount of \$9,995,000 which was refinanced in February 2017 and on July 9, 2014, the Authority issued the final of the three series in the total amount of \$3,900,000. The District's lease rental obligations for minimum rental payments related to the issued debt are as follows:

Year ending June 30,

2018	\$ 70,499
2019	70,478
2020	70,552
2021	70,559
2022	70,474
2023-2027	352,723
2028-2032	352,197
2033-2037	<u>352,179</u>
	<u>\$1,409,661</u>

Both the LCCTC and the Authority prepare financial statements that are available to the public from their administrative office located at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Jointly Governed Organizations

Lancaster-Lebanon Intermediate Unit

The District and the other Lancaster and Lebanon County school districts are participating members of the Lancaster-Lebanon Intermediate Unit (the "**LLIU**"). The LLIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating school district. The School Board of each participating school district must approve the annual program budget for the LLIU but the participating school districts have no ongoing fiduciary interest or responsibility to the LLIU. The LLIU is a self-sustaining organization that provides a broad array of services to the participating school districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and federal liaison services. During 2016-2017, the District contracted with the LLIU for special education services which totaled \$1,122,375.

Lancaster-Lebanon Joint Authority

The District and the other Lancaster and Lebanon County school district are also participating members of the Lancaster-Lebanon Joint Authority (the "**Authority**"). The Authority oversees acquiring, holding, constructing, improving and maintaining the buildings and facilities maintained for the participating school districts and the LLIU, which is governed by a joint committee consisting of School Board members from each participating school district. During 2016-2017, the District did not have any financial transactions with the Authority.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Lancaster County Tax Collection Bureau

The District and the other 15 Lancaster County school districts along with Octorara Area School District of Chester County and the municipalities represented by those school districts are participating members of the Lancaster County Tax Collection Bureau (the "**Bureau**") for the collection of earned income taxes. Each participating school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau is a self-sustaining organization in which the participating members have no ongoing fiduciary interest or responsibility. The Bureau's operating expenditures are deducted from each members earned income tax distributions. During 2016-2017, the District's portion of operating expenditures for the Bureau totaled \$53,184.

(9) OPERATING LEASES

Lessee

The District leases office and computer equipment under non-cancelable operating leases expiring at various dates through September 2020. Rent expense for the office and computer equipment including additional operating costs, was \$287,530 for 2016-2017.

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2018	\$380,730
2019	248,394
2020	57,038
2021	<u>54,850</u>
	<u>\$741,012</u>

Lessor

Beginning June 1, 2015, the School District entered into an agreement to lease Strasburg Elementary School. The original term of the lease is four years, at which point the lease shall become month to month unless either party gives written notice based on the terms of the lease. Rental payments are due monthly from the tenant. Minimum future rental payments under this operating lease as of June 30, 2017, are as follows:

Year ending June 30,

2018	\$ 78,897
2019	<u>72,323</u>
	<u>\$151,220</u>

(10) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

(11) RISK MANAGEMENT

Health Insurance

The District participates in a consortium with the LLIU to provide a self-insurance program for health insurance and related expenses for eligible employees, spouses and dependents. Accordingly, benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. The District was limited in liability to \$140,000 per individual and \$6,799,089 in total for self-insurance medical claims for the year ended June 30, 2017.

The District has recorded a liability in the Internal Service Fund for claims incurred through June 30, 2017 which has historically been satisfied within 60 days after June 30. The following table presents the components of the self-insurance medical claims liability and the related changes in the claims liability for the year ended June 30, 2017:

Insurance claims liability – beginning of year	\$ 521,477
Current year insurance claims and changes in estimates	5,335,079
Insurance claims paid	<u>(5,577,707)</u>
Insurance claims liability – end of year	<u>\$ 278,849</u>

Workers' Compensation

The District and 16 participating member school districts from Lancaster and Lebanon County and the LLIU participate in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the "**Fund**"), which is a cooperative voluntary trust arrangement. The District and the other participating members pay an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the participating 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 participating members of the Fund that the Fund will utilize funds contributed by the participating 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, 2017, the District is not aware of any additional assessments relating to this Fund.

Other Risks

The District is exposed to other risks of loss, including errors and omissions. The District has purchased a commercial insurance policy to safeguard its assets from risk of loss due to errors and omissions. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 16, 2017, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LAMPETER-STRASBURG SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 37,260,200	\$ 37,260,200	\$ 38,047,783	\$ 787,583
State sources	12,117,400	12,117,400	12,405,118	287,718
Federal sources	900,010	900,010	933,503	33,493
Total revenues	50,277,610	50,277,610	51,386,404	1,108,794
EXPENDITURES				
Instruction				
Regular programs	22,595,770	22,322,610	21,170,136	1,152,474
Special programs	6,518,160	6,564,160	6,563,585	575
Vocational programs	810,970	810,970	698,071	112,899
Other instructional programs	319,690	319,400	305,796	13,604
Total instruction	30,244,590	30,017,140	28,737,588	1,279,552
Support services				
Pupil support services	1,897,800	1,897,800	1,854,978	42,822
Instructional staff services	715,490	880,490	849,704	30,786
Administrative services	2,842,440	2,825,940	2,726,809	99,131
Pupil health	533,880	533,880	526,757	7,123
Business services	620,240	634,240	634,075	165
Operation and maintenance of plant services	3,641,960	3,641,960	3,343,254	298,706
Student transportation services	1,462,700	1,513,230	1,511,844	1,386
Support services - central	1,491,360	1,513,280	1,483,564	29,716
Other support services	27,400	27,400	31,598	(4,198)
Total support services	13,233,270	13,468,220	12,962,583	505,637
Operation of non-instructional services				
Student activities	962,820	969,500	953,254	16,246
Community services	4,750	4,750	2,000	2,750
Total operation of non-instructional services	967,570	974,250	955,254	18,996
Debt service				
	5,702,340	5,702,340	5,699,176	3,164
Total expenditures	50,147,770	50,161,950	48,354,601	1,807,349
Excess (deficiencies) of revenues over (under) expenditures	129,840	115,660	3,031,803	2,916,143
OTHER FINANCING SOURCES (USES)				
Sale of/compensation for capital assets	-	-	4,069	4,069
Transfers out	(487,000)	(487,000)	(2,487,000)	(2,000,000)
Budgetary reserve	(400,000)	(385,820)	-	385,820
Total other financing sources (uses)	(887,000)	(872,820)	(2,482,931)	(1,610,111)
NET CHANGE IN FUND BALANCE	\$ (757,160)	\$ (757,160)	548,872	\$ 1,306,032
FUND BALANCE				
Beginning of year			5,687,596	
End of year			\$ 6,236,468	

LAMPETER-STRASBURG SCHOOL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/2016	\$ -	\$2,246,791	\$2,246,791	0.00%	\$18,624,008	12.06%
07/01/2014	\$ -	\$3,256,309	\$3,256,309	0.00%	\$18,505,772	17.60%
07/01/2012	\$ -	\$2,815,859	\$2,815,859	0.00%	\$18,675,742	15.08%
07/01/2010	\$ -	\$2,004,621	\$2,004,621	0.00%	\$18,991,308	10.56%

LAMPETER-STRASBURG SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year ended June 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.1654%	0.1627%	0.1586%
District's proportionate share of the net pension liability (asset)	\$81,967,000	\$70,474,000	\$62,775,000
District's covered-employee payroll	\$21,422,799	\$20,932,889	\$20,235,020
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	383%	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	50%	54%	57%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

LAMPETER-STRASBURG SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS

Year ended June 30

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 5,262,000	\$ 4,201,000	\$ 3,159,000
Contributions in relation to the contractually required contribution	<u>5,416,000</u>	<u>4,289,181</u>	<u>3,259,735</u>
Contribution deficiency (excess)	(154,000)	(88,181)	(100,735)
District's covered-employee payroll	\$21,422,799	\$20,932,889	\$20,235,020
Contributions as a percentage of covered-employee payroll	25%	20%	16%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SINGLE AUDIT

LAMPETER-STRASBURG SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2017</u>	<u>Passed Through to Subrecipients</u>
<u>U.S. Department of Education</u>											
<u>Passed-Through the Pennsylvania Department of Education</u>											
Title I - Improving Basic Programs	I	84.010	013-160220	05/13/15 - 09/30/16	\$ 396,546	\$ 105,746	\$ 46,265	\$ 59,481	\$ 59,481	\$ -	\$ -
Title I - Improving Basic Programs	I	84.010	013-170220	05/13/16 - 09/30/17	414,275	306,528	-	359,255	359,255	52,727	-
Total CFDA #84.010						412,274	46,265	418,736	418,736	52,727	-
Title II - Improving Teacher Quality	I	84.367	020-170220	05/13/16 - 09/30/17	50,319	50,319	-	50,319	50,319	-	-
<u>Passed Through the Lancaster-Lebanon I.U. #13</u>											
I.D.E.A. - Part B, Section 611	I	84.027	062-17-0013	07/01/16 - 09/30/17	440,552	440,552	-	440,552	440,552	-	-
I.D.E.A. - Part B, Section 619	I	84.173	131-16-0013	07/01/16 - 06/30/17	1,982	1,982	-	1,982	1,982	-	-
Total U.S. Department of Education						905,127	46,265	911,589	911,589	52,727	-
<u>Federal Emergency Management Agency</u>											
<u>Passed-Through the Pennsylvania Emergency Management Agency</u>											
Disaster Grants - Public Assistance	I	97.036	FEMA-1898-DR-PA-071-U2B7Y-00	03/23/16 - 09/23/16	15,389	15,389	-	15,389	15,389	-	-
<u>U.S. Department of Agriculture</u>											
<u>Passed-Through the Pennsylvania Department of Education</u>											
Breakfast Program	I	10.553	N/A	07/01/15 - 06/30/16	N/A	7,734	7,734	-	-	-	-
Breakfast Program	I	10.553	N/A	07/01/16 - 06/30/17	N/A	42,204	-	42,421	42,421	217	-
Total CFDA #10.553						49,938	7,734	42,421	42,421	217	-

Continued on next page

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2017</u>	<u>Passed Through to Subrecipients</u>
Passed-Through the Pennsylvania Department of Education (cont'd)											
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	47,734	47,734	-	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	N/A	354,669	-	356,266	356,266	1,597	-
Passed-Through the Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	N/A	<u>109,096</u>	<u>(26,786)</u>	<u>92,851</u>	<u>92,851</u>	<u>(43,031)</u>	<u>-</u>
Total CFDA #10.555						<u>511,499</u>	<u>20,948</u>	<u>449,117</u>	<u>449,117</u>	<u>(41,434)</u>	<u>-</u>
Total U.S. Department of Agriculture						<u>561,437</u>	<u>28,682</u>	<u>491,538</u>	<u>491,538</u>	<u>(41,217)</u>	<u>-</u>
Total Federal Awards						<u>\$ 1,481,953</u>	<u>\$ 74,947</u>	<u>\$ 1,418,516</u>	<u>\$ 1,418,516</u>	<u>\$ 11,510</u>	<u>\$ -</u>
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						<u>\$ 442,534</u>	<u>\$ -</u>	<u>\$ 442,534</u>	<u>\$ 442,534</u>	<u>\$ -</u>	<u>\$ -</u>
Child Nutrition Cluster (CFDA's #10.553 and #10.555)						<u>\$ 561,437</u>	<u>\$ 28,682</u>	<u>\$ 491,538</u>	<u>\$ 491,538</u>	<u>\$ (41,217)</u>	<u>\$ -</u>

Legend

D - Direct Funding

I - Indirect Funding

CFDA - Catalog of Federal Domestic Assistance

LAMPETER-STRASBURG SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

June 30, 2017

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 USDA Commodities represent federal surplus food consumed by the District during the 2016-2017 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2017 was \$6,525.

(5) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended June 30, 2017.

LAMPETER-STRASBURG SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2017

There were no audit findings for the year ended June 30, 2016.



**INDEPENDENT AUDITOR'S 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**

**Board of School Directors
Lampeter-Strasburg School District
Lampeter, 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 Lampeter-Strasburg School District, Lampeter, Pennsylvania, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Lampeter-Strasburg School District's basic financial statements, and have issued our report thereon dated October 16, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lampeter-Strasburg 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 Lampeter-Strasburg School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lampeter-Strasburg School District's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lampeter-Strasburg 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*.

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.

BBD, LLP

**Philadelphia, Pennsylvania
October 16, 2017**



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

**Board of School Directors
Lampeter-Strasburg School District
Lampeter, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Lampeter-Strasburg School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lampeter-Strasburg School District's major federal programs for the year ended June 30, 2017. Lampeter-Strasburg School District's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lampeter-Strasburg 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("**Uniform Guidance**"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lampeter-Strasburg 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 Lampeter-Strasburg School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Lampeter-Strasburg School District, 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, 2017.

Report on Internal Control over Compliance

Management of Lampeter-Strasburg 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 Lampeter-Strasburg 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 the Uniform Guidance, 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 Lampeter-Strasburg 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BBD, LLP

**Philadelphia, Pennsylvania
October 16, 2017**

LAMPETER-STRASBURG SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Lampeter-Strasburg School District were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of Lampeter-Strasburg School District are reported in the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Lampeter-Strasburg School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Lampeter-Strasburg School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. The program tested as a major program was:
 - Special Education Cluster:
 - I.D.E.A. – Part B, Section 611 – CFDA Number 84.027
 - I.D.E.A. – Part B, Section 619 – CFDA Number 84.173
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The Lampeter-Strasburg School District did qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None