

**LITTLESTOWN AREA SCHOOL DISTRICT**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2014**

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# Greenawalt & Company, P.C.

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## INDEPENDENT AUDITOR'S REPORT

Board of School Directors  
Littlestown Area School District  
Littlestown, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary funds of Littlestown Area School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the District's June 30, 2013 financial statements and, in our report dated January 2, 2014 we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary funds.

### 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 of 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.

IAR - 1

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

### **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 fiduciary funds of Littlestown Area School District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity 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 management's discussion and analysis on pages MDA-1 through MDA-10 and other required supplementary information on pages ORSI-1 and ORSI-2 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014, on our consideration of Littlestown Area 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Littlestown Area School District's internal control over financial reporting and compliance.

  
GREENAWALT & COMPANY, P.C.

November 13, 2014

Mechanicsburg, Pennsylvania

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

This discussion and analysis provides an overview of the District's financial performance for the year ended June 2014. The report format is in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Management's Discussion and Analysis (MD&A) includes comparisons of financial position at June 2014, 2013 and 2012. The MD&A also includes comparisons of current year financial activities to the previous year. The 2013 and 2012 amounts have come from our prior year MD&A, and are otherwise not a part of the June 2014 financial statements. Please read our discussion and analysis in conjunction with the District's financial statements, which begin on page FS-1. In this discussion and analysis, dollar amounts in the tables are presented in millions, to make it easier to read.

**FINANCIAL HIGHLIGHTS**

- The Littlestown Area School District Board of Directors adopted the 2013-14 General Fund budget with a planned balanced budget. The actual fiscal year results increased fund balance by \$533,069. General Fund revenues for 2013-14 increased by 3.5% from \$26,340,643 in 2012-13 to \$27,284,761 in 2013-14. General Fund expenditures and transfers for 2013-14 increased by 2.8% from \$25,992,545 in 2012-13 to \$26,751,692 in 2013-14.
- The District's earned income tax (EIT) revenue increased by 8.4% from \$1,498,489 in 2012-13 to \$1,623,918 in 2013-14. The occupation tax revenue decreased by 2.6% from \$1,261,433 in 2012-13 to \$1,228,410 in 2013-14. The occupation tax remained at 100% of assessed value, and the EIT rate remained at .50%.
- The District received \$896,548 of state gaming revenue in 2013-14 compared with \$896,348 in 2012-13. The funds were used to reduce the local real estate taxes. These funds were distributed in an equal amount to each qualified taxpayer of \$225.88 per homestead/farmstead.
- The General Fund's total fund balance as of June 30, 2014 is \$5,115,875. Of that total, \$850,000 is non-spendable for employee health insurance with Lincoln Benefit Trust and \$784,433 is assigned for employee benefit costs, leaving an unassigned balance of \$3,481,442.
- There were no building expansion projects during the 2013-14 school year. The major projects utilizing the \$204,436 of Capital Reserve funds during the 2013-14 were for the purchase of one 72 passenger bus, roof maintenance, and various other repair and replacement jobs.
- Looking forward, healthcare expenses and PSERS rates create a challenge for the District. The District will be left to absorb the full cost of increase healthcare expenses. Act 120 reformed the Public State Employees Retirement System (PSERS) which increased the amount district contributed to the retirement plan.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

**USING THESE FINANCIAL STATEMENTS**

This report contains a series of financial statements. The Statement of Net Position and the Statement of Activities are on pages FS-1 and FS-2. These statements provide information about the District as a whole, and present a longer-term view of District finances than fund financial statements. Fund financial statements are on pages FS-3, FS-5 and FS-7 through FS-10. For governmental funds, the statements show how District services have been financed in the short term, as well as the amount remaining for future spending. Proprietary funds statements provide information about non-governmental operations, in this case food service. The fiduciary funds statement reports amounts held in trust by the District for payroll and student activities.

Page FS-4 reconciles total governmental fund balances to total net position of governmental activities. Page FS-6 reconciles the total net change in governmental fund balances to the change in net position of governmental activities.

**District-wide Financial Statements**

District-wide statements present financial activities and the results of those activities in two categories, governmental and business-type. Capital assets (land, buildings, improvements, furniture and equipment) are included with all other assets. Long-term debt is included with all other liabilities. This is distinctly different from the fund statements in which assets and liabilities are separated into various funds such as General and Capital Reserve.

In the district-wide statements, the approach to measurement of revenues and expenses is similar to that used in the private sector and is referred to as the accrual basis of accounting. This is disclosed further in the notes to financial statements.

**Fund Financial Statements**

Fund statements provide financial information about the District's funds rather than the District as a whole. There are three types of funds, Governmental, Proprietary and Fiduciary. The use of each type of fund is disclosed in the notes to financial statements. Unlike district-wide statements that report revenues on the accrual basis, the governmental fund statements report revenues only to the extent cash has been received, or is expected to be received in the near future.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

**THE DISTRICT AS A WHOLE**

**Statement of Net Position**

Total net position was \$10.7 million at June 2014. This is an increase of \$0.6 million from June 2013 and a total increase of \$1.3 million from June 2012. The following summarizes the Statement of Net Position (page FS-1).

	Governmental Activities			Business-type Activities			Totals		
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 9.2	\$ 8.0	\$ 7.8	\$ 0.1	\$ -	\$ -	\$ 9.3	\$ 8.0	\$ 7.8
Capital assets	21.8	22.8	23.2	0.1	0.2	0.2	21.9	23.0	23.4
Total assets	<u>31.0</u>	<u>30.8</u>	<u>31.0</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>31.2</u>	<u>31.0</u>	<u>31.2</u>
Current and other liabilities	3.1	2.3	2.1	-	-	-	3.1	2.3	2.1
Long-term liabilities	17.4	18.6	19.7	-	-	-	17.4	18.6	19.7
Total liabilities	<u>20.5</u>	<u>20.9</u>	<u>21.8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20.5</u>	<u>20.9</u>	<u>21.8</u>
Capital assets (net of related debt)	6.3	6.1	5.4	0.1	0.2	0.2	6.5	6.3	5.6
Unrestricted	4.2	3.8	3.8	0.1	-	-	4.2	3.8	3.8
Total net position	<u>\$ 10.5</u>	<u>\$ 9.9</u>	<u>\$ 9.2</u>	<u>\$ 0.2</u>	<u>\$ 0.2</u>	<u>\$ 0.2</u>	<u>\$ 10.7</u>	<u>\$ 10.1</u>	<u>\$ 9.4</u>

Net position is the difference between assets and liabilities, and represents resources that can be used to pay for future operations and capital improvements. The majority of the District's net assets are invested in capital assets (net of related debt).

The changes in total net position from \$9.4 million in 2012, to \$10.1 million in 2013, and currently to \$10.7 million in 2014, is summarized in the following statement of activities.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

**Statement of Activities**

The following summarizes the Statement of Activities (page FS-2). It shows that total net position increased by \$0.6 million in 2014 and increased by \$0.7 million during 2013.

	Governmental Activities		Business-type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Program revenues						
Charges for services	\$ 0.2	\$ 0.1	\$ 0.4	\$ 0.4	\$ 0.6	\$ 0.5
Operating grants and contributions	4.3	4.0	0.4	0.4	4.7	4.4
Capital grants and contributions	0.3	0.3	-	-	0.3	0.3
General revenues						
Taxes	15.6	14.9	-	-	15.6	14.9
State general subsidies	7.0	6.9	-	-	7.0	6.9
Transfer between activities	(0.1)	(0.1)	0.1	0.1	-	-
Total revenues	<u>27.3</u>	<u>26.1</u>	<u>0.9</u>	<u>0.9</u>	<u>28.2</u>	<u>27.0</u>
Direct expenses	<u>26.7</u>	<u>25.4</u>	<u>0.9</u>	<u>0.9</u>	<u>27.6</u>	<u>26.3</u>
Change in net position	<u>\$ 0.6</u>	<u>\$ 0.7</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.6</u>	<u>\$ 0.7</u>

The change in net position is the difference between revenues and expenses using the accrual basis of accounting.



**LITTLESTOWN AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

The following summarizes expense information from the Statement of Activities (page FS-2). Direct expenses represents the actual cost of providing the services while the net expense represents the amount of cost that is not recovered through program revenues, meaning user charges, grants and contributions. The net expense must be recovered through general revenues, primarily taxes and state general subsidies. State general subsidies revenues were almost unchanged from 2013 to 2014. Amounts not recovered reduce funds available for future years.

	Governmental Activities					
	Direct Expenses		Program Revenues		Net Expense	
	2014	2013	2014	2013	2014	2013
Instruction	\$ 18.3	\$ 17.1	\$ 3.4	\$ 3.2	\$ 14.9	\$ 13.9
Instructional student support	2.1	2.0	0.2	0.2	1.9	1.8
Administrative and financial support	2.1	1.9	0.1	0.1	2.0	1.8
Operation and maintenance of plant	1.9	1.9	0.1	0.1	1.8	1.8
Student transportation	1.2	1.4	0.6	0.4	0.6	1.0
Student activities	0.5	0.4	0.1	0.1	0.4	0.3
Community services	-	-	-	-	-	-
Interest on long-term debt	0.6	0.7	0.3	0.3	0.3	0.4
	<u>\$ 26.7</u>	<u>\$ 25.4</u>	<u>\$ 4.8</u>	<u>\$ 4.4</u>	21.9	21.0
State general subsidies revenues					(7.0)	(6.9)
Transfer among funds					-	0.1
Total needs from taxes and other local sources					<u>\$ 14.9</u>	<u>\$ 14.2</u>
	Business-type Activities					
	Direct Expenses		Program Revenues		Net Expense	
	2014	2013	2014	2013	2014	2013
Food service	<u>\$ 0.9</u>	<u>\$ 0.9</u>	<u>\$ 0.9</u>	<u>\$ 0.8</u>	\$ -	\$ 0.1
Transfer among funds					-	(0.1)
Net expense					<u>\$ -</u>	<u>\$ -</u>

**LITTLESTOWN AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**THE DISTRICT'S FUNDS**

**Governmental Funds – fund balances**

The District has not had any restricted fund balance, such as unexpended bond proceeds, since the completion of Alloway Creek Intermediate School in 2003. The nonspendable fund balance pertains to the District's self-funded employee health insurance with Lincoln Benefit Trust. For 2013 and 2014, the assigned fund balance remained the same, \$0.8 million, to cover increases of employee benefits. Amounts in the Capital Reserve Fund are committed to future capital outlays.

	Governmental Fund Balances				
	2014	2013	2012	2013-14 Change	2012-13 Change
General Fund - nonspendable	\$ 0.8	\$ 1.1	\$ 1.1	\$ (0.3)	\$ -
General Fund - committed	-	-	-	-	-
General Fund - assigned	0.8	0.8	0.4	-	0.4
General Fund - unassigned	3.5	2.7	2.7	0.8	-
Capital Reserve Fund - committed	0.2	0.4	0.6	(0.2)	(0.2)
Total fund balances	\$ 5.3	\$ 5.0	\$ 4.8	\$ 0.3	\$ 0.2

**Changes from 2013 to 2014**

The General Fund had budgeted for a balanced budget for 2013-14. The General Fund finished the year with a \$0.5 million increase. This is summarized in the general fund budget (on page MDA-7) with additional details on page ORSI-1 (other required supplementary information).

The General Fund's nonspendable portion of its fund balance decreased by \$0.3 million to \$0.8 million for prepaid health insurance with Lincoln Benefit Trust.

The General Fund did not make transfers to the Capital Reserve Fund during the year. The Capital Reserve fund balance decreased \$0.2 million. Capital Reserve Funds were spent on a bus and a number of maintenance projects.

**Changes from 2012 to 2013**

The General Fund had budgeted for a \$1.0 million decrease in fund balance for 2012-13. The General Fund finished the year with a \$0.3 million increase. This is summarized in the general fund budget (on page MDA-7) with additional details on page ORSI-1 (other required supplementary information).

The General Fund's nonspendable portion of its fund balance remained unchanged at \$1.1 million for prepaid health insurance with Lincoln Benefit Trust.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

The General Fund made transfers to the Capital Reserve Fund in the amount of \$0.8 million during the year. The Capital Reserve Fund balance decreased \$0.2 million as \$1.0 million was spent on Rolling Acres Elementary School roofing and electrical projects and the purchase of a 72 passenger bus.

**General Fund Budget**

The following summarizes the General Fund budgetary comparison information presented on page ORSI-1, along with comparisons to the previous year.

	Original Budget		Actual		Variance Positive (Negative)	
	2014	2013	2014	2013	2014	2013
Total revenues	\$ 26.7	\$ 26.0	\$ 27.3	\$ 26.3	\$ 0.6	\$ 0.3
Total expenditures	26.4	25.9	26.7	25.1	(0.3)	0.8
Excess revenues (expenditures)	0.3	0.1	0.6	1.2	0.3	1.1
Other financing sources (uses)	(0.3)	(1.1)	(0.1)	(0.9)	0.2	0.2
Net change in fund balance	\$ -	\$ (1.0)	\$ 0.5	\$ 0.3	\$ 0.5	\$ 1.3

Actual revenues in 2014 were greater than budgeted revenues by \$0.6 million. In 2014, actual expenditures were \$0.3 million more than budgeted. Additional details are on page ORSI-1.

Actual revenues in 2013 were greater than budgeted revenues by \$0.3 million. In 2013, actual expenditures were \$0.8 million less than budgeted.

**Deferred inflows of resources**

Under the modified accrual basis of accounting, the District considers taxes not available to be recognized as revenue unless they received within 2 months after the fiscal year. The District’s unavailable tax revenue was \$0.9 million at June 2013 and increased to \$1.0 million at June 2014. This increase resulted in \$0.1 million less tax revenue being recognized in the General Fund during 2014.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

**CAPITAL ASSETS**

Capital assets are depreciated over their estimated useful lives. The following summarizes capital assets of the District.

	Capital Assets (Net of Depreciation)				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2013-14</u> <u>Change</u>	<u>2012-13</u> <u>Change</u>
<b>Governmental activities</b>					
Land	\$ 1.3	\$ 1.3	\$ 1.3	\$ -	\$ -
Buildings and improvements	19.2	20.2	20.4	(1.0)	(0.2)
Furniture and equipment	0.8	0.7	0.9	0.1	(0.2)
School buses and vehicles	0.5	0.6	0.6	(0.1)	-
Library books	-	-	-	-	-
	<u>\$ 21.8</u>	<u>\$ 22.8</u>	<u>\$ 23.2</u>	<u>\$ (1.0)</u>	<u>\$ (0.4)</u>
<b>Business-type activities</b>					
Furniture and equipment	\$ 0.1	\$ 0.2	\$ 0.2	\$ (0.1)	\$ -

Capital assets in the governmental activities were \$21.8 million at June 2014, \$22.8 million at June 2013, and \$23.2 million at June 2012. During 2014, the District purchased \$0.3 million of capital assets and recorded depreciation expense of \$1.3 million. During 2013, the District purchased \$0.9 million of capital assets, with the largest addition for the Rolling Acres Elementary School roofing and electrical projects and recorded \$1.3 million in depreciation expense.

**LONG-TERM LIABILITIES**

The following summarizes the long-term liabilities note to financial statements (pages FS-24 through FS-30). Most of the debt is general obligation bonds issued to pay for capital improvements. The District's ability to raise future funds through the issuance of debt depends on how existing bonds are rated by the investment community. Standard & Poor's Corporation assigned its municipal bond rating of "AAA" to the District's most recent series of general obligation bonds, the 2007 Series, issued in April 2007.

	Long-Term Liabilities				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2013-14</u> <u>Change</u>	<u>2012-13</u> <u>Change</u>
<b>Governmental activities</b>					
Bonds payable	\$ 15.4	\$ 16.7	\$ 17.9	\$ (1.3)	\$ (1.2)
Compensated absences	0.4	0.4	0.4	-	-
Retirement terminations	0.3	0.4	0.4	(0.1)	-
Other post employment benefits	1.3	1.2	1.0	0.1	0.2
	<u>\$ 17.4</u>	<u>\$ 18.7</u>	<u>\$ 19.7</u>	<u>\$ (1.3)</u>	<u>\$ (1.0)</u>

**LITTLESTOWN AREA SCHOOL DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

Each year, the District pays interest on the bonds and a portion of the outstanding bonds, referred to as redemption. The District made regularly scheduled redemptions of \$1.3 million during 2014 and \$1.2 million during 2013.

During 2009 the District became subject to reporting other post employment benefits. The District’s initial actuarial accrued liability of \$3.0 million is being amortized over a remaining period of 2 years.

**NEXT YEAR’S BUDGET AND ECONOMIC FACTORS**

	Original Budget		Change
	<u>2014-15</u>	<u>2013-14</u>	
Total revenues	\$ 27.8	\$ 26.7	\$ 1.1
Total expenditures	27.6	26.5	1.1
Excess revenues (expenditures)	0.2	0.2	-
Other financing sources (uses)	(0.2)	(0.2)	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Littlestown Area School District is committed to improving learning for every student every day, finding and using every way while seeking to minimize the burden on taxpayers. For 2014-15 the District raised real estate taxes by 2.7% in order to balance the budget against the cost of contractual salary increases and increasing retirement contributions. This year, the District approved a \$27.8 million budget to cover these costs and to fund essential Capital Projects. The Commonwealth is also impacted by significant increases to retirement contributions and is not increasing general subsidies as a result. Federal support decreased by \$0.1 million in 2013-14 and support was decreased from that level by \$0.1 million for 2014-15. Despite the challenges of a difficult economy, the District is committed to its students. The 2014-15 budget protects instructional programs and class size, however, the District continues to explore reductions and efficiencies in every aspect of organizational operation.

The revenue budget for 2014-15 represents a 4.0% increase. The real estate millage rate increases by .2769 mills, from 10.2578 to 10.5347. The occupation tax rate remains at 100% of assessed value and the earned income tax rate remains at .50%.

The expenditure and other uses budget for 2014-15 also represents a 4.0% increase. In addition to the usual increases in salaries and health benefits for employees, this budget includes increases for retirement benefits. Fund Balance is budgeted to remain the same.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

Act 1, commonly referred to as the property tax relief law, was enacted by the State in 2006. This legislation limits school boards from raising property taxes above the state index without voter approval. The District was able to balance the 2014-15 budget while keeping the real estate millage increase within the state index; therefore, no voter approval was necessary.

A major financial concern in future years is the impact of continued increases in contribution rates to the Public School Employee's Retirement System (PSERS). The District will see an increase of 26.4% in PSERS expense for the 2014-15 year.

The District has a 2007 bond that will be callable in April 2015. The District has plans to work with PFM Group to refinance the bond in order to receive an enhanced bond rate.

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

The District's financial report is intended to provide the readers with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the district office of Littlestown Area School District, 162 Newark Street, Littlestown, PA 17340, (717) 359-4146.

# LITTLESTOWN AREA SCHOOL DISTRICT

## STATEMENT OF NET POSITION

June 30, 2014

(With Summarized Financial Information for June 30, 2013)

	Governmental	Business-type	Totals	
	Activities	Activities	2014	2013
<b>Assets</b>				
Cash and cash equivalents	\$ 5,282,206	\$ 263,660	\$ 5,545,866	\$ 4,601,190
Taxes receivable (net of allowance for uncollectibles)	1,040,000	-	1,040,000	1,065,000
Internal balances	190,232	(190,232)	-	-
Due from fiduciary funds	86,409	-	86,409	88,724
Due from other governments	1,761,498	14,302	1,775,800	1,227,908
Other receivables	-	463	463	4,008
Inventories	-	21,749	21,749	20,899
Prepaid health insurance	850,000	-	850,000	1,100,000
Capital assets not being depreciated	1,255,005	-	1,255,005	1,255,005
Capital assets being depreciated, net	20,496,145	130,001	20,626,146	21,671,691
	<u>30,961,495</u>	<u>239,943</u>	<u>31,201,438</u>	<u>31,034,425</u>
<b>Total assets</b>				
<b>Liabilities</b>				
Accounts payable	751,473	403	751,876	259,100
Payroll and benefits payable	2,101,098	2,028	2,103,126	1,854,690
Unearned revenues	83,613	12,888	96,501	38,128
Accrued interest on bonds payable	156,300	-	156,300	168,600
<b>Long-term liabilities</b>				
Due within one year	1,780,000	2,000	1,782,000	1,732,000
Due in more than one year	15,619,089	14,638	15,633,727	16,908,498
Unamortized bond discounts	(8,328)	-	(8,328)	(11,686)
	<u>20,483,245</u>	<u>31,957</u>	<u>20,515,202</u>	<u>20,949,330</u>
<b>Total liabilities</b>				
<b>Net position</b>				
Invested in capital assets (net of related debt)	6,324,478	130,001	6,454,479	6,273,382
Unrestricted	4,153,772	77,985	4,231,757	3,811,713
	<u>10,478,250</u>	<u>207,986</u>	<u>10,686,236</u>	<u>10,085,095</u>
<b>Total net position</b>				

The accompanying notes are an integral part of these financial statements.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2014**  
(With Summarized Financial Information for the Year Ended June 30, 2013)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Direct Expenses	Charges for Services	Grants and Contributions		Governmental Activities	Business-type Activities	Totals	
			Operating	Capital			2014	2013
Governmental activities								
Instruction	\$ 18,296,728	\$ 58,605	\$ 3,253,590	\$ -	\$ (14,984,533)	\$ -	\$ (14,984,533)	\$ (13,854,147)
Instructional student support	2,117,497	-	204,910	-	(1,912,587)	-	(1,912,587)	(1,808,991)
Administrative and financial support	2,058,205	-	146,266	-	(1,911,939)	-	(1,911,939)	(1,827,031)
Operation and maintenance of plant	1,928,784	38,602	69,610	-	(1,820,572)	-	(1,820,572)	(1,758,008)
Student transportation	1,164,352	-	605,544	-	(558,808)	-	(558,808)	(972,698)
Student activities	469,555	57,945	27,442	-	(384,168)	-	(384,168)	(354,119)
Community services	5,257	-	229	-	(5,028)	-	(5,028)	(17,854)
Interest on long-term debt	640,639	-	-	288,996	(351,643)	-	(351,643)	(409,356)
Total governmental activities	26,681,017	155,152	4,307,591	288,996	(21,929,278)	-	(21,929,278)	(21,002,204)
Business-type activities								
Food service	926,645	404,010	464,952	-	-	(57,683)	(57,683)	(61,735)
Total school district	<u>\$ 27,607,662</u>	<u>\$ 559,162</u>	<u>\$ 4,772,543</u>	<u>\$ 288,996</u>	<u>(21,929,278)</u>	<u>(57,683)</u>	<u>(21,986,961)</u>	<u>(21,063,939)</u>
		General revenues						
		Real estate taxes			12,105,370	-	12,105,370	11,552,730
		Personal taxes			1,677,502	-	1,677,502	1,680,696
		Earned income taxes			1,543,918	-	1,543,918	1,448,489
		Other taxes			276,535	-	276,535	250,452
		Investment earnings			4,328	31	4,359	5,078
		State general subsidies			6,980,418	-	6,980,418	6,853,052
		Transfers			(54,521)	54,521	-	-
		Total general revenues and transfers			22,533,550	54,552	22,588,102	21,790,497
		Change in net position			604,272	(3,131)	601,141	726,558
		Net position - beginning			9,873,978	211,117	10,085,095	9,358,537
		Net position - ending			<u>\$ 10,478,250</u>	<u>\$ 207,986</u>	<u>\$ 10,686,236</u>	<u>\$ 10,085,095</u>

The accompanying notes are an integral part of these financial statements.



**LITTLESTOWN AREA SCHOOL DISTRICT**

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2014

(With Summarized Financial Information for June 30, 2013)

	<u>General</u>	<u>Capital Reserve</u>	<u>Totals</u>	
			<u>2014</u>	<u>2013</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 5,062,452	\$ 219,754	\$ 5,282,206	\$ 4,372,303
Taxes receivable (net of allowance for uncollectibles)	1,040,000	-	1,040,000	1,065,000
Due from other funds	276,641	-	276,641	267,343
Due from other governments	1,761,498	-	1,761,498	1,218,275
Other receivables	-	-	-	3,995
Prepaid health insurance	850,000	-	850,000	1,100,000
	<u>850,000</u>	<u>-</u>	<u>850,000</u>	<u>1,100,000</u>
<b>Total assets</b>	<b><u>\$ 8,990,591</u></b>	<b><u>\$ 219,754</u></b>	<b><u>\$ 9,210,345</u></b>	<b><u>\$ 8,026,916</u></b>
<b>Liabilities, deferred inflows of resources and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 735,005	\$ 16,468	\$ 751,473	\$ 259,100
Payroll and benefits payable	2,101,098	-	2,101,098	1,850,186
Unearned revenues	83,613	-	83,613	27,151
<b>Total liabilities</b>	<b><u>2,919,716</u></b>	<b><u>16,468</u></b>	<b><u>2,936,184</u></b>	<b><u>2,136,437</u></b>
<b>Deferred inflows of resources</b>				
Unavailable tax revenue	955,000	-	955,000	900,000
	<u>955,000</u>	<u>-</u>	<u>955,000</u>	<u>900,000</u>
<b>Fund balances</b>				
Nonspendable - employee health insurance	850,000	-	850,000	1,100,000
Committed - capital outlays	-	203,286	203,286	407,673
Assigned - employee benefit costs	784,433	-	784,433	784,433
Unassigned	3,481,442	-	3,481,442	2,698,373
<b>Total fund balances</b>	<b><u>5,115,875</u></b>	<b><u>203,286</u></b>	<b><u>5,319,161</u></b>	<b><u>4,990,479</u></b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b><u>\$ 8,990,591</u></b>	<b><u>\$ 219,754</u></b>	<b><u>\$ 9,210,345</u></b>	<b><u>\$ 8,026,916</u></b>

The accompanying notes are an integral part of these financial statements.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014

Total fund balances - Governmental funds \$ 5,319,161

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

Capital assets are not financial resources and therefore are not presented as assets in the governmental funds.  
At year end, the cost of capital assets is \$ 47,466,145 and the accumulated depreciation is \$ 25,714,995. 21,751,150

Certain liabilities are not due and payable in the current year, and therefore are not presented as liabilities in the governmental funds. At year end, these liabilities consist of:

Bonds payable	\$ (15,435,000)	
Compensated absences	(369,100)	
Retirement terminations	(303,000)	
Other post employment benefits	(1,291,989)	
Long-term liabilities	<u>(17,399,089)</u>	
Accrued interest on bonds payable	<u>(156,300)</u>	(17,555,389)

Bond discounts (premiums) and charges on refundings are presented as expenditures in the governmental funds.  
At year end, the remaining unamortized bond related costs consist of:

Bond discounts (premiums)	8,328	
Charges on refundings	<u>-</u>	8,328

Taxes receivable will be collected, but are not available soon enough to pay for current year expenditures, and therefore are unavailable in the governmental funds. At year end, these taxes receivable consist of:

Real estate taxes	506,000	
Personal taxes	229,000	
Earned income taxes	<u>220,000</u>	<u>955,000</u>

Net position - Governmental activities \$ 10,478,250

The accompanying notes are an integral part of these financial statements.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2014**  
(With Summarized Financial Information for the Year Ended June 30, 2013)

	General	Capital Reserve	Totals	
			2014	2013
<b>Revenues</b>				
Local sources - taxes	\$ 15,548,325	\$ -	\$ 15,548,325	\$ 15,041,367
Local sources - other	377,503	49	377,552	441,239
State sources	10,895,492	-	10,895,492	10,288,114
Federal sources	463,441	-	463,441	570,055
Total revenues	<u>27,284,761</u>	<u>49</u>	<u>27,284,810</u>	<u>26,340,775</u>
<b>Expenditures</b>				
Instruction	17,419,908	-	17,419,908	16,012,610
Support services	6,956,423	204,436	7,160,859	7,791,304
Noninstructional services	441,259	-	441,259	412,989
Debt service (principal and interest)	1,879,581	-	1,879,581	1,877,781
Refund of prior years revenues	-	-	-	2,498
Total expenditures	<u>26,697,171</u>	<u>204,436</u>	<u>26,901,607</u>	<u>26,097,182</u>
Excess (deficiency) of revenues over expenditures	587,590	(204,387)	383,203	243,593
<b>Other financing sources (uses)</b>				
Transfers from other funds	-	-	-	795,000
Transfers to other funds	(54,521)	-	(54,521)	(849,522)
Net changes in fund balances	533,069	(204,387)	328,682	189,071
Fund balances - beginning	<u>4,582,806</u>	<u>407,673</u>	<u>4,990,479</u>	<u>4,801,408</u>
Fund balances - ending	<u>\$ 5,115,875</u>	<u>\$ 203,286</u>	<u>\$ 5,319,161</u>	<u>\$ 4,990,479</u>

The accompanying notes are an integral part of these financial statements.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2014**

Total net change in fund balances - Governmental funds \$ 328,682

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

Capital outlays are presented as expenditures in the governmental funds. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. During the year, capital outlays and depreciation expense are as follows:

Capital outlays	\$ 315,480	
Depreciation expense	<u>(1,328,372)</u>	(1,012,892)

Bond proceeds and principal repayments are presented as other financing sources and expenditures (other financing uses if refunded bonds) in the governmental funds. In the statement of activities, proceeds and repayments do not effect net position.

During the year, proceeds and principal repayments are as follows:

Bond proceeds (no bonds were issued)	\$ -	
Principal repayments	<u>1,230,000</u>	1,230,000

Payments of accumulated benefits are presented as expenditures in the governmental funds. In the statement of activities, the expense is measured by the amount earned by employees during the year. The liability for accumulated benefits decreased during the year.

114,900

Payments of other post employment benefits are presented as expenditures in the governmental funds. In the statement of activities, the expense includes actuarial estimates, primarily for amortization of prior costs. The liability for other post employment benefits increased during the year.

(120,360)

Payments of interest are presented as expenditures in the governmental funds when the payment is due. In the statement of activities, the expense is measured by the amount accrued during the year. The liability for accrued interest on bonds payable decreased during the year.

12,300

Bond discounts (premiums) and charges on refundings (any difference between the carrying amount of refunded debt and its payoff amount) are presented as expenditures in the governmental funds. In the statement of activities, these amounts are allocated over the life of the debt as amortization expense. During the year, costs incurred and amortization expense are as follows:

Bond discounts (premiums) and charges on refundings on new bonds	-	
Amortization of bond premiums (discounts)	<u>(3,358)</u>	(3,358)

Because some taxes will not be collected until more than two months after the end of the fiscal year, they are not considered as available revenues in the governmental funds. Unavailable taxes increased (decreased) during the year as follows:

Real estate taxes	89,000	
Personal taxes	46,000	
Earned income taxes	<u>(80,000)</u>	<u>55,000</u>

Change in net position - Governmental activities \$ 604,272

The accompanying notes are an integral part of these financial statements.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2014**  
(With Summarized Financial Information for June 30, 2013)

	Food Service	
	2014	2013
<b>Assets</b>		
Cash and cash equivalents	\$ 263,660	\$ 228,887
Due from other governments	14,302	9,633
Other receivables	463	13
Inventories	21,749	20,899
Total current assets	300,174	259,432
Capital assets being depreciated, net	130,001	162,654
Total assets	430,175	422,086
 <b>Liabilities</b>		
Accounts payable	403	-
Payroll and benefits payable	2,028	4,504
Due to other funds	190,232	178,619
Unearned revenues	12,888	10,977
Current portion of compensated absences	2,000	2,000
Total current liabilities	207,551	196,100
Long-term portion of compensated absences	14,638	14,869
Total liabilities	222,189	210,969
 <b>Net position</b>		
Invested in capital assets (net of related debt)	130,001	162,654
Unrestricted	77,985	48,463
Total net position	\$ 207,986	\$ 211,117

The accompanying notes are an integral part of these financial statements.

## LITTLESTOWN AREA SCHOOL DISTRICT

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	Food Service	
	2014	2013
Operating revenues - Food service revenue	\$ 404,010	\$ 423,089
Operating expenses		
Salaries	340,234	347,277
Employee benefits	158,410	161,537
Purchased property services	13,688	7,032
Food and milk	347,570	330,570
Supplies and other expenses	32,666	36,313
Depreciation	34,077	30,433
Total operating expenses	926,645	913,162
Operating income (loss)	(522,635)	(490,073)
Nonoperating revenues		
Earnings on investments	31	29
State sources - social security and retirement subsidies	41,398	34,116
State sources - meal subsidies	26,565	23,938
Federal sources - meal subsidies	340,306	316,597
Federal sources - donated commodities	56,683	53,687
Total nonoperating revenues	464,983	428,367
Income (loss) before transfers	(57,652)	(61,706)
Transfers from other funds	54,521	54,522
Change in net position	(3,131)	(7,184)
Net position - beginning	211,117	218,301
Net position - ending	\$ 207,986	\$ 211,117

The accompanying notes are an integral part of these financial statements.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2014**  
(With Summarized Financial Information for the Year Ended June 30, 2013)

	Food Service	
	2014	2013
Operating activities		
Cash received from users	\$ 405,471	\$ 422,499
Cash payments to employees for services	(501,351)	(504,674)
Cash payments to suppliers for goods and services	(337,688)	(325,186)
Net cash provided by (used for) operating activities	(433,568)	(407,361)
Non-capital financing activities		
State sources	67,633	58,137
Federal sources	335,967	317,219
General Fund advances (Due to other funds)	11,613	106,447
General Fund contributed services	54,521	54,522
Net cash provided by (used for) non-capital financing activities	469,734	536,325
Capital and related financing activities		
Cash payments for equipment	(1,424)	-
Net cash provided by (used for) capital and related financing activities	(1,424)	-
Investing activities		
Earnings on investments	31	29
Net cash provided by (used for) investing activities	31	29
Net change in cash and cash equivalents	34,773	128,993
Cash and cash equivalents - beginning	228,887	99,894
Cash and cash equivalents - ending	\$ 263,660	\$ 228,887
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ (522,635)	\$ (490,073)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	34,077	30,433
Donated commodities	56,683	53,687
Net change in other assets and other liabilities		
Other receivables	(450)	94
Inventories	(850)	(4,958)
Accounts payable	403	-
Payroll and benefits payable	(2,476)	3,429
Unearned revenues	1,911	(684)
Compensated absences	(231)	711
Total adjustments	89,067	82,712
Net cash provided by (used for) operating activities	\$ (433,568)	\$ (407,361)

The accompanying notes are an integral part of these financial statements.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS**  
**JUNE 30, 2014**  
(With Summarized Financial Information for June 30, 2013)

	Payroll	Student Activities	Totals	
			2014	2013
<b>Assets</b>				
Cash and cash equivalents	\$ 223,698	\$ 208,679	\$ 432,377	\$ 386,718
Total assets	223,698	208,679	432,377	386,718
 <b>Liabilities</b>				
Due to governmental funds	86,409	-	86,409	88,724
Payroll deductions and withholdings	137,289	-	137,289	132,821
Due to student groups	-	208,679	208,679	165,173
Total liabilities	223,698	208,679	432,377	386,718
 <b>Net position</b>				
	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.



**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Littlestown Area School District is the level of government which has oversight responsibility and control over activities related to public school education. The report includes services provided by the District to residents within its boundaries: the Adams County municipalities of Littlestown Borough, Germany Township, Union Township and portions of Bonneauville Borough, Mt. Joy Township and Mt. Pleasant Township. Services provided include a comprehensive curriculum for primary and secondary education as well as special education and vocational education programs. The District receives revenue from local, state and federal sources and must comply with the requirements of these funding sources.

**Reporting entity**

GASB establishes 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 established criteria. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are:

The economic resources received or held by the separate organization are entirely for the direct benefit of the District or its constituents.

The District is entitled to (or has the ability to) access a majority of the economic resources received or held by the separate organization.

The economic resources received or held by the separate organization that the District is entitled to (or has the ability to) access is significant to the District.

There are no component units that meet all of the above criteria for inclusion in this reporting entity.

**Jointly-governed organizations**

The District is a participant in two jointly-governed organizations, each of which is a separate legal entity that offers services to the District and its residents. Each entity serves several school districts and/or municipalities, and therefore are not included in this reporting entity. These entities do not have taxing power, but are required to adopt an annual budget, which is funded primarily by its member Districts or others that use its services. Complete financial statements for these entities can be obtained from their administrative offices.

Lincoln Intermediate Unit provides special education services and programs.

York Adams Tax Bureau provides earned income tax collection services.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Basis of presentation**

The financial statements of the District have been prepared in accordance with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) establishes U.S. generally accepted accounting principles for governments. Accounting guidance is also provided through the Comptroller's office for Pennsylvania's Department of Education. The more significant of these accounting policies are as follows:

**Basis of presentation – District-wide financial statements**

District-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present information on all of the nonfiduciary activities of the District. As a general rule the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are presented separately from business-type activities which rely to a significant extent, on fees and charges for support.

District-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Real estate and personal taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows less total liabilities) is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation and amortization are charged as an expense against current operations. Capital assets (net of accumulated depreciation) and bonds payable (net of unamortized discounts) are presented in the statement of net position.

The statement of activities demonstrates the degree to which the direct expenses of given functions or programs are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are presented as general revenues.

**Basis of presentation – Fund financial statements**

Fund financial statements are also provided for all governmental funds, proprietary funds, and fiduciary funds of the District. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Nonmajor funds, if any, are aggregated and presented in a single column. Fiduciary funds are reported by fund.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Basis of presentation - Fund financial statements (Cont'd.)**

Governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are received 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 received within 2 months of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recognized as unearned revenues until earned. Expenditures generally are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recognized only when payment is due.

Proprietary funds generally follow standards for accounting and financial presentation for private business enterprises to the extent that those standards do not conflict with or contradict guidance of the GASB. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for the District's proprietary fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Fund accounting*

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, deferred inflows, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

When both restricted and unrestricted resources are available, the District's general policy is to use the restricted (primarily operating grants) resources first, then unrestricted resources as needed.

The District has the following types of funds:

Governmental Funds – These funds account for activities through which most of the District's operations are provided.

Proprietary Funds – These funds account for operations of the District that are financed and operated in a manner similar to private business enterprises.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Basis of presentation - Fund financial statements (Cont'd.)**

*Fund accounting (Cont'd.)*

Fiduciary Funds – These funds account for 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 presents the following major governmental funds:

The General Fund is the primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

An operating budget is adopted prior to the beginning of each year on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

The Pennsylvania School Code dictates specific procedures relative to budget adoption and financial statement presentation. The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year. This process includes the publishing of notices by advertisement, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District, and that public hearings are held on the proposed operating budget which are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may approve transfers of funds appropriated to any particular item of expenditure in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval, provided it is not at a higher level than the Board adopted budget.

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recognized. Unused encumbrances expire at the end of each year.

Included in the budget are program budgets as prescribed by the federal and state agencies funding the program. These budgets are approved on a program by program basis by the federal and state funding agencies.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Basis of presentation - Fund financial statements (Cont'd.)**

*Fund accounting (Cont'd.)*

The Capital Projects Fund can consist of more than one project, to separately account for each project, if required. Each issuance of new debt (primarily bonds) is a project to account for the debt proceeds and the expenditure of those proceeds. The District maintains a Capital Reserve Fund for amounts transferred from the General Fund and the expenditure of those funds for capital outlays.

The District presents the following proprietary fund:

The Food Service Fund accounts for the operations of the cafeterias.

The District presents the following fiduciary funds:

The Payroll Fund accounts for salaries paid to District employees. It processes payments to the employees and to taxing and other agencies on their behalf.

The Student Activities Fund accounts for programs operated and sponsored by various clubs and organizations within the schools.

**Cash and cash equivalents and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits (including pooled investments), and short-term investments with original maturities of three months or less from the date of acquisition.

Types of authorized investments are limited by State regulations. Pooled investment funds are required to be operated in accordance with State regulations.

Investments, including pooled investments, are presented at fair value.

**Taxes and taxes receivable**

Real estate and personal taxes are levied as of July 1 with a legal, enforceable claim against the property and/or taxpayer. Amounts not collected within six months (December 31) are considered delinquent and submitted to outside agencies/entities for collection actions.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Receivables and payables between funds**

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/to other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the district-wide financial statements as "internal balances". Any balances between funds are short term items pending periodic repayments.

**Inventories and prepaid items**

Inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when consumed. Donated commodities are recognized as revenue and are inventoried at an estimated cost value.

Certain payments, if any, to vendors reflect expenses applicable to future accounting periods and are presented as prepaid items in both district-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are presented in the applicable governmental or business-type activities columns in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous groups with individual costs of less than \$ 5,000 as capital assets for financial presentation purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are presented at historical cost or estimated historical cost if purchased or constructed.

Major outlays for capital assets and improvements are capitalized when incurred. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Upon sale or retirement, the cost and related accumulated depreciation, if applicable, are eliminated from the respective district-wide and proprietary accounts and any resulting gain or loss is reflected in those accounts

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Capital assets (Cont'd.)**

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Buildings	50	-
Building systems	25	-
Interior renovations	25	-
Land improvements	25	-
Furniture	20	20
Machinery and equipment	10 to 15	10 to 15
School buses	15	-
Other vehicles	10	-
Technology equipment	5	5
Library books	5	-

**Long-term liabilities**

In district-wide financial statements, and proprietary fund types in fund financial statements, bonds payable and other long-term obligations are presented as liabilities. Bond discounts (premiums) and any charges on refundings are amortized over the life of the bonds using the effective interest method.

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

**Deferred inflows/outflows of resources**

In addition to assets, if applicable, the statement of net position reports a separate section for deferred outflows of resources, as appropriate. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (i.e. expense) until then. The District does not have any items that qualify for reporting in this category. The most common type of item would be the deferred charges on refundings reported in the district-wide statement of net position. Charges on refundings result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Deferred inflows/outflows of resources (Cont'd.)**

In addition to liabilities, the governmental funds balance sheet reports a separate section for deferred inflows of resources, as appropriate. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of resources that applies to future periods and so will *not* be recognized as an inflow of resources (i.e. revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable tax revenue*, is reported only in the governmental funds balance sheet. These unavailable revenues from taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Net position**

Net position represents the difference between assets and liabilities. In district-wide financial statements and proprietary fund financial statements, categories of net position are:

**Invested in capital assets (net of related debt)** - This category presents all capital assets into one component of net position. Accumulated depreciation and outstanding debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

**Restricted** - This category presents funds restricted for a specific purpose as per: External parties, contributors or enabling legislation.

**Unrestricted** - This category presents the net position of the District, which is not restricted for any project or other purpose. However, these funds may be committed or assigned for specific projects or purposes in the fund financial statements.

**Governmental fund balances**

GASB has established criteria for classifying fund balances into specifically defined classifications based on a hierarchy that reflects the extent to which the District is bound to honor constraints on how those funds can be spent. The District's general policy is to first use restricted funds, if any, prior to using unassigned funds. Classifications of fund balances are:

**Nonspendable** - Amounts that cannot be spent because they are either in a (a) non-spendable form (i.e. inventories) or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

**Restricted** - Amounts constrained to be used for a specific purpose as per: External parties, contributors or enabling legislation.



**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Governmental fund balances (Cont'd.)**

**Committed** - Amounts constrained to be used for a specific purpose as per: The District's highest level of decision making authority which is the Board of School Directors.

**Assigned** - Amounts intended to be used for a specific purpose as per: Committee (such as budget or finance) or individual authorized by the Board of School Directors (such as Superintendent or Business Manager).

**Unassigned** - Amounts available for any purpose (amounts that are not Nonspendable, Restricted, Committed or Assigned) in the General Fund.

**Estimates**

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

**Recent accounting standards**

There are several GASB pronouncements that will become effective for future reporting periods. Other than the impact of GASB 68, the District does not currently anticipate any significant impact on the District's financial statements.

GASB Statement No. 68, effective for the year ending June 2015, is to improve accounting and financial reporting for pensions. This pronouncement will impact the Statement of Net Position (page FS-1), the Statement of Activities (page FS-2), and the Pension Plan disclosures in the Notes to Financial Statements. The District currently expects GASB 68 will have a very large negative impact to the district-wide financial statements.

**Comparative information**

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentations of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Subsequent events**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 13, 2014, the date the financial statements were available to be issued and there are no items requiring disclosure.

**CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Pennsylvania statutes provide for investment of District funds into authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of funds for investment purposes.

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a formal investment policy for custodial credit risk. However, the District requires all deposits in excess of federal deposit insurance coverage to be collateralized by the depository institution with approved collateral as provided by law.

As of June 30, 2014, the District's deposits totaled \$ 1,887,051 and the depository institution balances totaled \$ 1,993,220. Of the depository institution balances, \$ 268,075 was covered by federal deposit insurance and \$ 1,725,145 was collateralized by pooled assets. The pledged collateral is held by the Federal Reserve Bank, but is not titled in the District's name.

The District also has cash equivalents with organizations that operate as common law trusts established pursuant to the Intergovernmental Cooperation Act and related statutes for the purpose of pooling investments. Each organization's fundamental policy is to maintain a net asset value of \$ 1 per share, but there can be no assurance that the net asset value will not vary from \$ 1 per share. They may only purchase securities which are permitted under PA law. As of June 30, 2014, District deposits in these organizations are as follows:

Pennsylvania Local Government Investment Trust (PLGIT)	\$ 3,528,765
Pennsylvania Treasurer's INVEST Program (PA INVEST)	544,081
Pennsylvania School District Liquid Asset Fund (PSDLAF)	18,346

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy for interest rate risk. The weighted average maturity of securities held by each of the organizations is generally less than 90 days.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont'd.)**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal investment policy for credit risk. The District's deposits in each of the organizations were rated "AAAm" by Standard & Poor's.

Cash and cash equivalents and investments are as follows:

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>
Governmental activities	\$ 5,282,206	\$ -
Business-type activities	263,660	-
Fiduciary funds	<u>432,377</u>	<u>-</u>
	<u>\$ 5,978,243</u>	<u>\$ -</u>

Investments, if any, consist of certificates of deposit with an original maturity of more than three months from the date of acquisition.

**TAXES RECEIVABLE**

Taxes receivable are as follows:

	<u>Taxes</u> <u>Receivable</u> <u>(Gross)</u>	<u>Allowance for</u> <u>Uncollectibles</u>	<u>Taxes</u> <u>Receivable</u> <u>(Net)</u>	<u>Unavailable</u> <u>Tax</u> <u>Revenue</u>
Real estate taxes	\$ 569,211	\$ 3,211	\$ 566,000	\$ 506,000
Personal taxes	783,289	529,289	254,000	229,000
Earned income taxes	<u>220,000</u>	<u>-</u>	<u>220,000</u>	<u>220,000</u>
General Fund	1,572,500	532,500	1,040,000	955,000
Full accrual adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(955,000)</u>
Governmental activities	<u>\$ 1,572,500</u>	<u>\$ 532,500</u>	<u>\$ 1,040,000</u>	<u>\$ -</u>

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**DUE FROM/TO OTHER FUNDS AND INTERFUND TRANSFERS**

Interfund balances are as follows:

Assets		Liabilities	
General Fund	\$ 86,409	\$ 86,409	Payroll Fund
General Fund	190,232	190,232	Food Service Fund

Interfund transfers were as follows:

Other financing sources		Other financing uses	
Capital Reserve Fund	\$ -	\$ -	General Fund
Food Service Fund	54,521	54,521	General Fund

**DUE FROM OTHER GOVERNMENTS**

Due from other governments are as follows:

	Governmental Activities	Business-type Activities
Local sources – earned income taxes	\$ 253,304	\$ -
Local sources – other taxes	119,435	-
Local sources – other schools	447,843	-
State sources	451,243	999
Federal sources	489,673	13,303
	<b>\$ 1,761,498</b>	<b>\$ 14,302</b>

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**CAPITAL ASSETS**

Changes in capital assets were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 1,255,005	\$ -	\$ -	\$ 1,255,005
Capital assets being depreciated				
Land improvements	1,726,712	-	-	1,726,712
Buildings and improvements	39,637,918	41,298	-	39,679,216
Furniture and equipment	2,417,723	211,957	(8,618)	2,621,062
School buses and vehicles	1,410,139	62,225	(35,829)	1,436,535
Library books	<u>747,615</u>	<u>-</u>	<u>-</u>	<u>747,615</u>
	<u>45,940,107</u>	<u>315,480</u>	<u>(44,447)</u>	<u>46,211,140</u>
Accumulated depreciation				
Land improvements	(911,645)	(61,311)	-	(972,956)
Buildings and improvements	(20,223,347)	(1,017,368)	-	(21,240,715)
Furniture and equipment	(1,691,489)	(182,568)	8,618	(1,865,439)
School buses and vehicles	(856,974)	(67,125)	35,829	(888,270)
Library books	<u>(747,615)</u>	<u>-</u>	<u>-</u>	<u>(747,615)</u>
	<u>(24,431,070)</u>	<u>(1,328,372)</u>	<u>44,447</u>	<u>(25,714,995)</u>
Capital assets being depreciated, net	<u>21,509,037</u>	<u>(1,012,892)</u>	<u>-</u>	<u>20,496,145</u>
Governmental activities capital assets, net	<u>\$ 22,764,042</u>	<u>\$ (1,012,892)</u>	<u>\$ -</u>	<u>\$ 21,751,150</u>
<b>Business-type activities</b>				
Capital assets being depreciated				
Furniture and equipment	\$ 826,534	\$ 1,424	\$ -	\$ 827,958
Accumulated depreciation				
Furniture and equipment	<u>(663,880)</u>	<u>(34,077)</u>	<u>-</u>	<u>(697,957)</u>
Capital assets being depreciated, net	<u>162,654</u>	<u>(32,653)</u>	<u>-</u>	<u>130,001</u>
Business-type activities capital assets, net	<u>\$ 162,654</u>	<u>\$ (32,653)</u>	<u>\$ -</u>	<u>\$ 130,001</u>

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**CAPITAL ASSETS (Cont'd.)**

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
Instruction	\$ 1,045,860
Instructional student support	76,816
Administrative and financial support	43,113
Operation and maintenance of plant	42,865
Student transportation	87,065
Student activities	<u>32,653</u>
	<u>\$ 1,328,372</u>
Business-type activities - Food service	<u>\$ 34,077</u>

**LONG-TERM LIABILITIES**

Changes in all long-term liabilities were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable	\$ 16,665,000	\$ -	\$ (1,230,000)	\$ 15,435,000	\$ 1,280,000
Compensated absences	390,100	150,000	(171,000)	369,100	150,000
Retirement terminations	396,900	36,000	(129,900)	303,000	150,000
Other post employment benefits	<u>1,171,629</u>	<u>349,198</u>	<u>(228,838)</u>	<u>1,291,989</u>	<u>200,000</u>
	<u>\$ 18,623,629</u>	<u>\$ 535,198</u>	<u>\$ (1,759,738)</u>	<u>\$ 17,399,089</u>	<u>\$ 1,780,000</u>
<b>Business-type activities</b>					
Compensated absences	<u>\$ 16,869</u>	<u>\$ 2,138</u>	<u>\$ (2,369)</u>	<u>\$ 16,638</u>	<u>\$ 2,000</u>

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**LONG-TERM LIABILITIES (Cont'd.)**

**Bonds payable**

Changes in bonds payable were as follows:

	<u>Beginning Balance</u>	<u>New Issue</u>	<u>Scheduled Redemptions</u>	<u>Ending Balance</u>
2007 Series	\$ <u>16,665,000</u>	\$ <u>-</u>	\$ <u>1,230,000</u>	\$ <u>15,435,000</u>
	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Callable Date</u>	<u>Due Within One Year</u>
2007 Series	4.00% to 4.20%	October 2023	April 2015	\$ <u>1,280,000</u>

Scheduled debt service requirements, payable by the General Fund, are as follows:

<u>Year Ending June</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,280,000	\$ 599,381	\$ 1,879,381
2016	1,335,000	547,081	1,882,081
2017	1,385,000	492,681	1,877,681
2018	1,445,000	436,081	1,881,081
2019	1,500,000	377,181	1,877,181
2020-2024	<u>8,490,000</u>	<u>905,119</u>	<u>9,395,119</u>
	<u>\$ 15,435,000</u>	<u>\$ 3,357,524</u>	<u>\$ 18,792,524</u>

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd.)**  
**JUNE 30, 2014**

**LONG-TERM LIABILITIES (Cont'd.)**

**Compensated absences**

Compensated absences (those for which employees are compensated) are presented using the termination payment method. A liability is computed using estimates which apply historical data to current factors. The District maintains records of unused leave and applies the contracted rate for employees eligible for the severance allowances. The District allows only restricted sabbatical leave and therefore does not present any liability in advance of the sabbatical. Payments for compensated absences are made in the year the absence is taken or the employee retires. When an eligible employee retires, the payout is as follows:

Sick - \$ 20 per day of accumulated sick leave, to a maximum of \$ 4,000. Administrators get their daily pay rate, to a maximum of \$ 8,500.

Vacation - Daily pay rate for accumulated vacation leave, to a maximum of 1 year's vacation allowance.

Personal - \$ 90 per day of accumulated personal leave, to a maximum of \$ 900. Administrators get their daily pay rate.

**Retirement terminations**

Retirement terminations are presented using the termination payment method. Under agreements with its teaching staff and instructional administrators, an eligible employee accepting a retirement annuity (see pension plan) and who has the required years service in the District will receive a retirement termination payment. The payment is a percentage of their highest year's earnings times their number of years service in the District.

<u>Minimum Service</u>	<u>Percentage</u>	<u>Employees</u>	<u>Liability</u>
20 years	.50% or .75%	5	\$ 61,022
25 years	.50% or .80%	4	69,465
30 years	.50% or .85%	8	<u>172,513</u>
			<u>\$ 303,000</u>



**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**LONG-TERM LIABILITIES (Cont'd.)**

**Other post employment benefits (OPEBs)**

OPEBs are presented in accordance with GASB Statement No. 45, which requires their recognition as part of the compensation package of active employees for services rendered. The cost and obligation for OPEBs are measured by an actuarial valuation.

**Plan description**

Under the agreement with Littlestown Area Education Association, eligible retirees (see pension plan) and their dependents may participate in the District's health insurance program until the earlier of attaining the Medicare eligible age or 10 years. For a retiree, with at least 30 years service with the District, the District shall pay 50% of the member premium. The retiree shall pay the remaining member premium and the entire additional premium for dependents coverage.

Retired administrators and their dependents may participate in the District's health insurance program until attaining the Medicare eligible age. For a retired administrator, with at least 25 years service with the District, the District shall pay 50% of the member premium for up to 7 years. The retired administrator shall pay the remaining member premium and the entire additional premium for dependents coverage.

All other eligible retirees may participate in the District's health insurance program until attaining the Medicare eligible age by paying the entire premium. Spouses may participate, until attaining the Medicare eligible age or until coverage is available through another employer, by paying the entire premium.

Retiree's premiums are less than the District's actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the cost of covering retired members and their beneficiaries results in what is known as an "implicit rate subsidy," which creates an additional cost to the District.

Participant information	
Active participants	222
Retired participants	<u>36</u>
	<u>258</u>

**Funding policy**

The District funds Plan liabilities on a "pay-as-you-go" basis, and has not established an OPEB trust fund to accumulate assets to fund Plan obligations. The District has no statutory or contractual obligation to fund the Plan and would only do so at the District's discretion.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**LONG-TERM LIABILITIES (Cont'd.)**

**Other post employment benefits (OPEBs) (Cont'd.)**

**Annual OPEB cost and net OPEB obligation**

The annual OPEB cost (expense) is calculated based on the actuarially determined annual required contribution (ARC) of the District. The ARC represents a funding level that if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial accrued liability (UAAL) over a remaining period of 2 years.

Components of the annual OPEB cost, the amount contributed to the Plan, and changes in the net OPEB obligation are as follows:

District normal cost	\$ 114,953
Amortization of unfunded actuarial accrued liability	<u>359,152</u>
Annual required contribution	474,105
Interest on the net OPEB obligation	52,723
Adjustment to the ARC	<u>(177,630)</u>
Annual OPEB cost	349,198
Contributions made to the plan	<u>(228,838)</u>
Increase in net OPEB obligation	120,360
Net OPEB obligation - beginning	<u>1,171,629</u>
 Net OPEB obligation - end	 <u>\$ 1,291,989</u>

The percentage of annual OPEB cost contributed was as follows:

<u>Year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 2014	\$ 349,138	65.53%	\$ 1,291,989

# LITTLESTOWN AREA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS (Cont'd.)

JUNE 30, 2014

### LONG-TERM LIABILITIES (Cont'd.)

#### Other post employment benefits (OPEBs) (Cont'd.)

##### Funding status and funding progress

The actuarial accrued liability (AAL) for OPEBs as of January 2012 was \$ 2,368,928. There are no Plan assets, thus, the entire amount is unfunded. The District does not have any current plans to fund the AAL.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
January 2012	\$ -	\$ 2,368,928	\$ 2,368,928	0.00%	\$ 11,620,094	20.39%

##### Actuarial assumptions and methods

Actuarial assumptions and methods used in the January 2012 actuarial valuation include the following:

Interest rate	4.50%
General inflation rate	3.00%
Health care cost trend rate	7.5% in 2012 decreasing by 0.5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later.
Actuarial cost method	Benefits are allocated on a level basis over the earnings of an individual from date of hire to assumed retirement age.
Amortization (blended)	Active employees over expected future service period, and retirees over expected future payment period.

Actuarial evaluations on an ongoing basis involve estimates of the reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Projections of benefits are based on the types of benefits provided under the plan at the time of each valuation and on the pattern of sharing of benefit costs between the District and plan members to that point in time.

Actuarial calculations reflect a long-term perspective, and consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd.)**  
**JUNE 30, 2014**

**LONG-TERM LIABILITIES (Cont'd.)**

**Other post employment benefits (OPEBs) (Cont'd.)**

**Actuarial assumptions and methods (Cont'd.)**

The required schedule of funding progress in the other required supplementary information (ORSI) immediately following the notes to financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the District maintains no Plan assets, information relative to Plan asset disclosures is not applicable.

**PENSION PLAN**

Substantially all full-time and part-time employees of the District participate in the plan. The District recognizes expenditures or expenses equal to its contractually-required contributions, subject to the modified accrual basis of accounting in governmental funds.

The District contributes to Public School Employees' Retirement System (the System), a governmental cost sharing multiple-employer 401(a) defined benefit plan. The plan is under the authority of The Public School Employees' Retirement Code (the Code), as amended. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to the System at 5 N 5<sup>th</sup> Street, Harrisburg, PA 17101-1905, or on the System's website.

The contribution policy is established in the Code and requires contributions by active members, employers and the Commonwealth. Contribution rates for active members are set by law and are dependent upon members' class. In most cases, the member contribution rates based on qualified compensation are as follows:

Membership Class T-C	Active members hired before July 22, 1983	5.25%
Membership Class T-C	Members hired on or after July 22, 1983 and who were active or inactive as of July 1, 2001	6.25%
Membership Class T-D	Active members hired before July 22, 1983	6.50%
Membership Class T-D	Members hired on or after July 22, 1983 and who were active or inactive as of July 1, 2001	7.50%
Membership Class T-D	Members hired from July 1, 2001 thru June 30, 2011	7.50%

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**PENSION PLAN (Cont'd.)**

Members hired after June 30, 2011 are automatically Membership Class T-E and have a member contribution rate of 7.50% (base rate). Members hired after June 30, 2011 who elect Membership Class T-F have a member contribution rate of 10.30% (base rate). Membership Class T-E and T-F are affected by a 'shared risk' provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 2014 the employer contribution rate was 16.93 percent of covered payroll, composed of 16.00 percent for pension benefits and 0.93 percent for healthcare insurance premium assistance. District contributions to the System for years ended June 2014, 2013, and 2012 were 2,115,450, \$ 1,515,395 and \$ 1,035,797, respectively. Those amounts are equal to the required contributions for each year.

**RISK MANAGEMENT**

**Health insurance**

The District is a member of Lincoln Benefit Trust, which provides a program of self-funding health benefits for approximately 20 school districts or Pennsylvania School Employers in Adams, Franklin and York counties. The District is required to pay the first \$ 50,000 of claims per participant per year, with reinsurance and stop-loss pools for claims in excess of that amount. Financial statements of the trust are provided to the member districts. District transactions within the trust were as follows:

Net assets in the trust - beginning		\$ 2,175,155
Payments from the District and its retirees		2,797,669
Benefit claims	\$ (2,573,553)	
Reinsurance and minipool premiums	(468,131)	
Reinsurance and minipool reimbursements	191,741	
Administrative and other fees, net of interest earned	<u>(116,564)</u>	
		<u>(2,966,507)</u>
Net assets in the trust - ending		<u>\$ 2,006,317</u>

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**RISK MANAGEMENT (Cont'd.)**

**Health insurance (Cont'd.)**

The amount available in the trust was as follows:

Accrual for benefit claims	\$ 760,991
Accrual for health insurance coverage on payroll payable	366,326
Accrual for administrative and other fees	<u>29,000</u>
Amount available for accrued costs - ending	1,156,317
Prepaid health insurance	<u>850,000</u>
 Net assets in the trust - ending	 <u>\$ 2,006,317</u>

There are various methodologies for estimating a reasonable accrual for benefit claims. District management has selected the methodology of approximately '3 months of paid claims'. District management believes this methodology provides an adequate amount for accrued costs.

**Other insurance**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

For State unemployment compensation laws, the District is self-insured, which is a common practice for local governmental units. Any unemployment claims are paid by the District on a quarterly basis as incurred.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
JUNE 30, 2014

**COMMITMENTS AND CONTINGENCIES**

The District's contract with its teaching staff expires in June 2016. The District's contract with its support professionals expires in June 2017.

In the normal course of business, the District is subject to legal disputes and claims. The District does not anticipate any material losses from any pending or threatened litigation.

In the normal course of preparing for the subsequent school year, the District has awarded bids for various supplies, fuel contracts, etc. No major commitments in excess of routine requirements have been made by the District.

The District participates in state and federal grant programs which are governed by various rules and regulations. Expenditures charged to these grant programs are subject to program compliance audits and reviews by the grantor agencies. The District is potentially liable for any expenditures which may be disallowed by the rules of these grant programs. The District does not anticipate any material disallowance of program expenditures.

**LITTLESTOWN AREA SCHOOL DISTRICT**  
**BUDGETARY COMPARISON INFORMATION - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources - taxes	\$ 15,100,106	\$ 15,100,106	\$ 15,548,325	\$ 448,219
Local sources - other	419,700	419,700	377,503	(42,197)
State sources	10,693,219	10,693,219	10,895,492	202,273
Federal sources	512,869	512,869	463,441	(49,428)
Total revenues	<u>26,725,894</u>	<u>26,725,894</u>	<u>27,284,761</u>	<u>558,867</u>
<b>Expenditures</b>				
Regular programs	12,052,929	12,142,591	12,142,582	9
Special programs	3,746,081	3,893,081	3,893,022	59
Vocational programs	1,076,919	1,079,607	1,079,542	65
Other instructional programs	306,996	304,796	304,762	34
Pupil personnel	662,052	678,982	678,980	2
Instructional staff	1,167,668	1,204,268	1,204,240	28
Administration	1,797,551	1,727,351	1,717,258	10,093
Pupil health	227,328	216,528	216,492	36
Business	283,030	275,830	275,775	55
Operation and maintenance of plant	1,864,570	1,764,570	1,762,848	1,722
Student transportation	962,691	1,044,562	1,082,787	(38,225)
Other support services	18,000	18,044	18,043	1
Student activities	410,914	436,064	436,002	62
Community services	9,517	5,517	5,257	260
Debt service (principal and interest)	1,879,581	1,879,581	1,879,581	-
Total expenditures	<u>26,465,827</u>	<u>26,671,372</u>	<u>26,697,171</u>	<u>(25,799)</u>
Excess (deficiency) of revenues over expenditures	260,067	54,522	587,590	533,068
Other financing sources (uses)				
Transfers to other funds	(160,067)	(54,522)	(54,521)	1
Budgetary reserve	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	533,069	533,069
Fund balance - beginning	<u>3,558,708</u>	<u>3,558,708</u>	<u>4,582,806</u>	<u>1,024,098</u>
Fund balance - ending	<u>\$ 3,558,708</u>	<u>\$ 3,558,708</u>	<u>\$ 5,115,875</u>	<u>\$ 1,557,167</u>



**LITTLESTOWN AREA SCHOOL DISTRICT**  
**OTHER POST EMPLOYMENT BENEFIT PLANS**  
 JUNE 30, 2014

HEALTH CARE BENEFITS  
 SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
January 2012	\$ -	\$ 2,368,928	\$ 2,368,928	0.00%	\$ 11,620,094	20.39%
January 2010	-	2,453,966	2,453,966	0.00%	11,708,283	20.96%
January 2008	-	2,963,012	2,963,012	0.00%	10,652,659	27.81%

The District is required to have an actuarial valuation at least biennially (every 2 years). If the plan experiences significant changes, a new actuarial valuation should be performed rather than waiting for the next scheduled valuation date.