

LINE MOUNTAIN SCHOOL DISTRICT
Herndon, Pennsylvania
A.U.N. No. 1-16-49-350-3
Financial Statements
For the Year Ended June 30, 2014

LINE MOUNTAIN SCHOOL DISTRICT
June 30, 2014

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June 30, 2014

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Kenneth L. Wagner, Jr., CPA
kwagner@wdeapc.com

Ronald P. Dreese, CPA/PFS
rdreese@wdeapc.com

Brian L. Elsasser, CPA, CVA
belsasser@wdeapc.com



INDEPENDENT AUDITOR'S REPORT

Members of the Board
Line Mountain School District
Herndon, PA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Line Mountain School District, Herndon, Pennsylvania 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Line Mountain School District, Herndon, Pennsylvania as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 19 and the schedule of funding progress for postemployment benefits other than pensions on page 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014, on our consideration of the Line Mountain School District's, of Herndon, Pennsylvania, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Line Mountain School District, Herndon, Pennsylvania's internal control over financial reporting and compliance.

Wagner, Drees, Elsasser & Associates, P.C.

WAGNER, DREESE, ELSASSER & ASSOCIATES, P.C.

Certified Public Accountants and Consultants

Selinsgrove, PA

November 19, 2014

LINE MOUNTAIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Our discussion and analysis of the Line Mountain School District's financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements, which follow this section.

The Management Discussion & Analysis (MD&A) is Required Supplementary Information as specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year (2013 – 2014) and the prior year (2012 – 2013) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- District-wide, net position increased by \$1,135,994. Total revenues were \$19,049,278 and total expenditures were \$17,913,284.
- General Fund expenditures were anticipated to be \$101,600 greater than revenues, with this shortfall of money to be taken from the unreserved fund balance. Actual results show that revenues exceeded expenditures by \$1,285,456. Revenues were \$1,076,316 more than the budgeted amount and expenditures were \$209,140 less than the budgeted amount.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts, Management's Discussion and Analysis, the Basic Financial Statements, and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District.

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Proprietary funds statements offer short and long-term financial information about the activities the District operates as a business, such as food service.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

LINE MOUNTAIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS – continued
FOR THE YEAR ENDED JUNE 30, 2014

The Basic Financial Statements also include Notes to Financial Statements, which explain some of the information in the statements and provides additional details.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods that are similar to private-sector companies. The Statement of Net Position includes assets and liabilities. All of the current year's revenues and expenses are included in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report net position and how they have changed. Net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources.

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

- Governmental activities – Basic services are included here, such as regular education, special education, transportation, and administration.
- Business-type activities – Fees are charged to help cover the costs of certain services. The District's food service is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds and not the District as a whole. A fund is a fiscal and accounting entity, with a self-balancing set of accounts recording cash and other resources, together with all related liabilities and residual equities or balances, or changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Each fund must be so accounted for that the identity of its resources, obligations, revenues, expenditures, and fund equities is continually maintained.

LINE MOUNTAIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS – continued
FOR THE YEAR ENDED JUNE 30, 2014

The Line Mountain School District has three types of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on cash flows and year-end balances. These statements provide a detailed short-term view that helps to determine the available resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the long-term focus of the district-wide statements, we provide additional information with the governmental funds statements to explain the relationships between them.
- Proprietary funds – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported the same way as the district-wide financial statements.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the Student Activities Fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and by those to whom the assets belong. All the fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the district-wide financial statements because the District cannot use these assets to finance its operations.

LINE MOUNTAIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS – continued
FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets – Combined net position was \$14,251,577 on June 30, 2014. See Table A-1.

Table A-1
Line Mountain School District
Net Assets as of June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		District Totals	
	2013	2014	2013	2014	2013	2014
Current and other assets	\$14,233,600	\$7,276,303	\$153,066	\$241,201	\$14,386,666	\$7,517,504
Capital assets	30,351,275	36,072,490	60,400	57,156	30,411,675	36,129,646
Total Assets	\$44,584,875	\$43,348,793	\$213,466	\$298,357	\$44,798,341	\$43,647,150
Deferred Outflows of Resources	1,705,000	1,233,085	0	0	1,705,000	1,233,085
Current liabilities	2,621,386	1,399,140	19,047	37,515	2,640,433	1,436,655
Non-current liabilities	29,692,428	28,862,420	4,750	1,313	29,697,178	28,863,733
Total Liabilities	\$32,313,814	\$30,261,560	\$23,797	\$38,828	\$32,337,611	\$30,300,388
Deferred Inflows of Resources	139,600	322,151	0	6,119	139,600	328,270
Invested in capital assets, net of related debt	1,176,275	7,717,490	60,400	57,156	1,236,675	7,774,646
Restricted net assets	56,281	34,106	0	0	56,281	34,106
Unrestricted net assets	12,603,905	6,246,571	129,269	196,254	12,733,174	6,442,825
Total Net Position	\$13,836,461	\$13,998,167	\$189,669	\$253,410	\$14,026,130	\$14,251,577

LINE MOUNTAIN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS – continued

FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE - continued

Total Net Position – increased by \$1,135,994 for year ending June 30, 2014. See Table A-2

Table A-2
Line Mountain School District
Change in Net Assets
Fiscal Years Ended June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		District Totals	
	2013	2014	2013	2014	2013	2014
Revenues						
Program Revenues						
Charges for services	\$42,947	\$28,744	\$278,315	\$308,040	\$321,262	\$336,784
Operating grants & contributions	3,482,857	3,647,959	326,320	347,183	3,809,177	3,995,142
Capital grants & contributions	299,565	301,281			299,565	301,281
General Revenues						
Property taxes	4,954,697	5,163,331			4,954,697	5,163,331
Other taxes	1,647,516	2,042,906			1,647,516	2,042,906
State formula aide	6,183,522	6,299,967			6,183,522	6,299,967
Investment earnings	3,621	8,211	34	73	3,655	8,284
Other	496,812	901,583			496,812	901,583
Sale of Fixed Assets					0	0
Total Revenues	\$17,111,537	\$18,393,982	\$604,669	\$655,296	\$17,716,206	\$19,049,278
Expenses						
Instruction	9,324,808	9,614,760			9,324,808	9,614,760
Instructional student support	1,390,482	1,180,536			1,390,482	1,180,536
Administration	1,327,769	1,882,820			1,327,769	1,882,820
Operation & maintenance of facilities	2,050,608	1,925,130			2,050,608	1,925,130
Pupil transportation	1,739,443	1,884,129			1,739,443	1,884,129
Student activities	374,752	379,737			374,752	379,737
Community Service	0	0			0	0
Interest on long-term debt	31,136	454,617			31,136	454,617
Food service			592,719	591,555	592,719	591,555
Total Expenses	\$16,238,998	\$17,321,729	\$592,719	\$591,555	\$16,831,717	\$17,913,284
Increase in Net Assets	\$872,539	\$1,072,253	\$11,950	\$63,741	\$884,489	\$1,135,994

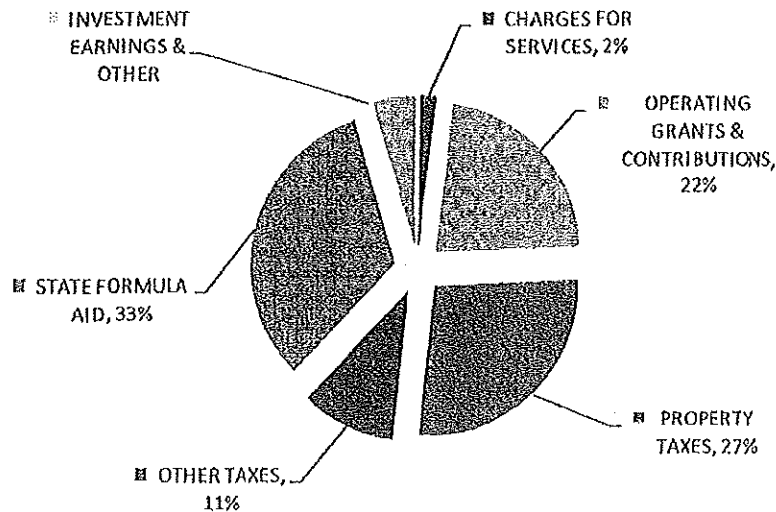
LINE MOUNTAIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS – continued
FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE - continued

Revenues – The District's total revenues were \$19,049,278 for the year ended June 30, 2014. See Table A-2. Taxes and State Formula Aid made up 71% of total revenue for the year. Another 24% came from state and federal aid for specific programs (operating and capital grants) and the remainder from fees charged for services as well as other sources. See Figure A-1.

- Users of District programs paid \$336,784.
- The federal and state governments subsidized certain programs with grants and contributions totaling \$4,296,423.
- District taxpayers paid \$7,206,237.
- State taxpayers paid \$6,299,967.
- Investment earnings were \$8,284.
- Other revenue totaled \$901,583.

Figure A-1
Sources of Revenue for Fiscal Year 2013 – 2014



LINE MOUNTAIN SCHOOL DISTRICT

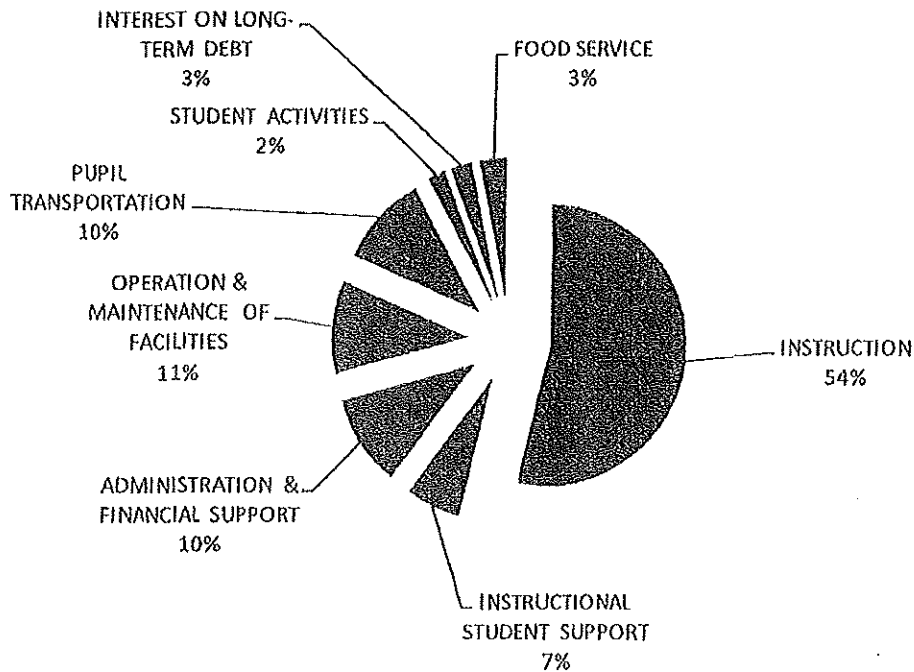
MANAGEMENT'S DISCUSSION & ANALYSIS – continued

FOR THE YEAR ENDED JUNE 30, 2014

Expenditures - The total cost of all programs and services was \$17,913,284. Instruction related expenses (Instruction, Instructional student support, Pupil transportation, and Student activities) accounted for 73% of the expenses. The remainder of the expenses were Administrative costs of 10%, Operation of facilities of 11%, Food service of 3%, and Other costs at 3%.

- Instruction related expenses were \$11,175,033.
- Administration and financial support expenses were \$1,882,820.
- The cost of operating and maintaining the facilities was \$3,809,259.
- Food service operations cost \$591,555.
- Interest on long-term debt obligations was \$454,617.

Figure A-2
Expenditures for Fiscal Year 2013 – 2014



LINE MOUNTAIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS – continued
FOR THE YEAR ENDED JUNE 30, 2014

Table A-3
Line Mountain School District
Net Cost of Governmental Activities

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2013	2014	Change	2013	2014	Change
Instruction	\$9,324,808	\$9,614,760	3.11%	\$7,427,388	\$7,840,564	2.87%
Instructional student support	1,390,482	1,180,536	-15.10%	1,313,034	1,086,991	-17.22%
Administrative & financial support	1,327,769	1,882,820	41.80%	1,258,474	1,791,712	42.37%
Operation & maintenance of facilities	2,050,608	1,926,130	-6.12%	1,979,432	1,831,550	-7.47%
Pupil transportation	1,739,443	1,884,129	8.32%	371,945	488,599	31.36%
Student activities	374,752	379,737	1.33%	331,805	350,893	5.78%
Community services			0.00%			0.00%
Interest on long-term debt	31,136	454,617	1360.10%	(288,429)	153,336	-167.12%
Food service	592,749	591,555	-0.20%	(11,916)	(63,668)	434.31%
Total expenses	\$16,831,717	\$17,913,284	6.43%	\$12,401,713	\$13,280,077	7.08%

The District's governmental funds reported a combined fund balance of \$5,360,646 which is a net decrease of \$5,870,619 from the prior year. The schedule below summarizes the fund balances and the total changes in fund balances as of June 30, 2013 and June 30, 2014.

LINE MOUNTAIN SCHOOL DISTRICT
GOVERNMENTAL FUNDS

	Year Ended June 30, 2013	Year Ended June 30, 2014	Increase (Decrease)	Percent of Change
General Fund Restricted	68,183	34,106	(\$34,077)	-49.98%
General Fund Committed	\$931,210	\$1,358,642	\$427,432	45.90%
General Fund Unreserved	2,415,647	3,307,748	892,101	36.93%
Capital Committed	7,510,882	374,152	(7,136,730)	-95.02%
Capital Projects Assigned	305,343	285,998	(19,345)	-6.34%
Total Governmental Funds	11,231,265	5,360,646	(5,870,619)	-109.51%

LINE MOUNTAIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS – continued
FOR THE YEAR ENDED JUNE 30, 2014

GENERAL FUND

GENERAL FUND

The following schedule provides a summary of General Fund revenues and Other Finance Sources.

	Year Ended June 30, 2013	Year Ended June 30, 2014	Increase (Decrease)	Percent of Change
Local sources				
Taxes	\$6,847,742	\$7,084,128	\$236,386	3.45%
Interest	2,838	7,735	4,897	172.55%
Other	539,759	870,106	330,347	61.20%
State sources	9,592,093	9,902,628	310,535	3.24%
Federal sources	373,851	346,579	(27,272)	-7.29%
Total Revenue	17,356,283	18,211,176	854,893	4.93%
Other sources-net	9,999,600	8,287,777	(1,711,823)	
Total Revenue and Other Sources	\$27,355,883	\$26,498,953	-\$856,930	-3.13%

Total General Fund revenue, exclusive of Other sources, increased by \$854,893 or 4.93% from the previous year. Tax collections increased \$236,386 – increase of 3.45% from the previous year. Other increased by \$310,535 due primary to a refund from Highmark Blue Shield.

The increase in state funding \$310,535 is attributable to the state designating a portion of funds as federal appropriations which is driven by finance formula changes enacted by the state legislature to provide net funding increases for public school regular and special education programs.

Other sources-net decreased due to the refinancing of General Obligation Bond Series A of 2014 for 6,250,000 and Series B of 2014 for 1,795,000.

LINE MOUNTAIN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS – continued

FOR THE YEAR ENDED JUNE 30, 2014

GENERAL FUND – continued

The following schedule provides a summary of General Fund expenditures:

GENERAL FUND – continued

The following schedule provides a summary of General Fund expenditures:

	Year Ended June 30, 2013	Year Ended June 30, 2014	Increase (Decrease)	Percent of Change
Salaries	\$7,058,216	\$7,077,578	19,363	0.27%
Employee benefits	3,288,893	3,651,596	362,703	11.03%
Purchased services	3,799,829	4,174,569	374,740	9.86%
Supplies	539,147	381,482	(157,665)	-29.24%
Property	159,576	134,924	(24,652)	-15.45%
Other	788,596	908,348	119,752	15.19%
Capital outlay	0	0	0	0.00%
Debt service	10,445,000	8,885,000	(1,560,000)	-14.94%
Interfund Transfers Out	300,000	0	(300,000)	
Total Expenditures	\$26,379,256	\$25,213,497	-\$1,165,759	-4.42%

Total General Fund expenditures decreased by \$1,165,759 from the previous year. Salaries increased by \$19,363 or .27% due to staff changes and no salary increases because of ongoing contract settlement with the teachers. Employee benefits increased \$362,703 or 11.03% due to employees retirement fund (PSERS) and medical insurance increases. Purchased service cost (transportation, heating, tuition payments and special education) increased by \$374,740. Instructional and maintenance supplies were reduced by \$157,665. Property and Capital outlay increased by a total of \$95,100 due to the building renovations. Debt service costs decreased mainly due to the refinancing of General Obligation Bond Series A of 2014 in the amount of 6,250,000 and Series B of 2014 in the amount of 1,795,000.

LINE MOUNTAIN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS – continued

FOR THE YEAR ENDED JUNE 30, 2014

General Fund – continued

General Fund Budget

Over the course of the year, the District reviews expenditures and makes appropriate adjustments to cover unexpected expenditures in the annual operating budget due to increases in appropriations of significant budgeted costs.

CAPITAL ASSETS

The District has invested \$49,805,582 in a broad range of capital assets, including land, buildings, athletic facilities, furniture, computers, audio-visual equipment. Accumulated depreciation on these assets was \$13,675,936 at June 30, 2014. Depreciation expense for the year was \$1,292,796.

Current year purchases of capital assets totaled \$7,084,927. Detailed information concerning capital assets can be found in Notes to Financial Statements, Note 6.

Table 4-A
LINE MOUNTAIN SCHOOL DISTRICT
CAPITAL ASSETS

	Year Ended June 30, 2013	Year Ended June 30, 2014	Increase (Decrease)	Percent of Change
Governmental Activities:				
Land	\$484,228	\$410,066	(74,160)	-15.32%
Buildings and Improvements	35,472,196	42,430,042	6,957,846	19.81%
Less Accumulated Depr.	(7,509,797)	(8,526,291)	(1,016,494)	13.54%
Furniture and Equipment	6,496,317	6,618,454	122,137	1.88%
Less Accumulated Depr.	(4,591,667)	(4,859,781)	(268,114)	5.84%
Construction in Process	0	0	0	100.00%
Governmental Activities (Net)	\$30,351,275	\$36,072,490	5,721,215	18.85%
Business-type Activities:				
Furniture and Equipment	\$342,076	\$347,020	4,944	1.45%
Less Accumulated Depr.	(281,676)	(289,864)	(8,188)	2.91%
Business-type Activities (Net)	\$60,400	\$57,156	(3,244)	-5.37%

LINE MOUNTAIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS – continued
FOR THE YEAR ENDED JUNE 30, 2014

LONG-TERM LIABILITIES

At year-end, the District had \$28,355,000 in general obligation bonds and \$507,420 of accrued compensated absences plus Post Employment Benefits. See Notes to Financial Statements, Note 8, and Table A-5.

Table A-5
 Outstanding Long-term Liabilities

	Year Ended June 30, 2013	Year Ended June 30, 2014	Increase (Decrease)	Percent of Change
General Obligation Bonds	\$29,175,000	\$28,355,000	(\$820,000)	-2.81%
Accumulated Compensated Absences	334,232	308,859	(25,373)	-7.59%
Post Employment Benefits	187,946	198,561	10,615	5.65%
Total	\$29,697,178	\$28,862,420	(\$834,758)	-2.81%

FACTORS INFLUENCING THE DISTRICT'S FINANCIAL FUTURE

There are several major factors that will have a significant influence on the District's financial future. During the 2007-08 fiscal year, Act 1 of 2006 was passed which limits future real estate tax increases to an inflation factor each year. The District plans to raise real estate taxes above the Act 1 index amount through an exception process in order to cover decreasing state funding and future renovation projects.

The Public School Employee's Retirement System funding crisis will make future fiscal years challenging. PSERS has increased 26% for the 14-15 school year with a projected increase of 21% for the 15-16 school year. Current projections of state subsidies reflect significant decreases that will adversely affect the educational process statewide. Line Mountain is preparing for this by reviewing all expenditures for upcoming fiscal years. Health Care with Highmark Blue Shield anticipates an overall increase between 15 to 20 percent.

LINE MOUNTAIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS – continued
FOR THE YEAR ENDED JUNE 30, 2014

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions concerning this report, or require any additional financial information, please contact the Line Mountain School District, Business Office, 185 Line Mountain Road, Herndon, PA 17830.

LINE MOUNTAIN SCHOOL DISTRICT
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 983,442	\$ 17,285	\$ 1,000,727
Investments	5,174,576	179,220	5,353,796
Taxes Receivable, Net	879,334	-	879,334
Intergovernmental Receivables	226,335	35,429	261,764
Other Receivables	10,821	3,148	13,969
Inventories	-	6,119	6,119
Prepaid Expenses	1,795	-	1,795
Capital Assets:			
Land	410,066	-	410,066
Building and Building Improvements, Net	33,903,751	57,156	33,960,907
Furniture and Equipment, Net	<u>1,758,673</u>	<u>-</u>	<u>1,758,673</u>
Total Capital Assets	<u>36,072,490</u>	<u>57,156</u>	<u>36,129,646</u>
TOTAL ASSETS	<u>\$ 43,348,793</u>	<u>\$ 298,357</u>	<u>\$ 43,647,150</u>
 DEFERRED OUTFLOWS OF RESOURCES			
Deferred Gain on Refinancing	<u>\$ 1,233,085</u>	<u>\$ -</u>	<u>\$ 1,233,085</u>
Total Deferred Outflows of Resources	<u>\$ 1,233,085</u>	<u>\$ -</u>	<u>\$ 1,233,085</u>

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

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
LIABILITIES			
Accounts Payable	\$ 405,329	\$ 17,604	\$ 422,933
Accrued Salaries and Benefits	896,334	11,710	908,044
Intergovernmental Payables	23	-	23
Other Current Liabilities	97,454	8,201	105,655
Long-Term Liabilities			
Due Within One Year:			
Bonds Payable	805,000	-	805,000
Compensated Absences	30,000	-	30,000
Due in More Than One Year:			
Bonds Payable	27,550,000	-	27,550,000
Compensated Absences	278,859	1,313	280,172
Other Postemployment Benefits	198,561	-	198,561
TOTAL LIABILITIES	<u>\$ 30,261,560</u>	<u>\$ 38,828</u>	<u>\$ 30,300,388</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Donated Commodities	\$ -	\$ 6,119	\$ 6,119
Deferred Bond Premiums	322,151	-	322,151
Total Deferred Inflows of Resources	<u>\$ 322,151</u>	<u>\$ 6,119</u>	<u>\$ 328,270</u>
NET POSITION			
Net Investment in Capital Assets	\$ 7,717,490	\$ 57,156	\$ 7,774,646
Restricted	34,106	-	34,106
Unrestricted	6,246,571	196,254	6,442,825
TOTAL NET POSITION	<u>\$ 13,998,167</u>	<u>\$ 253,410</u>	<u>\$ 14,251,577</u>

LINE MOUNTAIN SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	PROGRAM	
	Expenses	Charges for Services
<u>Governmental Activities:</u>		
Instruction	\$ 9,614,760	\$ -
Instructional Student Support	1,180,536	-
Administrative & Financial Support Services	1,882,820	-
Operation & Maintenance of Plant Services	1,925,130	-
Pupil Transportation	1,884,129	-
Student Activities	379,737	28,744
Interest on Long-Term Debt	454,617	-
Total Governmental Activities	<u>17,321,729</u>	<u>28,744</u>
<u>Business-Type Activities:</u>		
Food Services	<u>591,555</u>	<u>308,040</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 17,913,284</u></u>	<u><u>\$ 336,784</u></u>

General Revenues:

Income:

Taxes:

Property Taxes, Levied for General Purposes, Net
Earned Income Tax, Net

Public Utility, Realty, Transfer and Miscellaneous
Taxes Levied for General Purposes, Net

Grants, Subsidies & Contributions Not Restricted

Investment Earnings

Miscellaneous Income

Total General Revenues and Special Items

Change in Net Position

Net Position - July 1, 2013 as restated

Net Position - June 30, 2014

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

REVENUES		NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		
Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business - Type Activities	Total
\$ -	\$ 1,974,196	\$ (7,640,564)	\$ -	\$ (7,640,564)
-	93,545	(1,086,991)	-	(1,086,991)
-	91,108	(1,791,712)	-	(1,791,712)
-	93,580	(1,831,550)	-	(1,831,550)
-	1,395,530	(488,599)	-	(488,599)
-	-	(350,993)	-	(350,993)
301,281	-	(153,336)	-	(153,336)
<u>301,281</u>	<u>3,647,959</u>	<u>(13,343,745)</u>	<u>-</u>	<u>(13,343,745)</u>
-	347,183	-	63,668	63,668
<u>\$ 301,281</u>	<u>\$ 3,995,142</u>	<u>(13,343,745)</u>	<u>63,668</u>	<u>(13,280,077)</u>
		5,163,331	-	5,163,331
		819,983	-	819,983
		1,222,923	-	1,222,923
		6,299,967	-	6,299,967
		8,211	73	8,284
		901,583	-	901,583
		<u>14,415,998</u>	<u>73</u>	<u>14,416,071</u>
		1,072,253	63,741	1,135,994
		12,925,914	189,669	13,115,583
		<u>\$ 13,998,167</u>	<u>\$ 253,410</u>	<u>\$ 14,251,577</u>

LINE MOUNTAIN SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2014

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 983,442	\$ -	\$ 983,442
Investments	4,462,613	711,963	5,174,576
Taxes Receivable, Net	879,334	-	879,334
Intergovernmental Receivables	226,335	-	226,335
Other Receivables	10,821	-	10,821
Prepaid Expenses	1,795	-	1,795
TOTAL ASSETS	<u>\$ 6,564,340</u>	<u>\$ 711,963</u>	<u>\$ 7,276,303</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
<u>Liabilities:</u>			
Accounts Payable	\$ 353,516	\$ 51,813	\$ 405,329
Accrued Salaries and Benefits	896,334	-	896,334
Intergovernmental Payables	23	-	23
Total Liabilities	<u>1,249,873</u>	<u>51,813</u>	<u>1,301,686</u>
<u>Deferred Inflows of Resources:</u>			
Unavailable Revenue - Property Taxes	613,971	-	613,971
Total Deferred Inflows of Resources	<u>613,971</u>	<u>-</u>	<u>613,971</u>
<u>Fund Balances:</u>			
Non-spendable	-	-	-
Restricted	34,106	-	34,106
Committed	1,358,642	374,152	1,732,794
Assigned	-	285,998	285,998
Unassigned	3,307,748	-	3,307,748
Total Fund Balances	<u>4,700,496</u>	<u>660,150</u>	<u>5,360,646</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 6,564,340</u>	<u>\$ 711,963</u>	<u>\$ 7,276,303</u>

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

LINE MOUNTAIN SCHOOL DISTRICT
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Position
 June 30, 2014

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 5,360,646

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

Capital Assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$49,458,562 and the accumulated depreciation is \$13,386,072. 36,072,490

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds Payable	(28,355,000)	
Compensated Absences	(308,859)	
Postemployment Benefits	(<u>198,561</u>)	(28,862,420)

Taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds. 613,971

Governmental funds report debt issuance premiums and discounts as another financing source or use at the time of issuance. Premiums, discounts, and deferred charges are reported as an unamortized asset or liability in the District-wide financial statements. 910,934

Governmental funds do not report a liability for accrued interest until Due and payable. (97,454)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 13,998,167

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

LINE MOUNTAIN SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
June 30, 2014

	General Fund	Capital Projects Funds	Total Governmental Funds
REVENUES			
Local Revenues	\$ 7,961,969	\$ 476	\$ 7,962,445
State Program Revenues	9,902,628	-	9,902,628
Federal Program Revenues	346,579	-	346,579
Total Revenues	<u>18,211,176</u>	<u>476</u>	<u>18,211,652</u>
EXPENDITURES			
Instruction	8,885,574	-	8,885,574
Support Services	6,201,779	-	6,201,779
Operation of Non-Instruction Services	350,251	-	350,251
Capital Outlay	4,180	7,156,551	7,160,731
Debt Services	1,836,713	-	1,836,713
Total Expenditures	<u>17,278,497</u>	<u>7,156,551</u>	<u>24,435,048</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>932,679</u>	<u>(7,156,075)</u>	<u>(6,223,396)</u>
OTHER FINANCING SOURCES (USES)			
Bond Proceeds	8,045,000	-	8,045,000
Bond Premium	182,555	-	182,555
Payment to Refund Bond Escrow Agent	(7,935,000)	-	(7,935,000)
Sale of Fixed Assets	60,222	-	60,222
Total Other Financing Sources (Uses)	<u>352,777</u>	<u>-</u>	<u>352,777</u>
NET CHANGES IN FUND BALANCE	1,285,456	(7,156,075)	(5,870,619)
FUND BALANCE - JULY 1, 2013	<u>3,415,040</u>	<u>7,816,225</u>	<u>11,231,265</u>
FUND BALANCE - JUNE 30, 2014	<u>\$ 4,700,496</u>	<u>\$ 660,150</u>	<u>\$ 5,360,646</u>

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

LINE MOUNTAIN SCHOOL DISTRICT
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 to the Statement of Activities
 For the Year Ended June 30, 2014

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$(5,870,619)
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	5,721,215
The issuance of long-term debt provides current financial resources to governmental fund, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect on these differences in the treatment of long-term debt and related items.	820,000
In the Statement of Activities, interest is accrued on outstanding bonds, whereas, in governmental funds, an interest expenditure is reported when due.	13,460
Because some property and earned income taxes will not be collected for several months after the District's year-end, they are not considered as available revenues in the governmental funds.	122,108
Deferred gains on bond refunding and original issue discounts are capitalized and amortized.	256,081
Postemployment Benefit Expense	(10,615)
Change in Compensated Absences	<u>20,623</u>
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>1,072,253</u>

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

LINE MOUNTAIN SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balances, Budget and Actual
General and Special Revenue Funds
For the Year Ended June 30, 2014

	<u>GENERAL FUND</u>			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	<u>Original</u>	<u>Final</u>	(Budgetary Basis)	
REVENUES				
Local Revenues	\$ 6,940,888	\$ 6,940,888	\$ 7,961,969	\$ 1,021,081
State Revenues	9,874,565	9,874,565	9,902,628	28,063
Federal Revenues	319,407	319,407	346,579	27,172
Total Revenues	<u>17,134,860</u>	<u>17,134,860</u>	<u>18,211,176</u>	<u>1,076,316</u>
EXPENDITURES				
Regular Programs	6,926,751	6,926,450	6,501,784	424,666
Special Programs	1,725,962	1,723,962	1,859,198	(135,236)
Vocational Programs	472,191	468,589	409,144	59,445
Other Instructional Programs	188,745	188,745	115,448	73,297
Pupil Personnel Services	531,306	529,322	500,433	28,889
Instructional Staff Services	376,286	380,588	354,805	25,783
Administrative Services	979,386	984,571	1,216,111	(231,540)
Pupil Health	208,522	208,522	234,632	(26,110)
Business Services	307,309	307,309	293,525	13,784
Operation and Maintenance of Plant Services	1,325,591	1,319,233	1,634,267	(315,034)
Student Transportation Services	1,667,726	1,667,726	1,739,425	(71,699)
Central and Other Support Services	234,256	232,656	228,581	4,075
Student Activities	464,909	471,267	350,251	121,016
Building Improvements	-	-	4,180	(4,180)
Debt Services (Principal and Interest)	1,827,520	1,827,520	1,836,713	(9,193)
Total Expenditures	<u>17,236,460</u>	<u>17,236,460</u>	<u>17,278,497</u>	<u>(42,037)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(101,600)</u>	<u>(101,600)</u>	<u>932,679</u>	<u>1,034,279</u>

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

LINE MOUNTAIN SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balances, Budget and Actual
General and Special Revenue Funds - continued
For the Year Ended June 30, 2014

	<u>GENERAL FUND</u>			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual (Budgetary Basis)	
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	-	8,045,000	8,045,000
Bond Premiums	-	-	182,555	182,555
Payment to Refund Bond Escrow Agent	-	-	(7,935,000)	(7,935,000)
Sale of Fixed Assets	-	-	60,222	60,222
Total Other Financing Sources (Uses)	-	-	352,777	352,777
 NET CHANGE IN FUND BALANCE	 (101,600)	 (101,600)	 1,285,456	 1,387,056
 FUND BALANCE - JULY 1, 2013	 3,415,040	 3,415,040	 3,415,040	 -
 FUND BALANCE - JUNE 30, 2014	 <u>\$ 3,313,440</u>	 <u>\$ 3,313,440</u>	 <u>\$ 4,700,496</u>	 <u>\$ 1,387,056</u>

The School District does not formally adopt a budget for its Special Revenue Funds.

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

LINE MOUNTAIN SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund
June 30, 2014

	<u>Enterprise Fund Food Service</u>
ASSETS	
<u>Current Assets</u>	
Cash	\$ 17,285
Investments	179,220
Intergovernmental Receivables	35,429
Other Receivables	3,148
Inventories	6,119
Total Current Assets	<u>241,201</u>
<u>Noncurrent Assets</u>	
Furniture and Equipment, Net	<u>57,156</u>
Total Noncurrent Assets	<u>57,156</u>
Total Assets	<u>298,357</u>
LIABILITIES	
<u>Current Liabilities</u>	
Accounts Payable	17,604
Accrued Salaries and Benefits	11,710
Other Current Liabilities	8,201
Total Current Liabilities	<u>37,515</u>
<u>Noncurrent Liabilities</u>	
Compensated Absences	<u>1,313</u>
Total Liabilities	<u>38,828</u>
<u>Deferred Inflows of Resources</u>	
Deferred Donated Commodities	<u>6,119</u>
Total Deferred Inflows of Resources	<u>6,119</u>
TOTAL ASSETS LESS LIABILITIES AND DEFERRED INFLOWS	<u><u>\$ 253,410</u></u>
NET POSITION	
Net Investment in Capital Assets	\$ 57,156
Unrestricted	<u>196,254</u>
TOTAL NET POSITION	<u><u>\$ 253,410</u></u>

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

LINE MOUNTAIN SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2014

	<u>Enterprise Fund Food Service</u>
OPERATING REVENUES	
Food Service Revenue	\$ 307,651
Other Operating Revenue	389
Total Operating Revenues	<u>308,040</u>
 OPERATING EXPENSES	
Salaries	148,047
Employee Benefits	36,237
Purchased Professional and Technical Services	40
Purchased Property	2,508
Other Purchased Service	352,936
Supplies	43,598
Depreciation Expense	8,189
Total Operating Expenditures	<u>591,555</u>
 OPERATING LOSS	 <u>(283,515)</u>
 NONOPERATING REVENUES (EXPENSES)	
Earnings on Investments	73
State Sources	40,192
Federal Sources	306,991
Total Nonoperating Revenues (Expenses)	<u>347,256</u>
 CHANGES IN NET POSITION	 63,741
 TOTAL NET POSITION - JULY 1, 2013	 <u>189,669</u>
 TOTAL NET POSITION - JUNE 30, 2014	 <u>\$ 253,410</u>

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

LINE MOUNTAIN SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014

	Enterprise Fund <u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Users	\$ 307,933
Cash Received from Other Operating Revenues	389
Cash Payments to Employees for Services	(181,548)
Cash Payments to Suppliers for Goods and Services	<u>(381,852)</u>
Net Cash Used for Operating Activities	<u>(255,078)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Sources	37,486
Federal Sources	<u>274,267</u>
Net Cash Provided by Noncapital Financing Activities	<u>311,753</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Fixed Assets	<u>(4,944)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(4,944)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(34,519)
Earnings on Investments	<u>73</u>
Net Cash Used by Investing Activities	<u>(34,446)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	17,285
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>-</u>
CASH AND CASH EQUIVALENTS - End of Year	<u><u>\$ 17,285</u></u>

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

LINE MOUNTAIN SCHOOL DISTRICT
Statement of Cash Flows - continued
Proprietary Fund
For the Year Ended June 30, 2014

	Enterprise Fund <u>Food Service</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (283,515)</u>
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation Expense	8,189
(Increase) Decrease in Other Receivable	(528)
(Increase) Decrease in Inventories	(374)
Increase (Decrease) in Accounts Payable	17,604
Increase (Decrease) in Accrued Salaries/Benefits	6,173
Increase (Decrease) in Deferred Revenues	810
Increase (Decrease) in Compensated Absences	<u>(3,437)</u>
Total Adjustments	<u>28,437</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (255,078)</u></u>

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

LINE MOUNTAIN SCHOOL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	<u>Private Purpose Trusts</u>	<u>Student Activity</u>	<u>Total Fiduciary Funds</u>
ASSETS			
Cash and Cash Equivalents	<u>\$ 35,214</u>	<u>\$ 57,079</u>	<u>\$ 92,293</u>
Total Assets	<u><u>\$ 35,214</u></u>	<u><u>\$ 57,079</u></u>	<u><u>\$ 92,293</u></u>
LIABILITIES			
Due to Students	<u>\$ -</u>	<u>\$ 57,079</u>	<u>\$ 57,079</u>
Total Liabilities	<u>-</u>	<u>57,079</u>	<u>57,079</u>
TOTAL ASSETS LESS LIABILITIES	<u><u>\$ 35,214</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 35,214</u></u>
NET POSITION			
Net Position Held in Trust for Scholarships	<u>\$ 35,214</u>		<u>\$ 35,214</u>
TOTAL NET POSITION	<u><u>\$ 35,214</u></u>		<u><u>\$ 35,214</u></u>

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

LINE MOUNTAIN SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

	<u>Private Purpose Trust</u>
ADDITIONS:	
Gifts and Contributions	\$ 6,944
Investment Income	<u>17</u>
Total Additions	<u>6,961</u>
DEDUCTIONS:	
Scholarships Awarded	<u>18,293</u>
Total Deductions	<u>18,293</u>
CHANGE IN NET POSITION	(11,332)
TOTAL NET POSITION - JULY 1, 2013	<u>46,546</u>
TOTAL NET POSITION - JUNE 30, 2014	<u><u>\$ 35,214</u></u>

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

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Basis of Presentation

In June 2011, the GASB issued GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The statement places deferred outflows of resources in a separate section following assets, while deferred inflows of resources are reported in a separate section following liabilities. Therefore, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position. The exception is for governmental funds, where the format would be assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus fund balance.

In March 2012, GASB quickly followed with Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which amends the financial statement classification of certain items to now be included in the deferred inflows and outflows categories that changed the structure of the balance sheet in Statement No. 63.

B. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the School District is considered a "primary government." The School District is governed by a nine member board to which each member is elected by the citizens of each defined district.

For financial reporting purposes, Line Mountain School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

B. Financial Reporting Entity - continued

The School District participates in a jointly governed organization. The organization is the Northumberland County Career and Technology Center. The organization is presented in Note 11 to the basic financial statements.

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net Positions is reported in three categories:

1. Net Investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net positions result when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net positions consist of net positions not meeting the definition of the two preceding categories. Unrestricted net positions often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

C. Government-wide and Fund Financial Statements - continued

Fund financial statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements.

The School District reports the following major governmental funds:

General Fund - This is the School District's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Capital Projects Fund - This is used to account for financial resources to be used for capital improvements, and the construction, replacements, additions, and maintenance to facilities, and purchase of school buses.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

The School District reports the following major proprietary fund:

The District's proprietary fund is the Cafeteria Fund. This fund is used to account for the cafeterias of the District.

The School District also reports fiduciary funds which focus on net position and changes in net position.

The District's fiduciary funds include the following:

SCHOLARSHIP FUND
ACTIVITY FUND

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

C. Government-wide and Fund Financial Statements - continued

PROPRIETARY FUNDS

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the School District has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose Trust Funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

Agency Funds - Agency Funds are used to report resources held by the District in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary and Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported 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. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

Property taxes are levied by the School District upon an assessed value times an approved millage rate. See Note 3 for further details.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect on inter-fund activity has been eliminated from the government-wide statements.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2014 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems*, 2009, issued by the U.S. Department of Education.

E. Basis of Accounting

1. Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

E. Basis of Accounting - continued

1. Revenues - Exchange and Nonexchange Transactions - continued

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal yearend: property taxes available as an advance, income taxes, grants, interest, tuition and student fees.

2. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Budgetary Process

The operating budget is prepared in accordance with generally accepted accounting principles. An annual budget prepared by function and object is formally adopted for the General Fund. Project-length financial plans are used for Capital Projects Fund.

The budget may be amended during the year if projected increases or decreases in revenue are identified by the Business Manager. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the budget when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended budget issued during the fiscal year 2014.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

F. Budgetary Process - continued

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

G. Encumbrances

An encumbrance system is maintained to account for commitments or assignments resulting from approved purchase orders, work orders and contracts. However, the School District attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are reported within committed or assigned fund balances.

H. Cash and Investments

Cash includes amounts in demand deposits and certificates of deposit. Investments consist of repurchase agreements and funds invested in the PA Treasury Investment Program and are stated at cost, which approximates market value. This is in accordance with Section 440.1 of the School Code.

I. Taxes Receivable and Deferred Inflows

Taxes receivable consist of delinquent real estate taxes due at June 30, 2014, less an allowance for the amount of these delinquencies not expected to be collected within the next fiscal year.

Deferred revenue consists of the amount of taxes receivable at June 30, 2014, less the amount actually collected and remitted to the School District in July and August 2014.

J. Due From/To Other Funds

During the course of operations, transactions occur between individual funds for goods provided or services rendered. These receivables and payables, to the extent they exist, are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

K. Inventories

On government-wide financial statements, inventories are presented at cost on a first-in, first-out basis, and are expensed when used.

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2014. The inventory consisted of government donated commodities which were valued using USDA values, and other cafeteria supplies valued at cost using the first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2014 are reported as deferred revenue.

L. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than: equipment - \$1,500, vehicles - \$10,000, and building improvements - \$25,000, and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. In addition, capital assets purchased with a long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

L. Capital Assets - continued

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives.

<u>Description</u>	<u>Estimated Lives</u>
Land	Not Depreciated
Land Improvements	12 years
Buildings and Building Improvements	40 years
Vehicles	5 - 15 years
Furniture and Equipment	12 years

M. Long-Term Liabilities

In the government-wide financial statements and proprietary funds types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position.

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

N. Estimates

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

O. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

O. Fund Balances - continued

Non-spendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is the approval of a resolution for a specific purpose.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Business Manager pursuant to authorization established by the board.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

O. Fund Balances - continued

Governmental Fund Balances

Governmental Fund Balances consist of the following at June 30, 2014:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Non Spendable:	\$ -	\$ -	\$ -
Restricted:			
Access Funds	34,106	-	34,106
Committed:			
Capital Improvements	-	374,152	374,152
Pension Obligation	330,000	-	330,000
Early Retirement Obligation	90,000	-	90,000
Lease Obligations	88,642	-	88,642
Medical Insurance	850,000	-	850,000
Assigned:			
Capital Improvements	-	285,998	285,998
Unassigned:			
Unassigned	<u>3,307,748</u>	<u>-</u>	<u>3,307,748</u>
Total Fund Balances	<u>\$ 4,700,496</u>	<u>\$ 660,150</u>	<u>\$ 5,360,646</u>

Although the board restricts the use of the Capital Projects Fund assets for construction, additions and equipment, Fixed Assets can be purchased out of the General Fund if the items are budgeted for in the annual budget.

When the District incurs an expense for which it may use either restricted or unrestricted net positions, it uses restricted net positions first unless unrestricted net positions will have to be returned because they were not used.

P. Definition of Cash and Cash Equivalents

For the purpose of the statement of cash flows, the term cash and cash equivalents includes cash in bank and short-term, highly liquid investments with a maturity of ninety days or less at the date of purchase.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

Q. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability. The liability includes the employees who are currently eligible to receive termination benefits. The amount is based on accumulated sick leave and the various rates stated in the labor contracts. The School District records a liability for accumulated unused sick leave for all employees.

The entire compensation absence liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. For the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

R. Other Post-Employment Benefits

Substantially all employees of the School District are covered under one of two currently applicable labor agreements. In addition to the pension benefits described in Note 9, the following post-employment benefits are mandated by these labor agreements.

Instructional employees who have served at least twenty-five years in the Line Mountain School District, and who are eligible for normal retirement, the "window" or disability retirement from the field of public education under the PSERS will be granted \$65 multiplied by the total number of unused sick days accumulated by the employee. Any instructional employees with 10 years in the Line Mountain School district are entitled to \$20 for unused sick days up to 150 days and \$30 for unused sick days above 150 days. During the 2010-2011 school year, the board agreed that those instructional employees with 20 years of PSERS credited service or is at least 55 years of age and retires no later than June 30, 2011, will receive a \$50,000 lump sum payment to be paid in five annual installments of \$10,000. At June 30, 2014, \$30,000 was due to retirees.

Noninstructional employees, who have served in the Line Mountain School District, will be granted a retirement severance at the time of retirement equal to the sum of \$25 per day for each day of accumulated sick days.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

T. Operating and Nonoperating Revenues

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

U. Restatement of Beginning Net Position

For fiscal year 2014, the District made a prior period adjustment due to the adoption of GASB Statement No. 65 as described in "New Accounting Pronouncements" below, which require the restatement of the June 30, 2013, net position in the Governmental Activities. The result is a decrease in Net Position at July 1, 2013 of \$910,547. This change is in accordance with generally accepted accounting principles.

Net Position, June 30, 2013, as previously reported	\$ 13,836,461
Reclassification of Bond Issuance Costs	(910,547)
Net Position, July 1, 2013, as restated	\$ <u>12,925,914</u>

V. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position and/or the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of resources that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has only one item that qualifies for reporting in this category. The deferred charge on refunded debt resulting from the difference in the carrying value of the refunded debt and its reacquisition price is deferred and amortized over the shorter of the life of the refunded or refunding debt.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies – continued

V. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the Statement of Net Position and/or the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of resources that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. The School District has two types of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the first item, unavailable revenue, is reporting only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and grants and these amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available. The second item, Deferred Bond Premiums on debt is deferred and amortized over the life of the debt.

Note 2 - Legal Compliance Budgets

All principals at each educational level of the School District submit requests for appropriation to the superintendent and business administrator. A tentative budget is prepared. It includes information on the past year, current year estimates and requested appropriations for the next fiscal year. The proposed budget is presented to the School Board at public meetings for their review.

Tentative adoption of the budget must be made 30 days prior to final adoption to allow for public review. Final adoption of the budget must occur on or before June 30. Budget transfers are typically made by the business administrator at year end with Board approval.

Note 3 - Real Estate Tax and Deferred Revenue

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2014 was 70.00 mills for Northumberland County residents as levied by the School Board. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	-Levy date
July 1 - August 31	-2% discount period
September 1 - October 31	-Face payment period
November 1 - December 31	-10% penalty period
December 31	- Delinquent Date

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 3 - Real Estate Tax and Deferred Revenue - continued

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the net amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements.

The balances at June 30, 2014 are as follows:

	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Estimated to be Collectible</u>	<u>Tax Revenue Recognized</u>	<u>Deferred Taxes</u>
Real Estate	\$ <u>1,513,245</u>	\$ <u>(633,911)</u>	\$ <u>879,334</u>	\$ <u>265,363</u>	\$ <u>613,971</u>

The deferred revenue balance in the General Fund is \$613,971.

Note 4 - Due from Other Governments

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

	<u>General Fund</u>	<u>Proprietary Fund</u>	<u>Total</u>
Federal Subsidies	\$ 158,822	\$ 32,724	\$ 191,546
State Subsidies	67,513	2,706	70,219
Local Subsidies	<u>10,821</u>	<u>3,148</u>	<u>13,969</u>
Total	\$ <u>237,156</u>	\$ <u>38,578</u>	\$ <u>275,734</u>

Note 5 - Cash and Cash Equivalents and Investments

The School District's cash deposits and investments are restricted by statute to United States Treasury bills, short-term obligations of the United States Government and certain obligations of the United States, Commonwealth of Pennsylvania or its political subdivisions which are backed by the full faith and credit of those governmental entities. Additionally, the School District may invest in shares of a properly registered investment fund whose investments consist of the securities listed above. Deposits in banks and other financial institutions must be insured by the Federal Deposit Insurance Corporation or the National Credit Union Insurance Fund. Deposits in excess of the maximum insurable amounts must be collateralized by securities held by that institution, in accordance with the provisions of law. Pool pledging in accordance with P.L. 281, No. 72, (Act 72), is permissible.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 5 - Cash and Cash Equivalents and Investments - continued

Risk Categories - Deposits

All deposits are carried at cost. There are three categories of credit risk that may apply to the School District's deposits.

1. Insured or collateralized with securities held by the School District or by its agent in the School District's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the School District's name.
3. Uncollateralized.

Balances held in each category at June 30, 2014, are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Credit Risk</u>
Insured Deposits (FDIC)	\$ 369,402	\$ 370,182	1
Uninsured Deposits:			
Collateral held by Federal Reserve Bank in School District's Name	-0-	-0-	2
Uncollateralized	<u>723,618</u>	<u>723,618</u>	3
Total Deposits	<u>\$ 1,093,020</u>	<u>\$ 1,093,800</u>	

The amounts listed as uncollateralized have been secured by pool pledging in accordance with Act 72.

Risk Categories - Investments

All investments are stated at cost, which approximate fair value. There are three categories of credit risk that may apply to the School District's investments.

1. Insured or registered, or securities held by the School District or its agent in the School District's name.
2. Uninsured or unregistered, with securities held by the counter party's trust department or agent in the School District's name.
3. Uninsured and unregistered, with securities held by the counter party, or by the counter party's trust department or agent, but not in the School District's name.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 5 - Cash and Cash Equivalents and Investments - continued

Risk Categories - Investments - continued

Balances held in each investment category at June 30, 2014, are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Credit Risk</u>
Investments in Pools Managed by other Governments	\$ 4,609,796	\$ 4,842,496	1
Certificates of Deposit	<u>744,000</u>	<u>744,000</u>	1
Total Investments	<u>\$ 5,353,796</u>	<u>\$ 5,586,496</u>	

Concentration of Credit Risk - The school places no limit on the amount the School may invest in any one user. Certificates of deposit and pooled pledged accounts comprise 100% of the School's total investments.

Interest Rate Risk - The School does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The School has no investment policy that would limit its investment choices to certain credit ratings. The certificates and pooled pledged accounts are not rated.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 6 - Changes in Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENT ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 484,226	\$ -	\$ 74,160	\$ 410,066
Total Capital Assets Not Being Depreciated	<u>484,226</u>	<u>-</u>	<u>74,160</u>	<u>410,066</u>
Capital Assets Being Depreciated				
Buildings and Improvements	35,472,196	6,957,846	-	42,430,042
Furniture and Equipment	<u>6,496,317</u>	<u>122,137</u>	<u>-</u>	<u>6,618,454</u>
Total Assets Being Depreciated	<u>41,968,513</u>	<u>7,079,983</u>	<u>-</u>	<u>49,048,496</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	7,509,797	1,016,494	-	8,526,291
Furniture and Equipment	<u>4,591,667</u>	<u>268,114</u>	<u>-</u>	<u>4,859,781</u>
Total Accumulated Depreciation	<u>12,101,464</u>	<u>1,284,608</u>	<u>-</u>	<u>13,386,072</u>
Total Capital Assets Being Depreciated, Net	<u>29,867,049</u>	<u>5,795,375</u>	<u>-</u>	<u>35,662,424</u>
Governmental Activities, Capital Assets, Net	<u>\$ 30,351,275</u>	<u>\$ 5,795,375</u>	<u>\$ 74,160</u>	<u>\$ 36,072,490</u>

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 6 - Changes in Capital Assets - continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
BUSINESS - TYPE ACTIVITIES				
Capital Assets Being Depreciated				
Furniture and Equipment	\$ 342,076	\$ 4,944	\$ -	\$ 347,020
Total Capital Assets, Being Depreciated	<u>342,076</u>	<u>4,944</u>	<u>-</u>	<u>347,020</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	281,675	8,189	-	289,864
Total Accumulated Depreciation	<u>281,675</u>	<u>8,189</u>	<u>-</u>	<u>289,864</u>
Total Capital Assets Being Depreciated, Net	<u>60,401</u>	<u>(3,245)</u>	<u>-</u>	<u>57,156</u>
Business - Type Activities Capital Assets, Net	<u>\$ 60,401</u>	<u>\$ (3,245)</u>	<u>\$ -</u>	<u>\$ 57,156</u>

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

GOVERNMENT ACTIVITIES

Instruction:

Regular	\$ 540,886
Special	198,308

Support Services:

Pupil	61,150
Instructional Staff	29,516
Administration	144,603
Pupil Transportation	135,955
Operation and Maintenance Plant	144,704

Operation of Noninstructional Services:

Student Activities	<u>29,486</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,284,608</u>

BUSINESS - TYPE ACTIVITIES

Food Service Fund	<u>\$ 8,189</u>
Total Depreciation Expense - Business - Type Activities	<u>\$ 8,189</u>

LINE MOUNTAIN SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2014

Note 7 – Operating Lease Activity

In 2013, the School District entered into a copier equipment lease agreement with Ricoh. The agreement qualifies as an operating lease for accounting purposes and therefore, has been recorded as an expense in the accompanying statement of activities. The lease is a five year contract, commencing December 2013 to December 2018 with a fee of \$56,940. Rental expense for the year ended June 30, 2014 was \$6,643.

The future minimum lease payments over the next five years are shown below:

	<u>Total</u>
June 30, 2015	\$ 11,388
June 30, 2016	11,388
June 30, 2017	11,388
June 30, 2018	11,388
June 30, 2019	<u>4,745</u>
Total	\$ <u>50,297</u>

In 2009, the School District entered into a copier equipment lease agreement with Xerox. The agreement qualifies as an operating lease for accounting purposes and therefore, has been recorded as an expense in the accompanying statement of activities. The lease is a five year contract, commencing September 2009 to September 2014 with a fee of \$47,898. Rental expense for the year ended June 30, 2014 was \$9,580.

The future minimum lease payments over the next five years are shown below:

	<u>Total</u>
June 30, 2015	\$ 2,393
June 30, 2016	-0-
June 30, 2017	-0-
June 30, 2018	-0-
June 30, 2019	<u>-0-</u>
Total	\$ <u>2,393</u>

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 7 - Operating Lease Activity - continued

In 2010, the School District entered into a copier equipment lease agreement with Ikon. The agreement qualifies as an operating lease for accounting purposes and therefore, has been recorded as an expense in the accompanying statement of activities. The lease is a five year contract, commencing October 2010 to October 2015 with a fee of \$87,300. Rent expense for the year ended June 30, 2014 was \$17,460.

The future minimum lease payments over the next five years are shown below:

	<u>Total</u>
June 30, 2015	\$ 17,460
June 30, 2016	5,820
June 30, 2017	-0-
June 30, 2018	-0-
June 30, 2019	<u>-0-</u>
Total	\$ <u>23,280</u>

In 2010, the School District entered into a copier equipment lease agreement with Xerox. The agreement qualifies as an operating lease for accounting purposes and therefore, has been recorded as an expense in the accompanying statement of activities. The lease is a five year contract, commencing April 2010 to April 2015 with a fee of \$18,953. Rental expense for the year ended June 30, 2014 was \$3,791.

The future minimum lease payments over the next five years are shown below:

	<u>Total</u>
June 30, 2015	\$ 3,159
June 30, 2016	-0-
June 30, 2017	-0-
June 30, 2018	-0-
June 30, 2019	<u>-0-</u>
Total	\$ <u>3,159</u>

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 7 - Operating Lease Activity - continued

In 2010, the School District entered into a copier equipment lease agreement with Ikon. The agreement qualifies as an operating lease for accounting purposes and therefore, has been recorded as an expense in the accompanying statement of activities. The lease is a five year contract, commencing April 2010 to March 2015 with a fee of \$6,180. Rental expense for the year ended June 30, 2014 was \$1,236.

The future minimum lease payments over the next five years are shown below:

	<u>Total</u>
June 30, 2015	\$ 927
June 30, 2016	-0-
June 30, 2017	-0-
June 30, 2018	-0-
June 30, 2019	<u>-0-</u>
Total	\$ <u>927</u>

In 2013, the School District entered into a mail machine lease agreement with First Choice Systems & Solutions, Inc. The agreement qualifies as an operating lease for accounting purposes and therefore, has been recorded as an expense in the accompanying statement of activities. The lease is a five year contract, commencing October 2013 to December 2018 with a fee of \$10,017. Rent expense for the year ended June 30, 2014 was \$1,431.

The future minimum lease payments over the next five years are shown below:

	<u>Total</u>
June 30, 2015	\$ 1,908
June 30, 2016	1,908
June 30, 2017	1,908
June 30, 2018	1,908
June 30, 2019	<u>954</u>
Total	\$ <u>8,586</u>

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 8 - General Long-Term Debt

Changes in the School District's long-term obligations during fiscal year 2014 were as follows:

	Balance at 6/30/13	Additions	Reductions	Balance at 6/30/14
Bonds Payable:				
General Obligation Bonds, Series of 2014A	\$ -	\$6,250,000	\$ -	\$ 6,250,000
General Obligation Bonds, Series of 2014B	-	1,795,000	-	1,795,000
General Obligation Bonds, Series of 2013	9,310,000	-	-	9,310,000
General Obligation Bonds, Series of 2012	9,855,000	-	5,000	9,850,000
General Obligation Bonds, Series of 2010	1,520,000	-	370,000	1,150,000
General Obligation Bonds, Series of 2009A	6,340,000	-	6,340,000	-
General Obligation Bonds, Series of 2009AA	1,680,000	-	1,680,000	-
General Obligation Bonds, Series of 2007	470,000	-	470,000	-
Total Bonds Payable	<u>29,175,000</u>	<u>8,045,000</u>	<u>8,865,000</u>	<u>28,355,000</u>
Other Liabilities:				
Compensated Absences	329,482	-	20,623	308,859
Postemployment Benefits	187,946	10,615	-	198,561
Total Other Liabilities	<u>517,428</u>	<u>10,615</u>	<u>20,623</u>	<u>507,420</u>
Total Governmental Activities				
Long-Term Liabilities	<u>\$ 29,692,428</u>	<u>\$8,055,615</u>	<u>\$ 8,885,623</u>	<u>\$ 28,862,420</u>
Business - Type Activity				
Compensated Absences	<u>\$ 4,750</u>	<u>\$ -</u>	<u>\$ 3,437</u>	<u>\$ 1,313</u>

2014A General Obligation Bonds Payable

On March 20, 2014 the School issued a \$6,250,000 Series of 2014A General Obligation Bonds payable for the refunding of the 2009A General Obligation Bonds Payable, and to pay the costs related to issuing and insuring the 2014A Bonds.

Interest is payable semi-annually at rates stipulated in the indenture (from 0.30% to 3.70%) on May 15th and November 15th of each year. Principal payments are scheduled annually on November 15th of each year through November 15, 2030.

The bonds are secured with the full faith, credit and taxing power of the School District.

The remaining scheduled maturity dates, principal and interest payments are as follows:

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 8 – General Long-Term Debt – continued

2014A General Obligation Bonds Payable – continued

Payment Date	Principal	Interest Rate	Interest	Debt Service	Fiscal Year	Fiscal Debt
					Ended 6/30	Service
11/15/14	\$ 5,000	0.30%	\$ 92,561	\$ 97,561		
05/15/15			92,554	92,554	2015	\$ 190,115
11/15/15	310,000	0.42%	92,554	402,554		
05/15/16			87,904	87,904	2016	490,458
11/15/16	320,000	0.55%	87,904	407,904		
05/15/17			83,104	83,104	2017	491,008
11/15/17	325,000	0.85%	83,104	408,104		
05/15/18			78,229	78,229	2018	486,333
11/15/18	350,000	1.20%	78,229	428,229		
05/15/19			72,979	72,979	2019	501,208
11/15/19	360,000	1.60%	72,979	432,979		
05/15/20			69,379	69,379	2020	502,358
11/15/20	370,000	2.00%	69,379	439,379		
05/15/21			65,679	65,679	2021	505,058
11/15/21	380,000	2.25%	65,679	445,679		
05/15/22			61,499	61,499	2022	507,178
11/15/22	385,000	2.55%	61,499	446,499		
05/15/23			56,686	56,686	2023	503,185
11/15/23	395,000	2.75%	56,686	451,686		
05/15/24			50,761	50,761	2024	502,447
11/15/24	405,000	2.90%	50,761	455,761		
05/15/25			44,686	44,686	2025	500,447
11/15/25	410,000	3.00%	44,686	454,686		
05/15/26			38,536	38,536	2026	493,222
11/15/26	420,000	3.20%	38,536	458,536		
05/15/27			31,921	31,921	2027	490,457
11/15/27	435,000	3.35%	31,921	466,921		
05/15/28			24,744	24,744	2028	491,665
11/15/28	445,000	3.50%	24,744	469,744		
05/15/29			17,068	17,068	2029	486,812
11/15/29	460,000	3.60%	17,068	477,068		
05/15/30			8,787	8,787	2030	485,855
11/15/30	475,000	3.75%	8,787	483,787		
05/15/31			-	-	2031	483,787
Total	\$ 6,250,000		\$ 1,861,593	\$ 8,111,593		\$ 8,111,593

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 8 – General Long-Term Debt - continued

2014B General Obligation Bonds Payable

On March 20, 2014 the School District issued a \$1,795,000 Series of 2014B General Obligation Bonds payable for the refunding of the 2009AA and 2007 General Obligation Bonds Payable, and to pay the costs related to issuing and insuring the 2014B Bonds.

Interest is payable semi-annually at rates stipulated in the indenture (from 0.30% to 3.00%) on May 15th and November 15th of each year. Principal payments are scheduled annually on November 15th of each year through November 15, 2018.

The bonds are secured with the full faith, credit and taxing power of the School District.

The remaining scheduled maturity dates, principal and interest payments are as follows:

Payment Date	Principal	Interest		Debt Service	Fiscal Year	Fiscal Debt Service
		Rate	Interest		Ended 6/30	
11/15/14	\$ 335,000	0.30%	\$ 22,403	\$ 357,403		
05/15/15			21,900	21,900	2015	\$ 379,303
11/15/15	350,000	0.42%	21,900	371,900		
05/15/16			16,650	16,650	2016	388,550
11/15/16	350,000	0.55%	16,650	366,650		
05/15/17			11,400	11,400	2017	378,050
11/15/17	470,000	0.85%	11,400	481,400		
05/15/18			4,350	4,350	2018	485,750
11/15/18	290,000	1.20%	4,350	294,350		
05/15/19			-	-	2019	294,350
Total	\$1,795,000		\$ 131,003	\$ 1,926,003		\$1,926,003

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 8 – General Long-Term Debt - continued

2013 General Obligation Bonds Payable

On May 14, 2013 the School District issued a \$9,310,000 Series of 2013 General Obligation Bonds payable for the construction additions/renovations to the High School and Trevorton Elementary School, and to pay the costs related to issuing and insuring the 2013 Bonds.

Interest is payable semi-annually at rates stipulated in the indenture (from 0.45% to 3.10%) on May 15th and November 15th of each year. Principal payments are scheduled annually on November 15th of each year through November 15, 2034.

The bonds are secured with the full faith, credit and taxing power of the School District.

The remaining scheduled maturity dates, principal and interest payments are as follows:

Payment Date	Principal	Interest Rate	Interest	Debt Service	Fiscal Year	
					Ended 6/30	Fiscal Debt Service
11/15/14	\$ 85,000	0.45%	\$ 121,563	\$ 206,563		
05/15/15			121,372	121,372	2015	\$ 327,935
11/15/15	75,000	0.60%	121,372	196,372		
05/15/16			121,146	121,146	2016	317,518
11/15/16	80,000	2.00%	121,146	201,146		
05/15/17			120,346	120,346	2017	321,492
11/15/17	300,000	2.00%	120,346	420,346		
05/15/18			117,346	117,346	2018	537,692
11/15/18	305,000	2.00%	117,346	422,346		
05/15/19			114,296	114,296	2019	536,642
11/15/19	310,000	2.00%	114,296	424,296		
05/15/20			111,196	111,196	2020	535,492
11/15/20	315,000	2.00%	111,196	426,196		
05/15/21			108,046	108,046	2021	534,242
11/15/21	320,000	2.00%	108,046	428,046		
05/15/22			104,846	104,846	2022	532,892
11/15/22	330,000	2.00%	104,846	434,846		
05/15/23			101,546	101,546	2023	536,392
11/15/23	335,000	2.00%	101,546	436,546		
05/15/24			98,196	98,196	2024	534,742
11/15/24	345,000	2.15%	98,196	443,196		
05/15/25			94,488	94,488	2025	537,684
11/15/25	350,000	2.30%	94,488	444,488		

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 8 – General Long-Term Debt - continued

2013 General Obligation Bonds Payable – continued

Payment Date	Principal	Interest Rate	Interest	Debt Service	Fiscal Year	Fiscal Debt
					Ended 6/30	Service
05/15/26			90,463	90,463	2026	534,951
11/15/26	360,000	2.45%	90,463	450,463		
05/15/27			86,053	86,053	2027	536,516
11/15/27	370,000	2.55%	86,053	456,053		
05/15/28			81,335	81,335	2028	537,388
11/15/28	380,000	2.65%	81,335	461,335		
05/15/29			76,300	76,300	2029	537,635
11/15/29	385,000	2.75%	76,300	461,300		
05/15/30			71,006	71,006	2030	532,306
11/15/30	400,000	3.00%	71,006	471,006		
05/15/31			65,006	65,006	2031	536,012
11/15/31	840,000	3.00%	65,006	905,006		
05/15/32			52,406	52,406	2032	957,412
11/15/32	860,000	3.00%	52,406	912,406		
05/15/33			39,506	39,506	2033	951,912
11/15/33	1,005,000	3.05%	39,506	1,044,506		
05/15/34			24,180	24,180	2034	1,068,686
11/15/34	1,560,000	3.10%	24,181	1,584,181		
05/15/35			-	-	2035	1,584,181
Total	\$ 9,310,000		\$ 3,719,722	\$ 13,029,722		\$ 13,029,722

2012 General Obligation Bonds Payable

On August 23, 2012 the School District issued a \$9,860,000 Series of 2012 General Obligation Bonds payable for the refunding of the 2007 General Obligation Bonds Payable, and to pay the costs related to issuing and insuring the 2012 Bonds.

Interest is payable semi-annually at rates stipulated in the indenture (from 1.00% to 3.75%) on May 15th and November 15th of each year. Principal payments are scheduled annually on November 15th of each year through November 15, 2033.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 8 - General Long-Term Debt - continued

2012 General Obligation Bonds Payable – continued

The bonds are secured with the full faith, credit and taxing power of the School District.

The remaining scheduled maturity dates, principal and interest payments are as follows:

Payment Date	Principal	Interest Rate	Interest	Debt Service	Fiscal Year	
					Ended 6/30	Fiscal Debt Service
11/15/14	\$ 5,000	1.125%	\$ 141,791	\$ 146,791		
05/15/15			141,763	141,763	2015	\$ 288,554
11/15/15	5,000	1.125%	141,763	146,763		
05/15/16			141,735	141,735	2016	288,498
11/15/16	5,000	2.000%	141,735	146,735		
05/15/17			141,685	141,685	2017	288,420
11/15/17	5,000	2.000%	141,685	146,685		
05/15/18			141,634	141,634	2018	288,319
11/15/18	200,000	2.000%	141,634	341,634		
05/15/19			139,634	139,634	2019	481,268
11/15/19	535,000	2.000%	139,634	674,634		
05/15/20			134,284	134,284	2020	808,918
11/15/20	545,000	2.250%	134,284	679,284		
05/15/21			128,153	128,153	2021	807,437
11/15/21	555,000	2.375%	128,153	683,153		
05/15/22			121,562	121,562	2022	804,715
11/15/22	570,000	2.375%	121,562	691,562		
05/15/23			114,794	114,794	2023	806,356
11/15/23	585,000	2.500%	114,794	699,794		
05/15/24			107,481	107,481	2024	807,275
11/15/24	600,000	2.500%	107,481	707,481		
05/15/25			99,981	99,981	2025	807,462
11/15/25	615,000	2.625%	99,981	714,981		
05/15/26			91,909	91,909	2026	806,890
11/15/26	630,000	2.750%	91,909	721,909		
05/15/27			83,247	83,247	2027	805,156
11/15/27	650,000	2.875%	83,247	733,247		
05/15/28			73,903	73,903	2028	807,150
11/15/28	670,000	3.000%	73,903	743,903		
05/15/29			63,853	63,853	2029	807,756
11/15/29	690,000	3.250%	63,853	753,853		

LINE MOUNTAIN SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2014

Note 8 - General Long-Term Debt - continued

2012 General Obligation Bonds Payable – continued

Payment Date	Principal	Interest Rate	Interest	Debt Service	Fiscal Year	Fiscal Debt Service
					Ended 6/30	
05/15/30			52,641	52,641	2030	806,494
11/15/30	715,000	3.375%	52,641	767,641		
05/15/31			40,575	40,575	2031	808,216
11/15/31	780,000	3.500%	40,575	820,575		
05/15/32			26,925	26,925	2032	847,500
11/15/32	810,000	3.500%	26,925	836,925		
05/15/33			12,750	12,750	2033	849,675
11/15/33	680,000	3.750%	12,750	692,750		
05/15/34			-	-	2034	692,750
Total	<u>\$9,850,000</u>		<u>\$3,858,809</u>	<u>\$ 13,708,809</u>		<u>\$ 13,708,809</u>

2010 General Obligation Bonds Payable

On November 9, 2010, the School District issued a \$2,535,000 Series of 2010 General Obligation Bonds payable for the refunding of the 2005 General Obligation Bonds Payable, and to pay the costs related to issuing and insuring the 2010 Bonds.

Interest is payable semi-annually at rates stipulated in the indenture (from 1.50% to 2.00%) on May 15th and November 15th of each year. Principal payments are scheduled annually on November 15th of each year through November 15, 2016.

The note is secured with the full faith, credit and taxing power of the School District.

The remaining scheduled maturity dates, principal and interest payments are as follows:

Payment Date	Principal	Interest Rate	Interest	Debt Service	Fiscal Year	Fiscal Debt Service
					Ended 6/30	
11/15/14	\$ 375,000	2.000%	\$ 11,500	\$ 386,500		
05/15/15			7,750	7,750	2015	\$ 394,250
11/15/15	385,000	2.000%	7,750	392,750		
05/15/16			3,900	3,900	2016	396,650
11/15/16	390,000	2.000%	3,900	393,900		
05/15/17			-	-	2017	393,900
Total	<u>\$ 1,150,000</u>		<u>\$ 34,800</u>	<u>\$ 1,184,800</u>		<u>\$ 1,184,800</u>

LINE MOUNTAIN SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2014

Note 8 - General Long-Term Debt – continued

2009A General Obligation Bonds Payable

During August 2009, the School District issued a \$6,915,000 Series of 2009A General Obligation Bonds. The proceeds were used to provide funds for additions and improvements to the High School and Trevorton Elementary School buildings and related facilities and grounds.

The bonds are fully registered and were issued in multiples of \$5,000. Interest is payable semi-annually at rates stipulated in the indenture (3.000% to 4.875%) on May 15th and November 15th of each year. Principal payments are scheduled annually on November 15th of each year through November 15, 2030.

The note is secured with the full faith, credit and taxing power of the School District.

The 2009A Bond was redeemed with the 2014A Bond.

2009AA General Obligation Bonds

During August 2009, the School District issued a \$2,835,000 Series of 2009AA General Obligation Bonds. The proceeds were used to defease the General Obligation Bonds, Series of 2003.

The bonds are fully registered and were issued in multiples of \$5,000. Interest is payable semi-annually, at rates stipulated in the indenture (3.00% to 3.25%) on May 15th and November 15th of each year. Principal payments are scheduled annually on November 15th of each year through November 15, 2017. The bonds are subject to redemption prior to maturity.

The bonds are secured with the full faith, credit and taxing power of the School District.

The 2009AA Bond was redeemed with the 2014B Bond.

2007 General Obligation Bonds

On November 15, 2007, the School District issued a \$10,000,000 Series of 2007 General Obligation Bonds. The proceeds of this bond issue were used to fund improvements to the school district's buildings and equipment.

The bonds are fully registered and were issued in multiples of \$5,000. Interest is payable semi-annually at rates stipulated in the indenture (3.50% to 4.30%) on May 15th and November 15th of each year. Principal payments are scheduled annually on November 15th of each year through November 15, 2033. The bonds are subject to redemption prior to maturity.

The bonds are secured with the full faith, credit and taxing power of the School District.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 8 - General Long-Term Debt -- continued

2007 General Obligation Bonds - continued

The General Obligations Bonds, Series of 2012 were used to refund \$9,520,000 of the 2007 General Obligation Bonds. Interest remains payable semi-annually at rates from 3.55% to 3.80% on May 15th and November 15th of each year. Principal payments are scheduled annually on November 15th of each year through November 15, 2018.

The 2007 Bond was redeemed with the 2014B Bond.

The aggregate maturities of all long-term borrowings for the next five years and to maturity are:

<u>Year Ending June 30,</u>	
2015	\$ 805,000
2016	1,125,000
2017	1,145,000
2018	1,100,000
2019	1,145,000
2020 thru 2024	6,290,000
2025 thru 2029	7,085,000
2030 thru 2034	8,100,000
2035 thru 2039	1,560,000
Total	<u>\$ 28,355,000</u>

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 9 - Pension Plan

The School District participates in the Public School Employees' Retirement System (the system), a governmental cost sharing multiple-employer defined benefit plan with the following benefits provided: Retirement and disability, legislatively mandated ad hoc cost-of-living adjustments and health care insurance premium assistance to qualifying annuitants. The plan is authorized by the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA.C.S. 8101-8535). The system issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N. 5th Street, Harrisburg, PA 17101-1905 or by emailing Beth at bgirman@pa.gov. The CAFR is also available on the publications page of the PSERS website, www.psers.state.pa.us.

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. Active members who joined the system prior to July 22, 1983, contribute at 5.25 percent (Membership Class T-C) or at 6.50 percent (Membership Class T-D) of the member's qualifying compensation. Members who joined the system on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class T-C) or at 7.50 percent (Membership Class T-D) of the member's qualifying compensation. Members who joined the system after June 30, 2001, and before July 1, 2011, contribute at 7.50 percent (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the system after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50 percent (base rate) of the members qualifying compensation. All new hires after June 30, 2011, who elect Class T-F Membership, contribute at 10.30 percent (base rate) of the member's qualifying compensation. Membership Class T-E and Class 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 percent and 9.50 percent and Membership Class T-F contribution rate to fluctuate between 10.30 percent and 12.30 percent. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2014, the rate of employer's contribution was 16.93 percent of covered payroll. The 16.93 percent rate is composed of a pension contribution rate of 16.00 percent for pension benefits and .93 percent for healthcare insurance premium assistance. Employer contributions and percentages of contributions for 2014, 2013 and 2012 are as follows, respectively, contribution amounts - \$1,180,576, \$849,710 and \$601,348, percentages of contributions - 16.93%, 12.36% and 8.65%.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 10 - Other Postemployment Benefits

Beginning in fiscal year 2009, the School implemented Governmental Accounting Standards Board (GASB) Statement No. 45 for other postemployment benefits (OPEB) offered to retirees. This standard addresses how local governments should account for and report their costs related to postemployment healthcare and other non-pension benefits, such as the School's retiree health benefit subsidy. Historically the School's subsidy was funded on a pay-as-you-go basis but GASB 45 requires that the School accrue the cost of the retiree health subsidy and other postemployment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of postemployment benefits and the financial impact on the School. This funding methodology mirrors the funding approach used for pension benefits. The School has implemented GASB 45 prospectively.

The annual cost of other postemployment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay-as-you-go cost for OPEB benefits is \$94,944 for fiscal year 2014. The ARC for fiscal year 2014 is \$105,559 and the estimated net OPEB obligation as of June 30, 2014 is \$198,561.

The School has elected not to pre-fund OPEB liabilities. The School is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the School's annual OPEB cost for the year, the amount contributed to the plan, and the changes in the School's net OPEB obligation for the health care benefits.

Annual Required Contribution	\$ 108,639
Interest on Net OPEB Obligation	8,458
Adjustment to Annual Required Contribution	<u>(11,538)</u>
Annual OPEB Cost	105,559
Estimated Contributions Made	<u>(94,944)</u>
Estimated Increase in Net OPEB Obligation	10,615
Net OPEB Obligation, Beginning of Year	<u>187,946</u>
Estimated Net OPEB Obligation, End of Year	<u><u>\$ 198,561</u></u>

As of July 1, 2011, the most recent actuarial valuation date, the plan was completely unfunded. The actuarial accrued liability for benefits was \$991,583 and actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$991,583. As of the actuarial valuation date, the covered payroll (annual payroll of active employees covered by the plan) was \$6,251,785, and the ratio of the UAAL to the covered payroll was 15.86%.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 10 - Other Postemployment Benefits - continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumptions about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are formed regarding the future. Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the District and the benefits are received by eligible plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 4.50% interest rate and an annual healthcare cost trend rate of 8.0% in 2011, decreasing 0.5% per year to an ultimate rate of 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Note 11 - Jointly Governed Organizations

The School District participates in the Northumberland County Career and Technology Center (NCCTC) which is governed by a joint operating committee. The committee is composed of seven members, two appointed annually from each Mount Carmel and Line Mountain School Districts, and three appointed annually from Shamokin School District. The NCCTC provides vocational and technical education for students of the three member school districts. Each member school district pays tuition to the NCCTC based upon its relative enrollment percentage at the school. The member school districts approve the budget of the NCCTC.

This joint venture does not meet the criteria for inclusion within the reporting entity because the NCCTC is separately chartered from the school districts it serves, its joint operating committee controls the employment of personnel, its joint operating committee has the power to approve all operating expenditures of the NCCTC, and the NCCTC is maintained as a separate operating unit.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 11 - Jointly Governed Organizations - continued

For the year ended June 30, 2014, the member school districts and the percentage of tuition received from each member school district were as follows:

Southern Columbia	1.42%
Shamokin	47.52%
Mount Carmel	34.75%
Line Mountain	<u>16.31%</u>
	<u>100.00%</u>

The School District's share of the joint venture is not determinable. The most recent NCCTC financial information for the year ended June 30, 2014 is available by contacting the Executive Director, Northumberland County Career and Technology Center, Coal Township, PA.

A summary of this information, for all funds and the component unit based on the accrual basis of accounting, is presented below:

Assets	<u>\$ 2,863,015</u>
Liabilities	\$ 530,738
Fund Equity	<u>2,332,277</u>
Total Liabilities and net Position	<u>\$ 2,863,015</u>
Revenues	\$ 1,865,174
Expenditures	<u>2,041,395</u>
Excess of Revenues over Expenditures	<u>\$ (176,221)</u>

The School District made tuition payments, debt service payments and administrative costs payments to NCCTC of \$216,350 for the year ended June 30, 2014.

No amounts were due to/from NCCTC at June 30, 2014.

The NCCTC capital assets at June 30, 2014 are valued at a historical cost of \$8,806,187 with accumulated depreciation of \$6,710,576, resulting in net capital assets of \$2,095,611.

The NCCTC Authority has long-term debt outstanding at June 30, 2014 of \$192,433.

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 11 - Jointly Governed Organizations - continued

NCCTC Authority issued debt to Sun Trust Equipment Finance and Leasing Corp. dated October 2008, in the aggregate principal amount of \$340,798 for the purpose of finance energy conservation measures that will reduce operating costs. Debt service payments are due semi-annually on January 1 and July 1 of each year until the principal sum thereof is paid on or before January 2023. The interest rate is 4.99%.

The debt is secured by a pledge and assignment of the lease rentals payable by the NCCTC Committee and its 4 member school districts. Line Mountain School District's share of this debt obligation balance at June 30, 2014 will be 16.31% based upon Line Mountain School District's current market value of property as a relative percentage of total NCCTC member schools at June 30, 2014.

Note 12 - Commitments and Contingencies

The School District receives federal and state grants and subsidies that are subject to audit and review by the Auditor General. These audits could result in a request for reimbursement by the state for amounts disallowed under the terms and conditions of the appropriate agency. In the opinion of the District's management, such reimbursements, if any, will not be significant.

The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

The school district currently has a construction project under contract. The following details the commitments and projected costs for the project as of June 30, 2014.

High School /Trevorton Elementary School Project

<u>Contractor</u>	<u>Commitment/ Project Costs</u>	<u>Costs Paid through June 30, 2014</u>	<u>Balance Due/ Project Costs</u>
Bognet, Inc.	\$ 396,013	\$ 367,576	\$ 28,437
The Robert Feaster Corp.	2,872,300	2,805,848	66,452
G.R. Noto Electrical construction, Inc.	<u>435,549</u>	<u>413,772</u>	<u>21,777</u>
	<u>\$3,703,862</u>	<u>\$ 3,587,196</u>	<u>\$116,666</u>

Note 13 - Risk Management

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

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2014

Note 14 - Revenues

Major sources of revenue by fund type for the year ended June 30, 2014:

	General Fund	Capital Project Fund	Enterprise Fund	Fiduciary Fund
Local Taxes	\$ 7,084,129	\$ -	\$ -	\$ -
Local Miscellaneous	869,629	-	308,040	-
Interest Income	8,211	476	73	17
State Funds	9,902,628	-	40,192	-
Federal Funds	346,579	-	306,991	-
Contributions	-	-	-	6,944
Sale of Fixed Assets	60,222	-	-	-
Bond Proceeds	8,045,000	-	-	-
Bond Premiums	182,555	-	-	-
	<u>\$26,498,953</u>	<u>\$ 476</u>	<u>\$ 655,296</u>	<u>\$ 6,961</u>

LINE MOUNTAIN SCHOOL DISTRICT
Schedule of Funding Progress for the Postemployment Benefits Plan
Required Supplementary Information
For the Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a - b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2011	\$ -	\$ 991,583	\$ 991,583	0.00%	\$ 6,251,785	15.86%
7/1/2008	\$ -	\$ 1,086,518	\$ 1,086,518	0.00%	\$ 6,272,865	17.32%

This valuation has been calculated using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

LINE MOUNTAIN SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

<u>Federal/Grantor Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass - Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education				
Passed Through PA Dept. of Education				
Title I	I	84.010	013-14-0229	\$ 247,390
Title II - Improving Teacher Quality	I	84.367	020-13-0229	13,000
Title II - Improving Teacher Quality	I	84.367	020-14-0229	53,253
Passed Through the Central Susquehanna Intermediate Unit				
IDEA	I	84.027	062-14-0-016	178,585
IDEA - 619	I	84.173	131-13-0-016	2,367
Subtotal CSIU IDEA Cluster				<u>180,952</u>
TOTAL DEPARTMENT OF EDUCATION				<u>494,595</u>
U.S. Department of Agriculture				
Passed Through PA Dept. of Education				
NSLP	I	10.555	N/A	228,530
NSLP - Breakfast	I	10.553	N/A	38,927
Passed Through PA Dept. of Agriculture				
Value of USDA Commodities	I	10.555	N/A	39,534
SUBTOTAL DEPARTMENT OF AGRICULTURE CLUSTER				<u>306,991</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u><u>\$ 801,586</u></u>

Source Codes: D - Direct Funding I - Indirect Funding

LINE MOUNTAIN SCHOOL DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2014

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Line Mountain School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 – Relationship to General Purpose Financial Statements

Federal financial assistance revenues are reported in the School District's general purpose financial statements as follows:

General Fund	\$ 346,579
Cafeteria Fund	306,991
Total per Financial Statements	<u>653,570</u>
Title II Reimbursement for the 2012 Fiscal Year	347
Access Reimbursements Not Included on the Schedule of Expenditures of Federal Awards	(33,283)
IDEA Funds are Coded to Local Funds but Included on the Schedule of Expenditures of Federal Awards	<u>180,952</u>
 Total Federal Revenue per Schedule of Expenditures of Federal Awards	 <u>\$ 801,586</u>

Note 3 – USDA Donated Commodities

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2014, the organization had food commodities totaling \$6,119 in inventory.



Kenneth L. Wagner, Jr., CPA
kwagner@wdeapc.com

Ronald P. Dreese, CPA/PFS
rdreese@wdeapc.com

Brian L. Elsasser, CPA, CVA
belsasser@wdeapc.com

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board
Line Mountain School District
Herndon, PA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Accounting Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Line Mountain School District, Herndon, Pennsylvania, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Line Mountain School District's, of Herndon, Pennsylvania, basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Wagner, Dreesse, Elsasser & Associates, P.C.

WAGNER, DREESE, ELSASSER & ASSOCIATES, P.C.

Certified Public Accountants and Consultants

Selinsgrove, PA

November 19, 2014



Kenneth L. Wagner, Jr., CPA
kwagner@wdeapc.com

Ronald P. Dreese, CPA/PFS
rdreese@wdeapc.com

Brian L. Elsasser, CPA, CVA
belsasser@wdeapc.com

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Members of the Board
Line Mountain School District
Herndon, PA

Report on Compliance for Each Major Federal Program

We have audited Line Mountain School District's, of Herndon, Pennsylvania, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Line Mountain School District's, of Herndon, Pennsylvania, major federal programs for the year ended June 30, 2014. Line Mountain School District's, of Herndon, Pennsylvania, major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Line Mountain School District's, of Herndon, Pennsylvania, major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Line Mountain School District's, of Herndon, Pennsylvania, compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Line Mountain School District's, of Herndon, Pennsylvania, compliance.

Opinion on Each Major Federal Program

In our opinion, Line Mountain School District, of Herndon, Pennsylvania, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Line Mountain School District, of Herndon, Pennsylvania, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Line Mountain School District's, of Herndon, Pennsylvania, internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Line Mountain School District's, of Herndon, Pennsylvania, internal control over compliance.

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

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

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

Wagner, Drees, Elsasser & Associates, P.C.

WAGNER, DREESE, ELSASSER & ASSOCIATES, P.C.

Certified Public Accountants and Consultants

Selinsgrove, PA

November 19, 2014

LINE MOUNTAIN SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unmodified Opinion

Internal Control over Financial Reporting:
 Significant Deficiencies Identified? _____ Yes X None Reported

Noncompliance Material to Financial Statements Noted? _____ Yes X No

Federal Awards

Internal Control over Major Programs:
 Significant Deficiencies Identified? _____ Yes X None Reported

Type of Auditor's Report Issued on Compliance
 for Major Program: Unmodified Opinion

Any Audit Findings Disclosed that are Required to
 be Reported in Accordance with Section 510(a) of
 OMB Circular A-133? _____ Yes X No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.555	NSLP
10.553	NSLP-Breakfast

Dollar Threshold used to Distinguish Between
 Type A and Type B Programs: \$300,000

Auditee Qualified as Low - Risk Auditee: X Yes _____ No

Section II - Financial Statement Findings

There are no Findings to be Reported

Section III - Federal Award Findings and Questioned Costs

There are no Findings to be Reported

LINE MOUNTAIN SCHOOL DISTRICT
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2014

There were no findings or questioned costs for the prior year ended June 30, 2013.