

Donegal School District

Year Ended June 30, 2015

 **TROUT, EBERSOLE & GROFF_{LLP}**
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Donegal School District

Financial Statements with Supplementary Information

Year Ended June 30, 2015

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Donegal School District

Financial Statements with Supplementary Information

Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board Officers and Members
Donegal School District
Lancaster County, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Donegal School District** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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 **Donegal School District** as of June 30, 2015, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Change in Accounting Principle

As described in Note 20 to financial statements, the School District changed its method of accounting for pensions as a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, budgetary comparison information on page 58, other postemployment benefits (OPEB) health care benefits plan information on pages 60 through 62, and pension liability and contributions schedule on pages 63 through 65 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 **Donegal School District's** basic financial statements. The 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 not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, on our consideration of **Donegal School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Donegal School District's** internal control over financial reporting and compliance.

October 22, 2015
Lancaster, Pennsylvania


TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Donegal School District
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended June 30, 2015

The discussion and analysis of **Donegal School District's** financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the independent auditors' report, the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ending June 30, 2015, are as follows:

- In total, the net position of the district totaled \$(6.0) million, an increase of \$1.0 million. Net position of governmental activities increased \$1.0 million. The net position of business-type activities decreased by less than \$50 thousand. The negative net position is due to the new requirement of the School District to report its proportionate share of the PSERS Net Liability as defined in GASB statement No. 68. Note 20 of these financials further explain the change in Net Position of the School District. See page 16.
- Total current assets of governmental activities decreased by \$1.0 million. Taxes receivable decreased by \$14 thousand. Cash and investments decreased by \$1.8 million. See page 13.
- Revenues for governmental activities totaled \$45.1 million. General revenues accounted for \$37.3 million in revenue or 83 percent of total revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$7.8 million or 17 percent of total revenues. See pages 16 and 19.
- The School District had \$44.2 million in expenses related to governmental activities; \$7.8 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes) of \$37.3 million were adequate to provide for these programs. See pages 15 and 16.
- Among major funds, the general fund had \$44.7 million in revenues and \$43.8 million in expenditures/other financing uses. See page 19.
- The School District increased its real estate millage by 0.579 mills to a rate of 22.0243 for the July 1, 2014 tax levy. The millage increase reflected a 2.7% rate increase from the July 1, 2013 tax levy.

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

USING THIS ANNUAL REPORT

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail.

For governmental funds, these statements tell how the services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Donegal School District, the General Fund is the most significant fund.

Reporting the School District as a Whole

Our analysis for the School District as a whole begins on page 13. One of the most important questions asked about the School District's finances is, "Is the School District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about the activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, the School District's financial information is divided into two distinct kinds of activities:

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 17. The fund financial statements provide detailed information about the most significant funds as opposed to the School District as a whole. The School District's two types of funds, governmental and proprietary, use different accounting approaches.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending

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

USING THIS ANNUAL REPORT (Continued)

Reporting the School District's Most Significant Funds (Continued)

Fund Financial Statements (Continued)

Governmental Funds (Continued) in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds - These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is on determined net income, financial position, or changes in financial position and a significant portion of funding is through user charges. When the School District charges customers for services it provides - whether to outside customers or to other units in the School District - these services are generally reported in proprietary funds. The Food Service Fund is the School District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provides more detail and additional information, such as cash flows.

Fiduciary Funds - The School District is the fiduciary for student activity accounts. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 26. We exclude these activities from the School District's other financial statement because the School District cannot use these assets to finance its operations.

THE SCHOOL DISTRICT as a WHOLE

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

The School District's total net position at June 30, 2015 was \$(6.0) million as compared to \$(7.0) million at June 30, 2014.

Table 1 provides a summary of the School District's net position for 2015 compared to 2014.

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

THE SCHOOL DISTRICT as a WHOLE (Continued)

Table 1
Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and Other Assets	26.9	27.9	.6	.6	27.5	28.5
Capital Assets	<u>81.8</u>	<u>83.0</u>	<u>.5</u>	<u>.5</u>	<u>82.3</u>	<u>83.5</u>
Total Assets	108.7	110.9	1.1	1.1	109.8	112.0
Deferred Outflows of Resources						
- Pension	4.9	2.5	.1	.1	5.1	2.6
Liabilities						
Current Liabilities	9.1	9.1	.1	.1	9.2	9.2
Long-Term Liabilities	<u>106.8</u>	<u>111.2</u>	<u>1.2</u>	<u>1.2</u>	<u>108.0</u>	<u>112.4</u>
Total Liabilities	115.9	120.3	1.3	1.3	117.2	121.6
Deferred Inflows of Resources						
- Pension	3.6	.0	.1	.0	3.7	.0
Net Position						
Invested Capital Assets, Net of Debt	24.0	21.2	.5	.5	24.5	21.7
Unrestricted	<u>(29.8)</u>	<u>(28.1)</u>	<u>(.7)</u>	<u>(.6)</u>	<u>(30.5)</u>	<u>(28.7)</u>
Total Net Position	(5.9)	(6.9)	(.2)	(.1)	(6.0)	(7.0)

Governmental activities has the following changes. Total assets decreased by \$2.2 million. Taxes receivable decreased by \$14 thousand. Cash and investments decreased by \$1.8 million and other receivables increased by \$0.1 million. Capital assets decreased by \$1.2 million.

The Net Position of the School District's governmental activities increased \$1.0 million. The net position of business-type activities decreased by less than \$50 thousand. The negative net position is due to the new requirement of the School District to report its proportionate share of the PSERS Net Liability as defined in GASB statement No. 68. Note 20 of these financials further explains the change in Net Position of the School District.

Table 2 takes the information from the Statement of Activities (pages 15 and 16) and rearranges it slightly so the reader can see our total revenues and expenses for the year.

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

THE SCHOOL DISTRICT as a WHOLE (Continued)

Table 2
Changes in Net Position
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues:						
Charges for Services	.2	.2	.6	.7	.8	.9
Operating Grants and Contributions	6.3	5.6	.9	.8	7.2	6.4
Capital Grants and Contributions	1.3	1.4	.0	.0	1.3	1.4
General Revenues:						
Property Taxes	26.1	25.1	.0	.0	26.1	25.1
Taxes Levied for Specific Purposes	3.3	3.1	.0	.0	3.3	3.1
Grants and Entitlements	7.3	7.3	.0	.0	7.3	7.3
Investment Earnings	.1	.1	.0	.0	.1	.1
Gain on Fixed Asset Disposition	.4	(.6)	.0	.0	.4	(.6)
Miscellaneous Income	<u>.1</u>	<u>.0</u>	<u>.0</u>	<u>.0</u>	<u>.1</u>	<u>.0</u>
Total Revenue	45.1	42.2	1.5	1.5	46.6	43.7
Expenses:						
Instruction	28.4	25.1	.0	.0	28.4	25.1
Support Services:						
Instructional Student Support	3.5	3.4	.0	.0	3.5	3.4
Administrative and Financial Support Services	3.4	2.9	.0	.0	3.4	2.9
Operation and Maintenance of Plant Services	4.1	3.6	.0	.0	4.1	3.6
Pupil Transportation	1.5	1.5	.0	.0	1.5	1.5
Student Activities	.6	.6	.0	.0	.6	.6
Interest on Long-Term Debt	2.7	2.8	.0	.0	2.7	2.8
Food Services	<u>.0</u>	<u>.0</u>	<u>1.5</u>	<u>1.4</u>	<u>1.5</u>	<u>1.4</u>
Total Expenses	44.2	39.9	1.5	1.4	45.7	41.3
Increase in Net Position	.9	2.3	.0	.1	.9	2.4

Expenses for governmental activities are partially offset by program revenues and general grants and entitlements, but are primarily funded by tax revenues. Program revenues that offset expenses this year include:

- Charges for services including tuition for non-resident students, tax certification fees, building rentals and admission to athletic events.

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

THE SCHOOL DISTRICT as a WHOLE (Continued)

- Operating grants and contributions include state subsidies for special education, transportation, and employee benefits. Also included are federal and state grants for special programs.
- Capital Grants and contributions are comprised solely of state subsidies for debt service.

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

Table 3
Fiscal Year ended June 30
Governmental Activities
(In Millions)

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Instruction	28.4	25.1	23.8	21.2
Support Services:				
Instructional Student Support	3.5	3.4	3.0	3.0
Administrative and Financial Support Services	3.4	2.9	3.1	2.7
Operation and Maintenance of Plant Services	4.1	3.6	3.9	3.5
Pupil Transportation	1.5	1.5	.6	.5
Student Activities	.6	.6	.6	.5
Interest on Long-Term Debt	<u>2.7</u>	<u>2.8</u>	<u>1.3</u>	<u>1.4</u>
Total Governmental Activities	44.2	39.9	36.3	32.8
Less: Unrestricted Grants and Subsidies			<u>7.3</u>	<u>7.3</u>
Total Needs from Local Taxes and Other Revenue			29.0	25.5

The dependence upon tax revenues for governmental activities is apparent. For all governmental activities, property taxes, both current and delinquent, levied for general purposes represent 70 percent of all governmental general revenue. Local real estate taxes provide the majority of financial support for Donegal School District programs and operations.

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

THE SCHOOL DISTRICT'S FUNDS

Information on the School District's major funds starts on page 19. Those funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$44.8 million and expenditures of \$46.8 million.

GENERAL FUND BUDGET HIGHLIGHTS

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

During the fiscal year, the Board of School Directors can authorize revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. Any adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year and within the requirements of state law. In addition, the School District may amend its General Fund budget to accept grant funds for specific programs and other originally unbudgeted revenues. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is included on page 58.

On the expenditure side, the actual basis was \$36.3 million; about \$2.5 million less than originally budgeted. This variance was the result of cost containment measures undertaken by the School District which included reducing payroll expenditures by not replacing positions and/or reducing hours following resignation of staff and eliminating purchases that could be deferred. A cost savings was realized in the operation and maintenance of plant services due to a concentrated effort to reduce costs in this area. In addition, health care costs were under budget as a result of favorable claims experienced in a self-insured market and as a result of negotiated changes in the benefit structure.

For the General Fund, actual basis revenue was \$44.7 million; about \$0.8 million more than originally budgeted. The variance can be attributed to the earned income taxes and transfer taxes coming in higher than anticipated due to improving economic conditions as well as a slightly better than expected collection rate in real estate taxes.

The School District was able to transfer \$2.4 million to the Capital Projects Fund; this amount is reflected in "Other Fund Transfers." The School District's Capital Projects Fund has been established to finance future capital and/or deferred maintenance projects that the School District has identified.

At June 30, 2015 the School District's General Fund reported an unassigned fund balance of \$3.2 million. The total General Fund balance is \$10.6 million, an increase of \$0.89 million from the prior year. The committed funds consist of the Equipment and Capital Project Committed Fund of \$1.4 million, the Curriculum Committed Funds of \$1.9 million, the Technology Committed Fund of \$1.8 million, the Self Insurance Committed Fund of \$1.8 million, and the PSERS Committed Fund of \$0.25 million.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the School District had \$81.7 million net invested in a broad range of capital assets, including land, buildings, and furniture and equipment.

Table 4
Governmental Activities
Capital Assets - net of Depreciation
(In Millions)

	2015	2014
Land	1.4	1.8
Buildings and Site Improvements	71.9	63.2
Furniture and Equipment	7.0	6.5
Construction in Progress	1.3	11.3
Vehicles	.1	.1
Deferred Bond Issue Costs	<u>.0</u>	<u>.0</u>
	81.7	82.9

Debt Administration

As of July 1, 2014, the School District had total outstanding bond and note principal of \$61.1 million. As of June 30, 2015 the outstanding bond and note principal was \$56.3 million. During the year presented, the School District had principal payments totaling \$4.8 million and interest payments totaling \$2.7 million; however \$1.0 million in interest payments were offset by federally-funded reimbursement in QSCB Bonds.

Table 5 provides additional details on the outstanding debt.

Table 5
Outstanding Debt at Year-End
(In Millions)

	Governmental Activities	
	2015	2014
General Obligation Notes/Bonds:		
Series of 1997(A)	.1	.2
Series of 2005 (B)	.0	.7
Series of 2005	2.0	5.9
QSCB 2010	17.0	17.0
Series of 2011	27.8	27.8
QSCB 2011 (A)	6.0	6.0
Series of 2013	<u>3.4</u>	<u>3.5</u>
Total Outstanding Debt	56.3	61.1

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

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Debt Administration (Continued)

Other obligations include accrued compensated absences and retirement bonuses for specific employees of the School District. More detailed information about our long-term liabilities is included in Notes 10 through 13 to the financial statements.

Moody's Investors Service, Inc. has assigned the School District a rating of "Aa-" and an underlying rating of "A1".

FOR THE FUTURE

Growth

The actual enrollment in the Donegal School District at October 1 increased by 41 students from 2014 to 2015.

The School District continues to watch for trends that will impact growth and/or decline in student population; however no formal study has been undertaken in recent years. The various townships and municipalities within the Donegal School District recently completed a "Comprehensive Regional Planning" initiative and are addressing areas to be targeted for urban growth, high-density vs. traditional housing, agricultural preserve, and industrial/commercial zoning. This plan suggests that the School District should prepare for additional growth in student population in the future. If initiatives for bringing commercial and industrial properties to the region are successful, the tax base could be positively impacted.

Building Projects

The Donegal School District has completed all major renovation projects on its buildings, all School District instructional facilities are in good repair with adequate space to accommodate anticipated enrollment. Ground was broken for the Donegal Athletic Stadium project in March of 2015. The substantial completion date for the project currently set for the 28th of October 2015. The School District continues to evaluate and make upgrades to our current athletic facilities. Most recently the School District has advertised for bids to resurface the tennis courts and to make upgrades to the Girls Varsity Softball Fields. A five year capital improvement plan has been developed and is used to implement a preventative maintenance program for the School District.

Committed Funds

The Board has established five committed fund balances; self-insurance, curriculum, technology, equipment and capital projects, and PSERS. The School District is self-insured for its health care costs and the self-insurance fund will protect the School District's assets from medical claims which may from time to time exceed the current year's budgeted expenses. The Curriculum committed fund will help the School District to fund major curriculum changes that are expected in the next few years. The Technology committed fund will be utilized to fund a seven year technology refresh cycle so that the School District can maintain adequate technology to continue its educational programs. The Equipment and Capital Projects fund will be utilized to fund major maintenance or instructional equipment or furniture needed that exceed the current year's budget. The PSERS committed fund was established to offset the anticipated, significant increase in mandated contributions to the school employee retirement program.

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

FOR THE FUTURE (Continued)

Professional Staff Contract

The School District has a contract with the Professional Staff remains in effect through June 30, 2018.

Employee Benefits Costs

Concerns regarding future employer contributions to fund the Public School Employees' Retirement System (PSERS) continue to linger with no legislative action to date. The employer contribution for the 2015-16 school years was certified by the legislature to be 25.84%. The School District will take reasonable steps to prepare for anticipated growth, but believes that the only realistic solution must come from Legislative actions.

Actual health care costs continue to remain consistent to last year. However, starting in the 2014-15 school year the School District will see increases in costs relating to the Federal Health Care provisions that will be going into effect for that year. Additional reporting and member fees are two of those expenditures as well as a general overall increase in health care costs. The School District also continues to review and plan for the Federal Health Care provisions that are to become effective in the 2017-18 school years.

Act 1

For the 2015-16 fiscal years, the School District was allowed to increase their real estate property tax rate by 2.5% under the Act 1 index. However, the board did not increase the property tax rate for the 2015-16 fiscal years.

Act 1 continues to have significant effects on the School District's finances in future years. The School District may need to file for exceptions in the event that costs for qualifying expenditures such as special education or the PSERS increase is above the Index.

The index for the 2016-17 budgets for the Donegal School District is 3.1%; the administration will review revenue projections and continue to identify ways to reduce operating costs in an effort to develop a balanced budget that provides adequate current revenue to cover current expenditures.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Michelle Kendig, PRSBO Director of Business Services at Donegal School District, 1051 Koser Road, Mount Joy, PA 17552, (717) 492-1317.

Donegal School District

STATEMENT of NET POSITION

June 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,726,816	\$ 572,978	\$ 2,299,794
Investments	21,984,710	-0-	21,984,710
Taxes Receivable, net	1,079,235	-0-	1,079,235
Internal Balances	67,477	(67,477)	-0-
Due from Other Governments	1,763,160	17,829	1,780,989
Other Receivables	228,398	2,285	230,683
Inventories	-0-	33,426	33,426
Prepaid Expenses	8,720	-0-	8,720
Total Current Assets	26,858,516	559,041	27,417,557
Noncurrent Assets			
Land	1,403,584	-0-	1,403,584
Buildings, net of Accumulated Depreciation	63,789,723	-0-	63,789,723
Building and Site Improvements, net of Accumulated Depreciation	8,094,245	-0-	8,094,245
Furniture and Equipment, net of Accumulated Depreciation	7,033,069	490,270	7,523,339
Vehicles, net of Accumulated Depreciation	137,452	-0-	137,452
Construction in Progress	1,336,453	-0-	1,336,453
Total Noncurrent Assets	81,794,526	490,270	82,284,796
TOTAL ASSETS	108,653,042	1,049,311	109,702,353
DEFERRED OUTFLOWS OF RESOURCES - PENSION	\$ 4,987,106	\$ 119,936	\$ 5,107,042

See notes to financial statements.

Donegal School District

STATEMENT of NET POSITION

(Continued)

June 30, 2015

	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 1,489,850	\$ 4,104	\$ 1,493,954
Current Portion of Long-Term Debt	3,243,379	-0-	3,243,379
Accrued Salaries and Benefits	2,213,381	16,235	2,229,616
Accrued Interest on Long-Term Debt	549,276	-0-	549,276
Payroll Deductions and Withholdings	1,126,724	5,842	1,132,566
Unearned Revenues	496,870	26,870	523,740
Total Current Liabilities	9,119,480	53,051	9,172,531
Noncurrent Liabilities			
Bonds Payable, net of Amortized Discount	54,584,276	-0-	54,584,276
Net Pension Liability	50,555,752	1,215,825	51,771,577
Postemployment Benefits	355,614	-0-	355,614
Accrued Retirement Bonus	1,118,025	25,172	1,143,197
Long-Term Portion of Compensated Absences	158,844	-0-	158,844
Total Noncurrent Liabilities	106,772,511	1,240,997	108,013,508
TOTAL LIABILITIES	115,891,991	1,294,048	117,186,039
DEFERRED INFLOWS OF RESOURCES - PENSION	3,614,162	86,918	3,701,080
NET POSITION			
Net Investment in Capital Assets	23,966,871	490,270	24,457,141
Unrestricted	(29,832,876)	(701,989)	(30,534,865)
TOTAL NET POSITION	\$ (5,866,005)	\$ (211,719)	\$ (6,077,724)

See notes to financial statements.

Donegal School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2015

		Program Revenues			Net Revenue (Expense) and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 28,387,421	\$ 181,703	\$ 4,408,063	\$ -0-	\$ (23,797,655)	\$ -0-	\$ (23,797,655)
Instructional Student Support	3,503,822	-0-	537,569	-0-	(2,966,253)	-0-	(2,966,253)
Administrative and Financial							
Support Services	3,412,169	-0-	276,384	-0-	(3,135,785)	-0-	(3,135,785)
Operation and Maintenance of							
Plant Services	4,053,567	-0-	149,144	-0-	(3,904,423)	-0-	(3,904,423)
Pupil Transportation	1,468,981	-0-	888,805	-0-	(580,176)	-0-	(580,176)
Student Activities	679,257	31,898	42,918	-0-	(604,441)	-0-	(604,441)
Interest on Long-Term Debt	<u>2,664,757</u>	<u>-0-</u>	<u>-0-</u>	<u>1,346,067</u>	<u>(1,318,690)</u>	<u>-0-</u>	<u>(1,318,690)</u>
Total Governmental Activities	44,169,974	213,601	6,302,883	1,346,067	(36,307,423)	-0-	(36,307,423)
Business-Type Activities:							
Food Services	<u>1,508,235</u>	<u>636,249</u>	<u>837,742</u>	<u>-0-</u>	<u>-0-</u>	<u>(34,244)</u>	<u>(34,244)</u>
Total Primary Government	\$ 45,678,209	\$ 849,850	\$ 7,140,625	\$ 1,346,067	\$ (36,307,423)	\$ (34,244)	\$ (36,341,667)

See notes to financial statements.

Donegal School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, net					\$ 26,064,217	\$ -0-	\$ 26,064,217
Public Utility Realty, Earned Income, Occupation and Per Capita Taxes, Levied for General Purposes, net					3,336,442	-0-	3,336,442
Unrestricted Grants and Subsidies					7,299,934	-0-	7,299,934
Investment Earnings					106,616	548	107,164
Miscellaneous Income					90,503	915	91,418
Net Gain on Fixed Asset Dispositions					<u>400,404</u>	<u>-0-</u>	<u>400,404</u>
Total General Revenues					<u>37,298,116</u>	<u>1,463</u>	<u>37,299,579</u>
CHANGES in NET POSITION					990,693	(32,781)	957,912
NET POSITION							
Beginning, as Originally Stated					40,812,878	967,477	41,780,355
Prior Period Adjustment (Note 20)					<u>(47,669,576)</u>	<u>(1,146,415)</u>	<u>(48,815,991)</u>
Beginning, as Restated					<u>(6,856,698)</u>	<u>(178,938)</u>	<u>(7,035,636)</u>
Ending					<u>\$ (5,866,005)</u>	<u>\$ (211,719)</u>	<u>\$ (6,077,724)</u>

See notes to financial statements.

Donegal School District
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

	Major Funds			Total
	General Fund	Capital Project Fund	Debt Service Fund	Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,649,578	\$ 76,380	\$ 858	\$ 1,726,816
Investments	12,846,544	8,110,291	1,027,875	21,984,710
Taxes Receivable, net	1,079,235	-0-	-0-	1,079,235
Due from Other Funds	67,805	1,500,000	-0-	1,567,805
Due from Other Governments	1,393,638	-0-	-0-	1,393,638
Other Receivables	222,168	6,230	-0-	228,398
Prepaid Expenses	8,720	-0-	-0-	8,720
TOTAL ASSETS	<u>17,267,688</u>	<u>9,692,901</u>	<u>1,028,733</u>	<u>27,989,322</u>
LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES				
LIABILITIES				
Accounts Payable	889,165	600,685	-0-	1,489,850
Due to Other Funds	1,500,328	-0-	-0-	1,500,328
Accrued Salaries and Benefits	2,213,381	-0-	-0-	2,213,381
Payroll Deductions and Withholdings	1,126,724	-0-	-0-	1,126,724
Unearned Revenues	496,870	-0-	-0-	496,870
TOTAL LIABILITIES	<u>6,226,468</u>	<u>600,685</u>	<u>-0-</u>	<u>6,827,153</u>
DEFERRED INFLOWS of RESOURCES				
Delinquent Taxes	402,216	-0-	-0-	402,216
FUND BALANCES				
Nonspendable	8,720	-0-	-0-	8,720
Restricted	-0-	-0-	1,028,733	1,028,733
Committed	7,110,000	-0-	-0-	7,110,000
Assigned	300,000	9,092,216	-0-	9,392,216
Unassigned	3,220,284	-0-	-0-	3,220,284
TOTAL FUND BALANCES	<u>10,639,004</u>	<u>9,092,216</u>	<u>1,028,733</u>	<u>20,759,953</u>
TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES and FUND BALANCES	<u>\$ 17,267,688</u>	<u>\$ 9,692,901</u>	<u>\$ 1,028,733</u>	<u>\$ 27,989,322</u>

See notes to financial statements.

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

Total Fund Balances - Governmental Funds	\$ 20,759,953
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$114,239,925 and the accumulated depreciation is \$32,445,399.	81,794,526
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Property taxes receivable are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	402,216
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Federal revenue is recorded when the associated expenditure is incurred in the governmental funds. Governmental funds expense interest when due. Governmental activities record interest expense when the liability is incurred. Federal revenue on the interest subsidy for the accrued interest expense on the debt representing qualified school construction bond program debt is recorded only in the statement of net position of the governmental activities.	369,522
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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	(56,280,646)
Net Pension Liability	(50,555,752)
Accrued Interest on Long-Term Debt	(549,276)
Bond Premium, net of Amortization	(1,665,916)
Bond Discount, net of Amortization	118,907
Postemployment Benefits	(355,614)
Accrued Retirement Bonuses	(1,118,025)
Compensated Absences	(158,844)

Deferred inflows of resources - pension are not due and payable in the current period and, therefore, are not reported in the funds.	(3,614,162)
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Deferred outflows of resources - pension are not due and collectable in the current period and, therefore, are not reported in the funds.	<u>4,987,106</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ (5,866,005)</u>
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See notes to financial statements.

Donegal School District

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

Year Ended June 30, 2015

	Major Funds			Total Governmental Funds
	General Fund	Capital Project Fund	Debt Service Fund	
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 26,068,263	\$ -0-	\$ -0-	\$ 26,068,263
Other Taxes	3,336,442	-0-	-0-	3,336,442
Investment Earnings	36,507	15,815	54,293	106,615
Other Revenue	790,949	-0-	-0-	790,949
Total Local Sources	30,232,161	15,815	54,293	30,302,269
State Sources	12,837,381	-0-	-0-	12,837,381
Federal Sources	1,624,658	-0-	-0-	1,624,658
Total Revenues	44,694,200	15,815	54,293	44,764,308
EXPENDITURES				
Instructional Services	24,840,001	-0-	-0-	24,840,001
Support Services	10,888,225	-0-	-0-	10,888,225
Noninstructional Services	627,229	-0-	-0-	627,229
Capital Outlay	-0-	2,727,602	-0-	2,727,602
Debt Service	-0-	-0-	7,670,977	7,670,977
Total Expenditures	36,355,455	2,727,602	7,670,977	46,754,034
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	8,338,745	(2,711,787)	(7,616,684)	(1,989,726)
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	(8,328,542)	347,122	7,981,420	-0-
Proceeds from Sale of Fixed Assets	882,582	-0-	-0-	882,582
Net Other Financing Sources (Uses)	(7,445,960)	347,122	7,981,420	882,582
NET CHANGES in FUND BALANCES	892,785	(2,364,665)	364,736	(1,107,144)
FUND BALANCES				
Beginning	9,746,219	11,456,881	663,997	21,867,097
Ending	\$ 10,639,004	\$ 9,092,216	\$ 1,028,733	\$ 20,759,953

See notes to financial statements.

Donegal School District
RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of
REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES
to the STATEMENT of ACTIVITIES
Year Ended June 30, 2015

Net Changes in Fund Balances - Total Governmental Funds \$ (1,107,144)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amounts for depreciation expense, capital outlays, and gain on fixed asset disposal are as follows:

Depreciation Expense	(4,009,932)	
Capital Outlays	3,324,128	
Remaining Net Book Value of Assets Sold	<u>(482,178)</u>	(1,167,982)

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered available revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. (4,046)

The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items. 144,991

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 4,802,822

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. This amount represents the difference in accrued interest. \$ 58,407

See notes to financial statements.

Donegal School District
RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of
REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES
to the STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2015

In the statement of activities, certain operating expenses (e.g., compensated absences, retirement bonuses, postemployment benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

\$ (223,123)

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

(1,513,232)

CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES

\$ 990,693

See notes to financial statements.

Donegal School District

STATEMENT of NET POSITION -

PROPRIETARY FUNDS

June 30, 2015

Enterprise Fund**Food Service****ASSETS****Current Assets**

Cash and Cash Equivalents	\$ 572,978
Due from Other Funds	328
Due from Other Governments	17,829
Other Receivables	2,285
Inventories	33,426
Total Current Assets	626,846

Noncurrent Assets

Furniture and Equipment, net of Accumulated Depreciation	<u>490,270</u>
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TOTAL ASSETS**1,117,116****DEFERRED OUTFLOWS OF RESOURCES - PENSION****119,936****LIABILITIES****Current Liabilities**

Accounts Payable	4,104
Accrued Salaries and Benefits	16,235
Payroll Deductions and Withholdings	5,842
Due to Other Funds	67,805
Unearned Revenues	26,870
Total Current Liabilities	120,856

Noncurrent Liabilities

Net Pension Liability	1,215,825
Accrued Retirement Bonus	25,172
Total Noncurrent Liabilities	<u>1,240,997</u>

TOTAL LIABILITIES**1,361,853****DEFERRED INFLOWS OF RESOURCES - PENSION****86,918****NET POSITION**

Net Investment in Capital Assets	490,270
Unrestricted	<u>(701,989)</u>
TOTAL NET POSITION	<u>\$ (211,719)</u>

See notes to financial statements.

Donegal School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION - PROPRIETARY FUNDS Year Ended June 30, 2015

	<u>Enterprise Fund</u> <u>Food Service</u>
OPERATING REVENUES	
Food Service Revenue	\$ 608,250
Miscellaneous	<u>28,914</u>
Total Operating Revenues	637,164
OPERATING EXPENSES	
Salaries	420,728
Employee Benefits	249,389
Purchased Professional and Technical Services	10,757
Repairs and Maintenance	6,264
Supplies	725,101
Depreciation	87,527
Other Operating Expenses	<u>8,469</u>
Total Operating Expenses	<u>1,508,235</u>
OPERATING LOSS	(871,071)
NONOPERATING REVENUES	
Investment Earnings	548
State Sources	107,391
Federal Sources	<u>730,351</u>
Total Nonoperating Revenues	<u>838,290</u>
CHANGES in NET POSITION	(32,781)
NET POSITION	
Beginning, as Originally Stated	967,477
Prior Period Adjustment - Note 20	<u>(1,146,415)</u>
Beginning, as Restated	<u>(178,938)</u>
Ending	<u><u>\$ (211,719)</u></u>

See notes to financial statements.

Donegal School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

Year Ended June 30, 2015

Enterprise Fund
Food Service

CASH FLOWS from OPERATING ACTIVITIES

Cash Received from Users	\$ 645,340
Cash Payments to Employees for Services	(426,595)
Cash Payments to Suppliers for Goods and Services	(864,395)
Cash Payments for Other Operating Expenses	<u>(8,469)</u>

Net Cash Used by Operating Activities **(654,119)**

CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES

Cash Payments for Purchase of Capital Assets	(79,588)
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CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES

State Sources	109,886
Federal Sources	654,759
Net Advances from Other Funds	<u>10,747</u>

Net Cash Provided by Noncapital Financing Activities **775,392**

CASH FLOWS from INVESTING ACTIVITIES

Investment Earnings	<u>548</u>
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INCREASE in CASH and CASH EQUIVALENTS **42,233**

CASH and CASH EQUIVALENTS

Beginning of Year	<u>530,745</u>
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End of Year **\$ 572,978**

See notes to financial statements.

Donegal School District

STATEMENT of CASH FLOWS - PROPRIETARY FUNDS

(Continued)

Year Ended June 30, 2015

Enterprise Fund

Food Service

RECONCILIATION of OPERATING LOSS to NET

CASH USED by OPERATING ACTIVITIES

Operating Loss	\$ (871,071)
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ADJUSTMENTS to RECONCILE OPERATING LOSS

to NET CASH USED by OPERATING ACTIVITIES

Depreciation	87,527
Donated Commodities Used	95,698
Decrease in Accounts Receivable	3,569
Increase in Inventory	(4,659)
Increase in Accrued Retirement Bonus	2,947
Decrease in Accounts Payable	(315)
Decrease in Accrued Salaries and Benefits	(11,481)
Increase in Payroll Deductions and Withholdings	2,666
Increase in Deferred Revenue	4,608
Pension - Related Changes Other than Periodic Pension Costs	<u>36,392</u>

Total Adjustments	<u>216,952</u>
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Net Cash Used by Operating Activities	<u><u>\$ (654,119)</u></u>
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SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION

NONCASH FLOWS from NONCAPITAL and RELATED FINANCING ACTIVITIES

Receipt of USDA Donated Commodities	98,806
Use of USDA Donated Commodities	95,698

See notes to financial statements.

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

	Activity Fund
ASSETS	
Cash and Cash Equivalents	<u><u>\$ 61,791</u></u>
LIABILITIES	
Accounts Payable	2,132
Other Current Liabilities	<u>59,659</u>
TOTAL LIABILITIES	<u><u>61,791</u></u>
NET POSITION	<u><u>\$ -0-</u></u>

See notes to financial statements.

Donegal School District
NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Donegal School District, located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in East Donegal Township, Mount Joy Township-Lower, Marietta Borough, and Mount Joy Borough. These include regular, advanced academic, and vocational education programs, and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of two elementary schools, one junior high school, and one high school, serving approximately 2,951 students.

The accounting policies of **Donegal School District** conform with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

Consistent with guidance contained in Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity* and as amended in Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34*, the criteria used by the School District to evaluate the possible inclusion of related entities (authorities, boards, councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

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

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

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

3. Organizations which are fiscally dependent on the School District and have a financial benefit or burden as defined above. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the School District.

Based on the foregoing criteria, no additional entities are included in the accompanying general purpose financial statements.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

Lancaster County Career and Technology Center

The School District is one of 16 member school districts of the Lancaster County Career and Technology Centers (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member districts. LCCTC is controlled and governed by the Area Career and Technology Center Board for Lancaster County, which is comprised of school board members of all the member districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2015, was approximately \$526,132. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Career Technology Center Authority

The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. Note 12 describes the operating lease that the School District has entered in to with the Authority. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority

The School District is a member of the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The Authority is not reported as part of the School District's reporting entity.

The School District did not have any financial transactions with the Authority during the year ended June 30, 2015. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' Boards of Directors. **Donegal School District** is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. **Donegal School District** contracts with the LLIU for various education services including special education for School District students. The amount paid for these services for the year ended June 30, 2015, was approximately \$2,467,889. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Lancaster County Academy (Academy)

The Academy is an alternative public school organized by 10 public school districts in Lancaster County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member district, the School District has an ongoing financial responsibility to fund the operations of the Academy. The amount paid to the Academy for the year ended June 30, 2015, was approximately \$24,226. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau)

The School District participates with 16 other school districts and the municipalities represented by those school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made monthly. The School District's portion of the operating expenditures is 1.75% of earned income taxes collected for the School District for the year ended June 30, 2015. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

Lancaster-Lebanon Public Schools Employees' Health Care Consortium (EHCC)

The School District participates with 14 other school districts in a self-insured stop-loss pool. The School District is self-insured for claims up to \$90,000. The pool reimburses monies to the School District for individual claims above \$90,000 up to \$200,000. The pool has commercial insurance for claims greater than \$200,000.

Basis of Presentation - Fund Accounting

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, liabilities, fund equity, revenues, and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Basis of Presentation - Financial Statements

Government-Wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities as well as deferred inflows and outflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

General Fund - The general fund is the principal operating fund of the School District. It is used to account for all financial resources not accounted for and reported in another fund.

Capital Project Fund - This fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This fund includes the capital reserve fund and any bond construction funds held by the School District.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

The School District reports the following proprietary fund:

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

The agency fund is used to account for assets held by the School District as an agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund includes the student activities fund.

Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary, and fiduciary fund financial statements measure and report all assets, liabilities, deferred inflows and outflows of resources, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service and compensated absence payments which are recognized when due.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees, and interest on investments. Current property taxes measurable at June 30, 2015, which are not intended to finance fiscal 2015 operations, have been recorded as deferred inflows of resources. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds, and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the School District's food service fund are charges to students and staff for food. Operating expenses include the costs to provide food. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When amounts are available in multiple fund balance classifications, it is the School District's policy to use funds in the following order: restricted, committed, assigned, and unassigned.

Cash and Cash Equivalents

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

Investments

Investments are recorded at fair value.

Taxes Receivable and Deferred Inflows of Tax Revenues

The portion of delinquent real estate taxes receivable that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other taxes receivable is recorded as deferred inflows of resources. All taxes receivable are considered to be fully collectible (Note 4).

Inventories

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

Inventories in the food service fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2015. Any unused commodities donated by the federal government at June 30, 2015, were reported as deferred revenue since title does not pass to the School District until the commodities are used.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

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

School Buildings	15 - 40 Years
Building Improvements	15 - 40 Years
Land Improvements	20 - 40 Years
Furniture, Fixtures, and Equipment	5 - 10 Years
Vehicles	5 - 10 Years

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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

Compensated Absences and Retirement Bonuses

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

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

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

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. Encumbrances outstanding at year end are reported as reservations of fund balances because they do not constitute expenditures or liabilities. As of June 30, 2015, the School District had no encumbrances.

Pensions

Substantially all full-time and qualifying part-time employees of the School District participate in a cost-sharing multiple-employer defined benefit pension plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS), and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Interfund Activity

Exchange transactions between governmental funds are eliminated on the government-wide statements. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Classification

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the School Board. Commitments may be changed only by the government taking the same formal action that imposed the constraint originally.

Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the School Board, superintendent, or business manager.

In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are available for any purpose.

The School District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The School District considers committed and assigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates used in preparation of these financial statements include depreciation, compensated absences, pension related items, and other postemployment benefits. Actual results could differ from those estimates.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2015.

Current Year Changes in Accounting Principles

During the current year, the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. As a result of implementation of this standard in 2015, the School District reports an actuarial calculation of its proportionate share of net pension liability. Disclosures and required supplementary information related to the pension plan have been expanded to improve decision usefulness, support assessments of accountability, and create additional transparency. Since this statement was implemented retroactively, the beginning net position of the governmental activities, the business-type activities, and proprietary funds financial statements have been restated, as discussed in Note 20, to account for the cumulative effect.

Commensurate with implementation of GASB Statement No. 68, the School District adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. This statement amends GASB Statement No. 68 and requires that, at transition, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. As a result of implementation of this standard in 2015, the School District recognizes a deferred outflow of resources for its pension contribution made after the measurement date of the beginning net pension liability.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Year Changes in Accounting Principles (Continued)

During the current year, the School District adopted GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of governmental operations. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

Pending Changes in Accounting Principles

In March 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The provisions of this statement are effective for the School District's June 30, 2016 financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and accountability. The provisions of this statement are effective for the School District's June 30, 2016 financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and accountability. The provisions of this statement are effective for the School District's June 30, 2017 financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of this statement is to improve accounting and financial reporting for state and local governments for postemployment benefits other than pensions (OPEB). The provisions of this statement are effective for the School District's June 30, 2018 financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify the hierarchy of generally accepted accounting principles (GAAP) in the context of the current governmental financial reporting environment. The provisions of this statement are effective for the School District's June 30, 2016 financial statements.

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

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

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest its monies as follows:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

The deposit and investment policy of the School District adheres to state statutes. There were no deposits or investment transactions during the year that were significant violations of either the state statutes or the policy of the School District.

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District has a written policy for custodial credit risk. The public school code requires that all deposits of the School District, which are not insured, are collateralized by the depository institution. As of June 30, 2015, \$2,250,121 of the School District's bank balance of \$2,500,979 is exposed to custodial credit risk as:

Uninsured and Uncollateralized	-0-
Collateralized with Securities Held by the Pledging Financial Institution	-0-
Uninsured and Collateral Held by the Pledging Bank's Trust Department not in the School District's Name	<u>2,250,121</u>
	2,250,121

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	2,250,121
Insured Amount	<u>250,858</u>
Bank Balance	2,500,979
Outstanding Checks	<u>(140,894)</u>
Carrying Amount - Bank Balances	2,360,085
Petty Cash	<u>1,500</u>
Total Cash and Cash Equivalents per Financial Statements	2,361,585

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

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

Investments

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

	Fair Value
PA School District Liquid Asset Fund	20,956,835
U.S. Treasury Securities	<u>1,027,875</u>
Total Investments per Financial Statements	21,984,710

Interest Rate Risk

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

Credit Risk

The School District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2015, the School District investments are rated as:

	Standard & Poor's
PA School District Liquid Asset Fund	AAAm
U.S. Treasury Securities	AAA

Concentration of Credit Risk

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

Governmental Activities:	
PA School District Liquid Asset Fund	95%
U.S. Treasury Securities	5%
General Fund:	
PA School District Liquid Asset Fund	100%
Capital Project Fund:	
PA School District Liquid Asset Fund	100%
Debt Service Fund:	
U.S. Treasury Securities	100%

Custodial Credit Risk

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

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 3 - REAL ESTATE TAXES

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, 2015, was 22.0243 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2015, follows:

July 1	- Levy Date
July 1 - August 31	- 2% Discount Period
September 1 - October 31	- Face Payment Period
November 1 - December 31	- 10% Penalty Period
January 1	- Lien Date (Lancaster County Tax Claim Bureau)

NOTE 4 - TAXES RECEIVABLE and DEFERRED TAXES

The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. All taxes are determined to be collectible. A portion of the receivable amount which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements. The balances at June 30, 2015, are as follows:

	Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	444,107	115,856	328,251
Local Service Taxes	268	268	-0-
Per Capita Taxes	74,207	242	73,965
Realty Transfer Taxes	54,312	54,312	-0-
Earned Income Taxes	<u>506,341</u>	<u>506,341</u>	<u>-0-</u>
	1,079,235	677,019	402,216

NOTE 5 - INTERFUND ACCOUNTS

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

Fund	Due from Other Funds	Due to Other Funds
General Fund	67,805	1,500,328
Capital Project Fund	1,500,000	-0-
Food Service Fund	<u>328</u>	<u>67,805</u>
	1,568,133	1,568,133

A balance of \$67,805 is due from the food service fund to the general fund for outstanding payroll expenses. A balance of \$328 is due from the general fund to the food service fund for expense reimbursement. A balance of \$1,500,000 is due from the general fund to the capital reserve fund for a transfer.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - INTERFUND ACCOUNTS (Continued)

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

Fund	Transfers In	Transfers Out
General Fund	-0-	8,328,542
Capital Reserve Fund	2,406,747	2,059,625
Debt Service Fund	<u>7,981,420</u>	<u>-0-</u>
	10,388,167	10,388,167

Transfers from the general fund to the capital reserve fund were made to provide resources for future capital expenditures. Transfers are made from the general fund and capital reserve fund to the debt service fund to provide resources for the payment of principal and interest on general obligation bonds.

NOTE 6 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2015, the following amounts are due from other governmental units:

Due From	General Fund	Enterprise Fund
Federal Grants	296,799	-0-
Federal Food Service Subsidy	-0-	14,858
State Retirement Subsidy	705,283	1,347
State FICA Subsidy	76,785	482
State Transportation Subsidy	11,954	-0-
IU Special Education	302,817	-0-
State Food Service Subsidy	<u>-0-</u>	<u>1,142</u>
	1,393,638	17,829

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS

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

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Historical Cost:				
Capital Assets not Being Depreciated:				
Land	1,843,565	4,000	(443,981)	1,403,584
Construction in Progress	<u>11,347,869</u>	<u>1,283,824</u>	<u>(11,295,240)</u>	<u>1,336,453</u>
	13,191,434	1,287,824	(11,739,221)	2,740,037
Capital Assets Being Depreciated:				
Buildings	77,723,207	10,607,288	(229,178)	88,101,317
Building and Site Improvements	9,413,478	802,682	(192,900)	10,023,260
Furniture and Equipment	11,129,859	1,862,156	(7,022)	12,984,993
Vehicles	<u>330,900</u>	<u>59,418</u>	<u>-0-</u>	<u>390,318</u>
Total Cost	98,597,444	13,331,544	(429,100)	111,499,888
Accumulated Depreciation:				
Buildings	22,185,349	2,317,226	(190,981)	24,311,594
Building and Site Improvements	1,744,246	377,669	(192,900)	1,929,015
Furniture and Equipment	4,669,209	1,289,737	(7,022)	5,951,924
Vehicles	<u>227,566</u>	<u>25,300</u>	<u>-0-</u>	<u>252,866</u>
Total Accumulated Depreciation	<u>28,826,370</u>	<u>4,009,932</u>	<u>(390,903)</u>	<u>32,445,399</u>
Net Capital Assets Being Depreciated	<u>69,771,074</u>	<u>9,321,612</u>	<u>(38,197)</u>	<u>79,054,489</u>
Net Capital Assets	82,962,508	10,609,436	(11,777,418)	81,794,526

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

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

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Historical Cost:				
Capital Assets Being Depreciated:				
Furniture and Equipment	1,004,063	79,589	(750)	1,082,902
Accumulated Depreciation:				
Furniture and Equipment	<u>505,855</u>	<u>87,527</u>	<u>(750)</u>	<u>592,632</u>
Net Capital Assets	498,208	(7,938)	-0-	490,270

Depreciation expenses were charged to governmental functions as follows:

Instruction	3,157,522
Instructional Student Support	188,308
Administrative and Financial Support Services	58,719
Operation and Maintenance of Plant Services	569,875
Transportation	2,249
Student Activities	<u>33,259</u>
	4,009,932

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2015, the School District was liable for \$1,730,630 of payroll, which is payable during July and August 2015, to those employees who have a ten-month contract but are paid over a twelve-month period, to non-salaried employees who performed services through June 30, 2015.

The School District was liable for the following benefits paid prior to or accrued as of June 30, 2015:

	General Fund	Enterprise Fund	Total
Accrued Salaries	1,718,040	12,590	1,730,630
Accrued Benefits:			
Accrued Social Security	128,044	951	128,995
Accrued Retirement	<u>367,297</u>	<u>2,694</u>	<u>369,991</u>
	2,213,381	16,235	2,229,616

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 9 - UNEARNED REVENUES

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

	General Fund	Enterprise Fund	Total
Unearned Grant Revenue	496,870	-0-	496,870
Unused Donated Commodities	-0-	9,222	9,222
Prepaid Lunch Sales	<u>-0-</u>	<u>17,648</u>	<u>17,648</u>
	496,870	26,870	523,740

NOTE 10 - LONG-TERM DEBT

General Obligation Debt

The School District issues general obligation bonds to provide funds for major capital improvements. These bonds are direct obligations and pledge the full faith and credit of the School District. Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2015, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2015
Series A of 1997 Notes	February, 2017	6.50%	115,646
Series of 2005 Bonds	October 1, 2016	3.00% - 5.00%	2,025,000
Series A of 2010 Notes	September 1, 2027	5.00%	17,000,000
Series of 2011 Bonds	June 1, 2030	1.00% - 5.00%	27,755,000
Series A of 2011 Bonds	September 1, 2029	5.088%	5,950,000
Series of 2013 Bonds	March 1, 2031	3.375 - 5.50%	<u>3,435,000</u>
			56,280,646

The General Obligation Notes, Series A of 1997 in the amount of \$1,156,460 dated February 15, 1997, were issued for the purpose of acquiring tracts of real estate for School District purposes. The principal amount of the Series A of 1997 outstanding at June 30, 2015, was \$115,646 due in various amounts as described in the indenture from August 15, 2013 through February 2017. Principal due within one year is \$57,823. The interest rate on the note is 6.50%.

The General Obligation Bonds, Series of 2005, dated March 15, 2005, were issued for the purpose of partial refunding, redemption and payment of the 2002 Note. The principal amount of the Series of 2005 outstanding at June 30, 2015, was \$2,025,000 due in various amounts as described in the indenture from October 1, 2013 through October 2016. Principal due within one year is \$2,025,000. The interest rate varies from 3.00% to 5.00%.

The General Obligation Bonds, Series B of 2005, dated July 1, 2005, were issued for the purpose of partial refunding and payment of a portion of the Series A of 2003 Bonds and a portion of the 2005 Bonds. The principal amount of the Series B of 2005 was paid off during the current fiscal year.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

The General Obligation Notes - Series A of 2010, dated August 10, 2010, were issued for the design, construction, furnishing, and equipping of a new high school. The note with a principal amount of \$17,000,000 was an allocation from The State Public School Building Authority Federally Taxable Revenue Bonds, Series A of 2010. This bond issue is a Qualified School Construction Bond Program under the American Recovery & Reinvestment Act (ARRA) of 2009. The principal amount of Series A of 2010 outstanding at June 30, 2015, was \$17,000,000. As described in the indenture, the School District is required to make deposits to a mandatory sinking fund due in various amounts through September 2027. The principal deposit due within one year is \$5,000. The interest rate is 5.00% and is subsidized by federal revenue.

The General Obligation Bonds, Series of 2011, dated June 23, 2011, were issued for the purpose of financing various capital projects of the School District and to pay the costs of issuing the bonds. The principal amount of the Series of 2011 outstanding at June 30, 2015, was \$27,755,000 due in various amounts as described in the indenture from June 2012 through June 2030. The principal due within one year is \$755,000. The interest rate varies from 1.00% to 5.00%.

The General Obligation Notes, Series A of 2011, dated November 3, 2011, were issued for the design, construction, furnishing, and equipping of a new high school. The note with a principal amount of \$5,950,000 was an allocation from The State Public School Building Authority Federally Taxable Revenue Bonds, Series A of 2011. This bond issue is a Qualified School Construction Bond Program under the American Recovery & Reinvestment Act (ARRA) of 2009. The principal amount of Series A of 2011 outstanding at June 30, 2015, was \$5,950,000. As described in the indenture, the School District is required to make deposits to a mandatory sinking fund due in various amounts through September 2029. The principal deposit due within one year is \$330,556. The interest rate is 5.088% and is subsidized by federal revenue.

The General Obligation Bonds, Series of 2013, dated October 24, 2013, were issued for the purpose of various capital improvement projects, including renovations and/or additions to the junior high school and capital improvements to other school buildings. The principal amount of the Series of 2013 outstanding at June 30, 2015, was \$3,435,000 due in various amounts as described in the indenture through March 2031. Principal due within one year is \$70,000. The interest rate varies from 3.375% to 5.50%.

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
General Obligation Debt	61,083,468	-0-	4,802,822	56,280,646
Bond Premium, net of Amortization	1,820,623	-0-	154,707	1,665,916
Bond Discount, net of Amortization	(128,623)	-0-	(9,716)	(118,907)
Accrued Retirement Bonuses	1,079,705	63,492	-0-	1,143,197
Estimated Liability for Compensated Absences	<u>144,509</u>	<u>14,335</u>	<u>-0-</u>	<u>158,844</u>
	63,999,682	77,827	4,947,813	59,129,696

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

The following schedule reveals the annual debt service requirements to maturity, including mandatory sinking fund deposits, for the general obligation debt:

Series A of 1997			Series of 2005		
	Interest Payment	Principal Payment		Interest Payment	Principal Payment
2016	6,577	57,823	2016	33,750	2,025,000
2017	<u>2,819</u>	<u>57,823</u>			
	9,396	115,646			
Series A of 2010			Series of 2011		
	Interest Payment	Principal Payment		Interest Payment	Principal Payment
2016	850,000	5,000	2016	1,321,925	755,000
2017	850,000	5,000	2017	1,306,825	820,000
2018	850,000	5,000	2018	1,282,225	2,745,000
2019	850,000	5,000	2019	1,144,975	2,885,000
2020	850,000	5,000	2020	1,000,725	3,025,000
2021 - 2025	4,250,000	7,688,000	2021 - 2025	2,875,775	9,960,000
2026 - 2028	<u>2,125,000</u>	<u>9,267,000</u>	2026 - 2030	<u>1,339,950</u>	<u>7,565,000</u>
	10,625,000	16,980,000		10,272,400	27,755,000
Series A of 2011			Series of 2013		
	Interest Payment	Principal Payment		Interest Payment	Principal Payment
2016	302,736	330,556	2016	115,931	70,000
2017	302,736	330,556	2017	113,569	70,000
2018	302,736	330,556	2018	111,206	75,000
2019	302,736	330,556	2019	108,675	75,000
2020	302,736	330,556	2020	106,144	80,000
2021 - 2025	1,513,680	1,652,780	2021 - 2025	568,316	350,000
2026 - 2030	<u>1,362,312</u>	<u>1,652,772</u>	2026 - 2030	726,550	2,540,000
	4,389,672	4,958,332	2031	<u>9,625</u>	<u>175,000</u>
				1,860,016	3,435,000

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

Aggregate Debt Service Requirements

	Interest	Principal	Total
2016	2,630,919	3,243,379	5,874,298
2017	2,575,949	1,283,379	3,859,328
2018	2,546,167	3,155,556	5,701,723
2019	2,406,386	3,295,556	5,701,942
2020	2,259,605	3,440,556	5,700,161
2021 - 2025	9,207,771	19,650,780	28,858,551
2026 - 2030	5,553,812	21,024,772	26,578,584
2031	<u>9,625</u>	<u>175,000</u>	<u>184,625</u>
	27,190,234	55,268,978	82,459,212

Amount available in sinking fund	<u>1,011,668</u>	56,280,646
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NOTE 11 - COMPENSATED ABSENCES

A summary of the amount recorded as a liability in the governmental activities for compensated absences is as follows as of June 30, 2015:

	Governmental Activities
Accumulated Vacation Leave and Sick Pay	152,992
Employer Social Security and Medicare on Leave Amounts Above	<u>5,852</u>
	158,844

NOTE 12 - OPERATING LEASE

On September 22, 2011, the Lancaster County Career and Technology Center Authority (the Authority) authorized the issuance of Guaranteed Lease Revenue Bonds, Series 2011 to provide funds for renovations and additions to Brownstown, Mount Joy, and Willow Street campuses of the Lancaster County Career and Technology Center (LCCTC), for the purchase and renovation of property for a practical nursing program at the LCCTC, for various other ongoing and proposed capital projects of the LCCTC, and for the payment and cost of issuing the bonds. The LCCTC and the sixteen member schools have entered into a lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to fund the debt based on real estate market values as set forth in the LCCTC organization agreement. The final bond was issued in July 2014, totaling \$23,890,000. The bonds were issued in three different series over the course of three years. The bonds are intended to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed \$1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of \$1,330,000.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 12 - OPERATING LEASE (Continued)

On June 29, 2012, the Authority issued the first of three series, the Lancaster County Career & Technology Center General Obligation Bonds, Series of 2012, in the total amount of \$9,995,000.

On September 20, 2013, the Authority issued the second of three series, the Lancaster County Career & Technology Center General Obligation Bonds, Series of 2013, in the total amount of \$9,995,000.

On July 9, 2014, the Authority issued the third and final of three series, the Lancaster County Career & Technology Center General Obligation Bonds, Series of 2014, in the total amount of \$3,900,000.

The School District's lease rental obligations include interest and will fluctuate from time to time during the term of the lease, based on the market values in the School District and the actual interest rates. The School District's estimated lease rental obligations for future minimum rental payments related to the issued debt are as follows:

Fiscal Year Ended June 30,	Future Minimum Rental Payments
2016	48,811
2017	48,767
2018	54,189
2019	54,127
2020	54,112
2021 - 2025	270,850
2026 - 2030	270,707
2031 - 2035	270,827
2036 - 2037	<u>108,181</u>
	1,180,571

NOTE 13 - ACCRUED RETIREMENT BONUSES

Upon voluntary retirement, employees with qualifying years of service according to the collective bargaining agreement, Act 93 agreement, or support staff employee handbook will receive a lump sum retirement bonus. A summary of the amount recorded as a liability for these accrued retirement bonuses is as follows for June 30, 2015:

	Governmental Activities	Business-Type Activities
Estimated Accrued Retirement Benefit	1,118,025	25,172

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 14 - SALE of REAL ESTATE

The School District entered into a sale of real estate on October 8, 2014. The proceeds from the sale totaled \$896,000 and the adjusted basis of the real estate totaled \$280,927. The resulting gain on disposition of \$615,073 is reflected in the statement of activities net of losses on other dispositions of \$214,669 for a total of \$400,404 gain on dispositions.

NOTE 15 - RISK MANAGEMENT

Hospitalization

The School District is participating in the insurance consortium with the Lancaster-Lebanon Intermediate Unit #13 to provide for the medical care for eligible employees and their dependents. The School District remits funds to the third-party administrators. The third-party administrators, upon receiving funds from the School District, process and pay the claims. The School District was limited in liability to \$90,000 per individual and \$4,399,014 in total for hospitalization claims for the year ended June 30, 2015.

A liability for claims incurred prior to June 30, 2015, and subsequently paid is recorded in the amount of \$365,277.

Changes in the School District's claims liability amount in fiscal years 2015 and 2014 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2013 - 2014	274,927	2,830,923	2,870,012	235,838
2014 - 2015	235,838	3,037,921	2,908,482	365,277

Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for sixteen member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement states that the School District pays an annual premium to the fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims, and losses and providing self-insurance and re-insurance thereof.

It is the intent of the members of the fund that the fund will utilize funds contributed by the members, which shall be held in trust by the fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2015, the School District is not aware of any additional assessments relating to the fund.

Other Risks

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2015, and the two previous fiscal years, no settlements exceeded insurance coverage.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

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

Benefits Provided

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

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

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

Contributions

The contribution policy is set by the Code and requires contributions by active members, participating employers, and the Commonwealth of Pennsylvania. Plan members may belong to four membership classes. Class T-C, Class T-D, Class T-E and Class T-F are available to plan members.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN (Continued)

Member Contributions

Active members who joined the plan before July 22, 1983, are required to contribute 5.25% of their compensation if they are in Class T-C or 6.5% for Class T-D. Members who joined on or after July 22, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25% for Class T-C or 7.5% for Class T-D. Members who joined the plan after June 30, 2001 and before July 1, 2011, are automatically in Class T-D and are required to contribute 7.5%.

Members who joined the plan after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School Districts' contractually required contribution rate for fiscal year ended June 30, 2015 was 20.5% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School District were \$3,391,694 for the year ended June 30, 2015.

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

At June 30, 2015, the School District reported a liability of \$51,771,577 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS's total pension liability as of June 30, 2013 to June 30, 2014. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School District's proportion was .1308 percent, which was an increase of .0052 percent from its proportion measured as of June 30, 2013.

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN (Continued)

For the year ended June 30, 2015, the School District recognized pension expense of \$4,941,318. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	-0-	-0-
Changes in Assumptions	-0-	-0-
Net Difference between Projected and Actual Investment Earnings	-0-	3,701,080
Change in Proportions	1,715,348	-0-
Difference between Employer Contributions and Proportionate Share of Total Contributions	-0-	-0-
Contributions Subsequent to the Measurement Date	<u>3,391,694</u>	<u>-0-</u>
	5,107,042	3,701,080

\$3,391,694 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	(511,933)
2017	(511,933)
2018	(511,933)
2019	(511,933)
2020	<u>62,000</u>
	(1,985,732)

Actuarial Assumptions

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

Actuarial Cost Method - Entry age normal

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

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

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

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLAN (Continued)

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

Discount Rate

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

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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School District's Proportionate Share of the Net Pension Liability	64,578,000	51,771,577	40,839,000

Pension Plan Fiduciary Net Position

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

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES

Description

The School District follows the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In addition to the relevant disclosures within this note related to GASB Statement No. 45, the financial statements reflect a long-term liability of \$355,614.

The School District maintains a single employer defined benefit plan to provide postretirement health care benefits to School District employees who have retired with 30 years of PSERS service or upon superannuation retirement. Such benefits are available to retiree dependents until the retired employee reaches Medicare age, provided the retired employee provides payment equal to the premium determined for the purpose of COBRA.

Funding Policy

The School District has elected to finance postemployment benefits on a pay-as-you-go basis. The School District recognizes expenditures for postemployment group insurance when claims are filed with the Plan Administrator. These financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual cost for other postemployment retirement benefits (OPEB) is calculated based on the annual required contribution (ARC) of the School District, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following illustrates the components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation:

Annual Required Contribution	262,946
Interest on OPEB Obligation	9,332
Adjustment to Annual Required Contribution	<u>(12,731)</u>
Annual OPEB Cost	259,547
Contributions Made	<u>(111,304)</u>
Estimated Increase in Net OPEB Obligation	148,243
Net OPEB Obligation - Beginning of Year	<u>207,371</u>
Net OPEB Obligation - End of Year	355,614

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation-End of Year
6/30/2015	259,547	43%+	355,614
6/30/2014	262,085	41%+	207,371
6/30/2013	269,415	100%+	52,495

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES (Continued)

Funding Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled \$1,925,375, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,925,375. The covered payroll (annual payroll of active employees covered by the plan) equaled \$15,525,289, and the ratio of the UAAL to the covered payroll equaled 12.40%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the School District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the School District and plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated July 1, 2013, the entry age normal cost method was used. Because the School District funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) legally held exclusively for paying the postemployment medical benefits. Actuarial assumptions included an interest rate of 4.5% per annum, medical inflation of 7.0% in the first year gradually decreasing by 0.5% per year to an ultimate rate of 5.3% in 2017, then rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later.

NOTE 18 - FUND BALANCE CLASSIFICATIONS

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

General Fund:

Nonspendable for Prepaid Expenses	8,720
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Restricted fund balance represents fund balances that can only be used for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers. At June 30, 2015, the School District has the following restricted balance:

Debt Service Fund:

Restricted for Debt Payment	1,028,733
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Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 18 - FUND BALANCE CLASSIFICATIONS (Continued)

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. At June 30, 2015, the School District has the following committed fund balances:

General Fund:

Committed to Offset Future Self-Insured	
Health Care Expenditures	1,810,000
Committed for Future Curriculum Expenditures	1,890,000
Committed for Future Technology Purchases	1,810,000
Committed for Future Equipment and Capital Improvement	1,350,000
Committed to Offset Future Retirement Contributions	<u>250,000</u>
	7,110,000

Assigned fund balance comprises amounts intended to be used by the government for specific purposes determined by the governing body or by an official or body to which the governing body delegates the authority. At June 30, 2015, the School District has the following assigned fund balances:

Capital Project Fund:

Assigned for Capital Outlays	9,092,216
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General Fund:

Assigned for Capital Outlays	300,000
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NOTE 19 - CONTINGENCIES and COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

The School District has entered into various contracts for construction of an athletic stadium. The amount remaining on the outstanding contracts is \$4,210,954.

The School District is involved in various claims and legal actions arising in the ordinary course of business. The outcome of these matters cannot be determined at this time.

NOTE 20 - CHANGE in ACCOUNTING PRINCIPLE

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

Donegal School District
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 20 - CHANGE in ACCOUNTING PRINCIPLE (Continued)

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

	Governmental Activities	Business-Type Activities and Proprietary Fund
Net Position as Previously Reported at June 30, 2014:	40,812,878	967,477
Prior period adjustment:		
Net Pension Liability (Measurement Date as of June 30, 2013)	(50,208,463)	(1,207,473)
Deferred outflows:		
School District Contributions Made During Fiscal Year 2014	<u>2,538,887</u>	<u>61,058</u>
Total Prior Period Adjustment	<u>(47,669,576)</u>	<u>(1,146,415)</u>
Net Position as Restated, July 1, 2014	(6,856,698)	(178,938)

Donegal School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -

BUDGET and ACTUAL - GENERAL FUND

Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Basis	Final Budget -
				Favorable
				(Nonfavorable)
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 25,915,262	\$ 25,915,262	\$ 26,068,263	\$ 153,001
Other Taxes	3,028,450	3,028,450	3,336,442	307,992
Investment Earnings	20,000	20,000	36,507	16,507
Other Revenue	602,000	602,000	790,949	188,949
Total Local Sources	29,565,712	29,565,712	30,232,161	666,449
State Sources	12,885,706	12,885,706	12,837,381	(48,325)
Federal Sources	1,465,263	1,465,263	1,624,658	159,395
Total Revenues	43,916,681	43,916,681	44,694,200	777,519
EXPENDITURES				
Instructional Services:				
Regular Programs	19,527,041	19,527,041	18,058,930	1,468,111
Special Programs	6,039,907	6,039,907	6,234,957	(195,050)
Vocational Programs	577,899	577,899	526,132	51,767
Other Instructional Programs	73,957	73,957	19,982	53,975
Higher Education Programs	4,100	4,100	-0-	4,100
Support Services:				
Pupil Personnel Services	1,361,858	1,361,858	1,317,368	44,490
Instructional Staff Services	1,691,573	1,691,573	1,525,648	165,925
Administrative Services	2,324,705	2,324,705	2,428,996	(104,291)
Pupil Health	521,095	521,095	474,809	46,286
Business Services	570,509	570,509	547,790	22,719
Operation of Plant and Maintenance Services	3,734,738	3,734,738	3,075,849	658,889
Student Transportation Services	1,756,391	1,756,391	1,466,732	289,659
Central and Other Business Services	59,650	59,650	51,033	8,617
Noninstructional Services:				
Student Activities	666,417	666,417	627,229	39,188
Community Services	-0-	-0-	-0-	-0-
Total Expenditures	38,909,840	38,909,840	36,355,455	2,554,385
EXCESS of REVENUES				
over EXPENDITURES	5,006,841	5,006,841	8,338,745	3,331,904
OTHER FINANCING SOURCES (USES)				
Debt Service Transfers	(6,037,281)	(6,037,281)	(5,921,795)	115,486
Other Fund Transfers	(26,747)	(26,747)	(2,406,747)	(2,380,000)
Sale of Fixed Assets	-0-	-0-	882,582	882,582
Budgetary Reserve	(425,000)	(425,000)	-0-	425,000
Net Other Financing Uses	(6,489,028)	(6,489,028)	(7,445,960)	(956,932)
NET CHANGES in FUND BALANCES	\$ (1,482,187)	\$ (1,482,187)	892,785	\$2,374,972
FUND BALANCES				
Beginning			9,746,219	
Ending			\$ 10,639,004	

See independent auditors' report.

Donegal School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION

Donegal School District follows the following procedures in establishing the budgetary data reflected in the general purpose financial statements:

1. Under Act I requirements, management submits to the School Board a preliminary budget for adoption 90 days prior to the primary election, and then a final budget for adoption on or before June 30, for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.
2. Public meetings are conducted to obtain taxpayer comments for both the preliminary and final budget adoption process. The proposed budgets are made available to the public 20 days before each adoption date, and are advertised 10 days before each adoption date.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the School Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.
5. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.
6. Unused appropriations lapse at the end of each fiscal year.
7. The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] / c)
07/01/2009	-0-	2,091,031	2,091,031	0.00%	14,421,658	14.50%
07/01/2011	-0-	2,235,982	2,235,982	0.00%	14,722,798	15.19%
07/01/2013	-0-	1,925,375	1,925,375	0.00%	15,525,289	12.40%

See independent auditors' report.

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

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
June 30, 2013	270,590	107.00%
June 30, 2014	262,946	41.00%
June 30, 2015	262,946	42.00%

See independent auditors' report.

Donegal School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION

The information presented on the required supplementary schedules on pages 60 and 61 was determined as part of the actuarial valuations at the dates indicated. Key factors used in the actuarial valuations are as follows:

Valuation Dates	July 1, 2013	July 1, 2011	July 1, 2009
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar Method	Level Dollar Method	Level Dollar Method
Amortization Period	30 Years	30 Years	30 Years
Discount Rate	4.5%	4.5%	4.5%
Mortality	Same as Rates in the PSERS Actuarial Valuation	Same as Rates in the PSERS Actuarial Valuation	Same as Rates in the PSERS Actuarial Valuation
Retirement	Retirement Rate Based on PSERS Plan Experience	Retirement Rate Based on PSERS Plan Experience	Retirement Rate Based on PSERS Plan Experience
Coverage Election			
Administrators	100%	100%	100%
HEA Professional Staff	75%	75%	75%
Support Staff	50%	50%	50%
Percent Married with Election of Spousal Coverage by Plan	25%	25%	35%
Per Capita Claims Cost			
Female (Age 45 - 65+)	\$8,659 - \$11,764	\$8,635 - \$11,730	\$6,657 - \$9,043
Male (Age 45 - 65+)	\$5,996 - \$12,621	\$5,979 - \$12,585	\$4,609 - \$9,702
Demographic Information			
Active Participants	277	275	292
Retired Participants	<u>15</u>	<u>34</u>	<u>38</u>
Total Participants	292	309	330
Health Care Cost Trend Rate	7.0% decreasing to 5.5% in 2016 and to 4.2% in 2089	8.0% decreasing to 5.5% in 2016 and to 4.2% in 2089	8.0% decreasing to 5.5% in 2014 and to 4.2% in 2099

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

See independent auditors' report.

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

	Contractually Required Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
Defined Benefit Pension Plan:					
2006	513,504	513,504	-0-	12,837,591	4.00%
2007	786,767	786,767	-0-	13,754,675	5.72%
2008	946,809	946,809	-0-	14,702,006	6.44%
2009	635,507	635,507	-0-	15,887,668	4.00%
2010	636,734	636,734	-0-	15,918,347	4.00%
2011	815,171	815,171	-0-	16,303,422	5.00%
2012	1,236,223	1,236,223	-0-	15,452,786	8.00%
2013	1,800,406	1,800,406	-0-	16,116,340	11.50%
2014	2,599,945	2,599,945	-0-	16,686,678	16.00%
2015	3,458,795	3,458,795	-0-	16,872,171	20.50%

See independent auditors' report.

Donegal School District

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

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years

For the Fiscal Year Ended June 30	School District's Proportion of the Net Pension Liability (Asset)	School District's Proportionate Share of the Net Pension Liability (Asset)	School District's Covered- Employee Payroll	School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1300%	\$ 51,772,000	\$ 16,686,678	310.26%	57.24%

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

See independent auditors' report.

Donegal School District

NOTES to REQUIRED SUPPLEMENTARY INFORMATION

Changes of Benefit Terms:

None.

Changes of Assumptions:

None.

See independent auditors' report.

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

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2014	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2015
U.S. Department of Agriculture									
Passed Through the Pennsylvania									
Department of Education:									
School Breakfast Program (Note 3)	I	10.553	N/A	07/01/14 - 06/30/15	N/A	\$ -0-	\$ 93,984	\$ 96,975	\$ 2,991
School Breakfast Program (Note 3)	I	10.553	N/A	07/01/13 - 06/30/14	N/A	5,927	5,927	-0-	-0-
National School Lunch Program (Note 3)	I	10.555	N/A	07/01/14 - 06/30/15	N/A	-0-	525,810	537,677	11,867
National School Lunch Program (Note 3)	I	10.555	N/A	07/01/13 - 06/30/14	N/A	<u>29,037</u>	<u>29,037</u>	<u>-0-</u>	<u>-0-</u>
Total Passed Through the Pennsylvania Department of Education						34,964	654,758	634,652	14,858
Passed Through the Pennsylvania									
Department of Education:									
National School Lunch Program (Notes 2 and 3)	I	10.555	N/A	07/01/14 - 06/30/15	N/A	<u>(6,114)</u> A)	<u>98,806</u> B)	<u>95,698</u> C)	<u>(9,222)</u> D)
Total U.S. Department of Agriculture						28,850	753,564	730,350	5,636
U.S. Department of Education									
Passed Through the Pennsylvania									
Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-150119	09/30/14 - 09/30/15	347,029	-0-	106,461	347,029	240,568
Title I Grants to Local Educational Agencies	I	84.010	013-140119	09/30/13 - 09/30/14	292,544	44,087	44,087	-0-	-0-
Title I Grants to Local Educational Agencies	I	84.010	042-130119	04/29/13 - 09/30/14	70,403	\$ (17,024)	\$ 27,379	\$ 44,403	\$ -0-

See independent auditors' report.

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

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2014	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2015
U.S. Department of Education (Continued)									
Passed Through the Pennsylvania Department of Education (Continued)									
Improving Teacher Quality State Grants	I	84.367	020-150119	09/30/14 - 09/30/15	81,234	\$ -0-	\$ 25,003	\$ 81,234	\$ 56,231
Improving Teacher Quality State Grants	I	84.367	020-140119	09/30/13 - 09/30/14	81,295	<u>12,401</u>	<u>12,401</u>	<u>-0-</u>	<u>-0-</u>
Total Passed Through the Pennsylvania Department of Education						39,464	215,331	472,666	296,799
Passed Through Lancaster-Lebanon Intermediate Unit #13:									
Special Education - Grants to States (Note 3)	I	84.027	062-150013	07/01/14 - 09/30/15	472,842	-0-	472,842	472,842	-0-
Special Education - Preschool Grants (Note 3)	I	84.173	131-140013	07/01/14 - 06/30/15	3,091	<u>-0-</u>	<u>-0-</u>	<u>3,091</u>	<u>3,091</u>
Total Passed Through Lancaster-Lebanon Intermediate Unit #13						-0-	472,842	475,933	3,091
Total U.S. Department of Education						39,464	688,173	948,599	299,890
U.S. Department of Health and Human Services									
Passed Through the Department of Human Services:									
Medical Assistance Program (Note 3)	I	93.778	044-007119	07/01/14 - 06/30/15	N/A	<u>-0-</u>	<u>14,819</u>	<u>14,819</u>	<u>-0-</u>
TOTAL EXPENDITURES of FEDERAL AWARDS						\$ 68,314	\$ 1,456,556	\$ 1,693,768	\$ 305,526

Legend

I = Indirect funding

CFDA = Catalog of Federal Domestic Assistance

See independent auditors' report.

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

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

NOTE 2 - NATIONAL SCHOOL LUNCH PROGRAM - PASSED THROUGH the PENNSYLVANIA DEPARTMENT of AGRICULTURE

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

NOTE 3 - CLUSTER IDENTIFICATION

Project Title	Federal CFDA Number	Cluster
School Breakfast Program	10.553	Child Nutrition Cluster
National School Lunch Program	10.555	Child Nutrition Cluster
Special Education - Grants to States	84.027	Special Education Cluster
Special Education - Preschool Grants	84.173	Special Education Cluster
Medical Assistance Program	93.778	Medicaid Cluster

NOTE 4 - ACCESS

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements are federal money but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the schedule of expenditures of federal awards, ACCESS reimbursements are not included on the schedule. The amount of ACCESS funding received for the year ended June 30, 2015 was \$190,000 which is listed on the PDE Confirmation as Program #044-007119.

See independent auditors' report.

**INDEPENDENT AUDITORS' REPORT on INTERNAL CONTROL over FINANCIAL REPORTING
and on COMPLIANCE and OTHER MATTERS BASED on an AUDIT of FINANCIAL STATEMENTS
PERFORMED in ACCORDANCE with GOVERNMENT AUDITING STANDARDS**

To the Board Officers and Members
Donegal School District
Lancaster County, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Donegal School District** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Donegal School District's** basic financial statements and have issued our report thereon dated October 22, 2015.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #2015-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Donegal School District's** 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*.

Donegal School District's Response to Finding

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

Purpose of this Report

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

October 22, 2015
Lancaster, Pennsylvania



TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

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

To the Board Officers and Members
Donegal School District
Lancaster County, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited **Donegal School District's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Donegal School District's** major federal programs for the year ended June 30, 2015. **Donegal School District's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **Donegal School District's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Donegal School District's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, **Donegal School District** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item #2015-002. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance


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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

October 22, 2015
Lancaster, Pennsylvania


TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

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

A. Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of **Donegal School District**.
2. No significant deficiencies and one material weakness relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of **Donegal School District** were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal programs are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for **Donegal School District** expresses an unmodified opinion.
6. Audit findings relative to the major federal award programs for **Donegal School District** are reported in part C of this schedule.
7. The programs tested as major programs are: School Breakfast Program - CFDA #10.553, National School Lunch Program - CFDA #10.555, Special Education - Grants to States - CFDA #84.027, and Special Education - Preschool Grants - CFDA #84.173.
8. The threshold for distinguishing type A and B programs was \$300,000.
9. **Donegal School District** was not determined to be a low-risk auditee.

Donegal School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2015

B. Findings - Financial Statements Audit

Material Weakness

#2015-001 - Internal Control Over Financial Reporting

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

Statement of Condition: The School District has designated an individual responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The School District has assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the School District's staff is not experienced in preparing all of the required financial statements and the notes to the financial statements for the School District in conformity with the accounting principles generally accepted in the United States of America.

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

Management Response: The School District acknowledges that staff resources are not sufficient to draft complete financial statements of the School District. However, the cost to contract these services to a second, independent auditing firm and/or to hire an additional staff member with CPA credentials are prohibitive. The School District is confident that its current practice of requesting assistance from its independent auditing firm is the most efficient, cost-effective manner to prepare its financial statements and does not, in any way, compromise the integrity of the documents produced.

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

Compliance Finding

DEPARTMENT of AGRICULTURE

#2015-002 - School Breakfast Program - CFDA #10.553 and National School Lunch Program - CFDA #10.555, year ended June 30, 2015

Criteria: The School District is required to verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced meals. If the verification process determines changes to applicant free and reduced status, the School District is required to make those changes.

Statement of Condition: The School District sampled the correct number of free and reduced applicant households. However, the School District did not correctly classify and make changes to the free and reduced meal status of two of those households based on the documentation received.

Donegal School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2015

C. Findings and Questioned Costs - Major Federal Awards Programs Audit (Continued)

Compliance Finding (Continued)

DEPARTMENT of AGRICULTURE (Continued)

#2015-002 - School Breakfast Program - CFDA #10.553 and National School Lunch Program - CFDA #10.555, year ended June 30, 2015 (Continued)

Cause and Effect: Errors in the review of verified free and reduced lunch applications led to the status of two of the verified free and reduced households to be incorrectly classified.

Questioned Costs: None

Recommendation: Review procedures should be established to ensure that the School District correctly classifies and makes changes to the free and reduced meal status based on the documentation received.

Management Response: The School District's food service director has implemented procedures to annually review the rules and regulations for classifying free and reduced applications. The department has also established a process in which to review and adjust the applications which includes a second review by the business office. This review is in a manner consistent with the regulations set forth by the authorities.

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

DEPARTMENT of AGRICULTURE

#2014-003 - School Breakfast Program - CFDA #10.553 and National School Lunch Program - CFDA #10.555, year ended June 30, 2014

The School District sampled the correct number of free and reduced applicant households. However, the School District did not correctly classify and make changes to the free and reduced meal status of two of those households based on the documentation received.

Recommendation: Procedures should be established to ensure that the School District correctly classifies and makes changes to the free and reduced meal status based on the documentation received.

Current Status: The School District's food service director has implemented procedures to annually review the rules and regulations for classifying free and reduced applications. The department has also established a process in which to review and adjust the applications in a manner consistent with the regulations set forth by the authorities. However, in current testing it was noted that two of the households selected for verification were incorrectly classified. See #2015-002 above for more details.



Donegal School District

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(717) 492-1350 FAX
www.donegal.k12.pa.us

Corrective Action Plan October 22, 2015

United States Department of Education (oversight agency for this audit)

The Donegal School District respectfully submits the following corrective action plan for the year ended June 30, 2015

Name and address of independent public accounting firm:

Trout, Ebersole and Groff, LLP
Certified Public Accountants
1705 Oregon Pike
Lancaster, Pennsylvania 17601

Audit period: July 1, 2014 through June 30, 2015

The finding from the June 30, 2015, schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the numbers assigned in the schedule.

Findings – Financial Statements Audit

Material Weaknesses

#2015-1 - Preparation of Financial Statements

The School District has designated an employee responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The School District has assumed responsibility for evaluating the adequacy and results of the financial statements and accepted responsibility for them. However, the School District's staff is not experienced in preparing all of the required financial statements and notes to the financial statements for the School District in conformity with the accounting principles generally accepted in the United States of America.

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

School District Response

The School District acknowledges that staff resources are not sufficient to draft complete financial statements of the School District. However, the cost to contract these services to a

second, independent auditing firm and/or to hire an additional staff member with CPA credentials are prohibitive. The School District is confident that its current practice of requesting assistance from its independent auditing firm is the most efficient, cost-effective manner to prepare its financial statements and does not, in any way, compromise the integrity of the documents produced.

Compliance Findings

DEPARTMENT of AGRICULTURE

#2015-002 - School Breakfast Program - CFDA #10.553 and National School Lunch Program - CFDA #10.555, year ended June 30, 2015

Criteria: The School District is required to verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced meals. If the verification process determines changes to applicant free and reduced status, the School District is required to make those changes.

Statement of Condition: The School District sampled the correct number of free and reduced applicant households. However, the School District did not correctly classify and make changes to the free and reduced meal status of two of those households based on the documentation received.

Cause and Effect: Errors in the review of verified free and reduced lunch applications led to the status of two of the verified free and reduced households to be incorrectly classified.

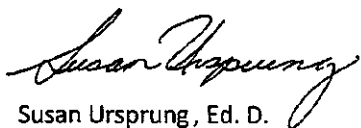
Questioned Costs: None

Recommendation: Procedures should be established to ensure that the School District correctly classifies and makes changes to the free and reduced meal status based on the documentation received.

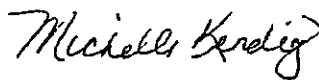
Management Response: The School District's food service director has implemented procedures to annually review the rules and regulations for classifying free and reduced applications. The department has also established a process in which to review and adjust the applications which includes a second review by the business office. This review is in a manner consistent with the regulations set forth by the authorities.

If the United States Department of Education has questions regarding this plan, please call Michelle Kendig at 717-653-1447.

Sincerely Yours,



Susan Ursprung, Ed. D.
Superintendent
Donegal School District



Michelle Kendig
Director of Business Services
Donegal School District