

SOUTHERN LEHIGH SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2016

SOUTHERN LEHIGH SCHOOL DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of School Directors
Southern Lehigh School District
Center Valley, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Southern Lehigh School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Southern Lehigh School District as of June 30, 2016, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10, postemployment benefits plan information on page 47, and pension plan reporting information on pages 48 - 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southern Lehigh School District basic financial statements. The introductory section and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2017, on our consideration of Southern Lehigh School District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

James, Anderson, Burke and Company, P.C.

Emmaus, Pennsylvania
January 16, 2017

SOUTHERN LEHIGH SCHOOL DISTRICT

Management Discussion and Analysis (MD&A)

For the Year Ended June 30, 2016

The discussion and analysis of Southern Lehigh School District's financial performance provides an overall review of the School District's financial activities for the year ended June 30, 2016. The intent of the discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2015-2016 are as follows:

- o Total net position is \$-56,977,190. Net position of governmental activities is \$-57,651,395. Net position of business activities is \$674,205. The negative net position is due to GASB 68 which requires the accounting for pension liability starting in 2014-2015, bonds and notes payable and post-employment benefits.
- o Total revenues are \$60,839,204. Governmental revenue is \$59,661,314 and business activity revenue is \$1,177,890.
- o Total expenses are \$61,085,923. Governmental expenses are \$59,819,728 and Business activity expenses are \$1,266,195. Total governmental revenue exceeded total governmental expenses largely due to sale of assets and refinancing of bonds.
- o At the end of the current fiscal year (2015-2016), the General Fund balance has decreased \$878,884.
- o Comparative analysis of key financial data on a year-to-year basis is located at the end of the report.

Using the 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 Southern Lehigh School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The balance sheet is a financial statement that summarizes the School District's assets, liabilities and equity. It provides a "snapshot" of the District's financial position. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how 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. In the case of Southern Lehigh School District, the general fund is by far the most significant fund.

SOUTHERN LEHIGH SCHOOL DISTRICT

Management Discussion and Analysis (MD&A)

For the Year Ended June 30, 2016

Reporting the School District as a Whole

Government-Wide Financial Statements

While these documents contain the funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015-2016?" These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net position and changes in the position. This 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, some financial, some not. Non-financial factors include the School District's demographics, student enrollment, facility conditions, required educational programs and other factors.

The School District's statements are divided into two distinct kinds of activities:

- Governmental Activities --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 basis to recover the expenses of the goods provided. The School District Food Service 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 governmental funds, which begins on page 14, is the general fund and the capital projects fund. Fund financial reports provide detailed information about the School District's major funds. The School District uses several funds to account for a multitude of financial transactions.

SOUTHERN LEHIGH SCHOOL DISTRICT

Management Discussion and Analysis (MD&A)

For the Year Ended June 30, 2016

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. The balances left at year-end are available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental funds 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 one determine whether there are adequate financial resources that can be spent in the near future to finance the basic mission of the School District.

Proprietary Funds - Proprietary/business type funds reflect our operations of Food Services. (See page 19) A loss in fund net position of \$88,305 in the 2015-2016 fiscal year is primarily a result of an increase in wages and benefits and a decrease in lunch revenue. In 2009-10 and 2010-11 an increase in net position suggests proper steps were taken to ensure profitability. In the 2011-12 and 2012-13 the Food Service Fund was self-supporting. The losses in 2013-14, 2014-15 and 2015-16 means more measures need to be taken to reduce costs or increase the student meal cost in order to stay self-supporting.

Governmental Activities

The School District's reliance on state and federal grants and local tax revenues is apparent. A decrease in state and federal revenues would have a direct impact on the level of local revenue needed to meet program expenses.

The School District's program revenues were:

REVENUE	General <u>Fund</u>	Capital <u>Projects</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Local sources	77.4%	3.3%	0.0%	76.0%
State sources	22.1%	96.7%	0.0%	23.5%
Federal sources	0.5%	0.0%	0.0%	.5%
Total revenue	100.0%	100.0%	0.0%	100.0%

The School District's expenses were:

EXPENDITURES	General <u>Fund</u>	Capital <u>Projects</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Instruction	55.0%	0.0%	0.0%	44.4%
Support services	32.0%	4.0%	0.0%	26.6%
Non-instructional services	2.3%	0.0%	0.0%	1.8%
Capital outlay	0.0%	95.9%	0.0%	18.5%
Debt service	10.7%	0.1%	0.0%	8.7%
Total expenditures	100.0%	100.0%	0.0%	100.00%

SOUTHERN LEHIGH SCHOOL DISTRICT

Management Discussion and Analysis (MD&A)

For the Year Ended June 30, 2016

Business-Type Activities

The School District's sole business-type activity is Food Service. This program had operating revenue of \$789,444, non-operating revenue of \$388,466, and operating expenses of \$1,266,195 for a loss in net position of \$88,305. While these activities receive no support from local tax revenues, these programs received federal and state grant monies of \$387,515 (non-operating revenue), which is increased over the 2014-2015 school year. Without support from the federal and state government these operations would require significant support from local sources.

School District's Governmental Funds

Financial information related to the School Districts major funds (governmental fund) starts on page 14. The bulk of the activity in the governmental fund occurs in the general fund. (See below) These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$75.5 million and expenditures of \$73.1 million, which includes \$14.1 million in expenditures from the Capital Project Fund for the construction of a new elementary school.

General Fund Budget Highlights

The revenue budget was \$58.8 million. Actual revenue fell short of the budget by \$124,361. Real estate taxes and state sources were \$81,782 less than the budget and federal sources were \$42,579 less than budgeted.

The expenditure budget was \$60.1 million compared to actual expenditures of \$59.0 million. Salaries and benefits from staff retirements, resignations and temporary vacancies accounted for the majority of savings. Transportation and the operation and maintenance of plant services also contributed to the savings.

The School District's General Fund's fund balance decreased from \$18.2 million to \$17.3 million. (See page 16)

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2015-2016, the School District had 75.1 million invested in land, buildings and equipment. (The amount invested is the historical cost less accumulated depreciation. This amount is strictly for accounting measurements and should not be confused with current/market values.)

SOUTHERN LEHIGH SCHOOL DISTRICT

Management Discussion and Analysis (MD&A)

For the Year Ended June 30, 2016

Debt Administration

At June 30, 2016, the School District's net non-electoral limit for debt (225% of borrowing base) was \$122,889,561. As of July 1, 2015 the School District had outstanding general obligation bonds and leases of \$66,179,846. At year-end June 30, 2016, the School District's net outstanding bonds and leases payable were \$76,286,341.

Concerning the Future

The School District expects to experience a slower growth in both its student population and its tax base. For more than the past decade, the rate of growth in the tax base has exceeded the rate of growth in student population and has generally been double the rate of growth in the student population. It is likely that tax increases will be necessary in future years to pay for the increasing costs associated with salaries, benefits, energy and other areas of the budget. The District will strive to minimize any necessary increases in taxes through sound fiscal management, expansion of the local tax base, planned gradual use of the fund balance and developing innovative alternative sources of funds.

The District will undoubtedly be affected by regional and national economic factors beyond its control.

Contacting the School District's Financial Management

The Management Discussion and Analysis is designed to provide our citizens, taxpayers, and creditors with a general overview of the School District's finances and to show the School District's accountability for the monies it receives. If you have questions about this analysis or need additional financial information, contact Jeremy Melber, Director of Business Services at Southern Lehigh School District, 5775 Main Street, Center Valley, Pennsylvania 18034.

SOUTHERN LEHIGH S.D.
SUPPL. INFO.
YEAR ENDING
JUNE 30, 2016

ANALYSIS OF NET POSITION

	Governmental Activities				Business Activities			Total		
	2015-2016	2014-2015	2013-2014		2015-2016	2014-2015	2013-2014	2015-2016	2014-2015	2013-2014
Current Assets	30,147,318	26,535,889	27,312,028		386,471	518,623	418,982	30,533,789	27,054,512	27,731,010
Noncurrent Assets	74,691,774	64,528,194	67,113,831		372,218	405,906	443,853	75,063,992	64,934,100	67,557,684
Total Assets & Def Outflow of Resources	104,839,092	91,064,083	94,425,859		758,689	924,529	862,835	105,597,781	91,988,612	95,288,694
Deferred Outflows of Resources	8,197,756	6,559,253			-	-		8,197,756	6,559,253	
Current and other liabilities	12,686,171	10,706,352	10,081,619		61,755	135,867	44,238	12,747,926	10,842,219	10,125,857
Noncurrent liabilities	157,510,072	139,248,965	70,749,644		22,729	26,152	23,837	157,532,801	139,275,117	70,773,481
Total liabilities	170,196,243	149,955,317	80,831,263		84,484	162,019	68,075	170,280,727	150,117,336	80,899,338
Deferred Inflows of Resources	492,000	5,161,000			-	-		492,000	5,161,000	
Net Position								-	-	-
Invested in capital assets, net of related debt	(1,594,567)	(1,651,652)	(3,276,870)		372,218	405,906	443,853	(1,222,349)	(1,245,746)	(2,833,017)
Capital Projects	5,002,311	1,726,451	2,329,774				-	5,002,311	1,726,451	2,329,774
Other Restrictions								-	-	-
Unrestricted (deficit)	(61,059,139)	(57,567,780)	14,541,692		301,987	356,604	350,907	(60,757,152)	(57,211,176)	14,892,599
Net Position	(57,651,395)	(57,492,981)	13,594,596		674,205	762,510	794,760	(56,977,190)	(56,730,471)	14,389,356
Total Liab, Def Inflows, & Net Position	104,839,092	91,064,083	94,425,859		758,689	924,529	862,835	105,597,781	91,988,612	95,288,694

SOUTHERN LEHIGH S.D.
SUPPL. INFO.
YEAR ENDING
JUNE 30, 2016

ANALYSIS OF CHANGES IN NET POSITION

	Governmental Activities				Business Activities			Total		
	2015-2016	2014-2015	2013-2014		2015-2016	2014-2015	2013-2014	2015-2016	2014-2015	2013-2014
Revenues and other sources										
Program Revenues:										
Charges for services	187,100	211,806	249,279		789,444	837,214	885,937	976,544	1,049,020	1,135,216
Operating grants and contributions	3,765,266	3,636,088	3,555,616		387,515	371,925	330,229	4,152,781	4,008,013	3,885,845
Capital grants and contributions	1,721,414	650,373	622,246		-			1,721,414	650,373	622,246
General Revenues:								-		
Property & Taxes levied for specific purposes	38,803,227	38,446,894	37,964,170					38,803,227	38,446,894	37,964,170
Other taxes	5,593,725	5,492,220	4,952,458					5,593,725	5,492,220	4,952,458
Grants, subsidies and contributions, unrestricted	9,170,500	8,316,576	7,723,975					9,170,500	8,316,576	7,723,975
Other	420,082	387,251	419,565		931	1,137	1,211	421,013	388,388	420,776
Total Revenue and other sources	59,661,314	57,141,208	55,487,309		1,177,890	1,210,276	1,217,377	60,839,204	58,351,484	56,704,686
Program expenses and other uses:								-		
Instruction	36,997,315	36,696,668	32,615,160					36,997,315	36,696,668	32,615,160
Support services								-		
Instructional student support	6,085,683	6,465,830	5,578,685					6,085,683	6,465,830	5,578,685
Administrative and financial support services	3,895,464	3,800,070	3,340,534					3,895,464	3,800,070	3,340,534
Operations and maintenance of plant services	5,456,833	5,451,681	5,314,650					5,456,833	5,451,681	5,314,650
Pupil transportation	3,788,078	3,853,251	3,889,891					3,788,078	3,853,251	3,889,891
Non-Instruction services								-		
Student activities	1,334,735	1,245,921	1,261,069					1,334,735	1,245,921	1,261,069
Community services								-		
Interest on long-term debt	2,261,620	1,892,364	2,048,546					2,261,620	1,892,364	2,048,546
Unallocated depreciation expense										
Food services										
Total Expenses	59,819,728	59,405,785	54,048,535		1,266,195	1,242,526	1,245,502	61,085,923	60,648,311	55,294,037
Increase (decrease) in net position	(158,414)	(2,264,577)	1,438,774		(88,305)	(32,250)	(28,125)	(246,719)	(2,296,827)	1,410,649
Net position July 1, 2015	(57,492,981)	13,594,596			762,510	794,760		(56,730,471)	14,389,356	
Prior period adj (GASB 68)-pension		(68,823,000)				-		-	(68,823,000)	
Net position July 1, 2014 restated	(57,492,981)	(55,228,404)			762,510	794,760		(56,730,471)	(54,433,644)	
Net position June 30, 2016	(57,651,395)	(57,492,981)			674,205	762,510		(56,977,190)	(56,730,471)	

SOUTHERN LEHIGH SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business- Type Activities	Total
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$20,399,169	\$ 138,556	\$20,537,725
Investments	6,327,651	0	6,327,651
Taxes receivable	937,348	0	937,348
Internal balances	(139,292)	139,292	0
Intergovernmental receivables	2,266,220	59,844	2,326,064
Other receivables	256,222	19,527	275,749
Inventories	100,000	29,252	129,252
Prepaid expenses	0	0	0
Total Current Assets	<u>30,147,318</u>	<u>386,471</u>	<u>30,533,789</u>
<u>Noncurrent Assets:</u>			
Capital assets (net of accumulated depreciation)			
Land	1,563,415	0	1,563,415
Site improvements	374,236	0	374,236
Building & improvements	56,188,231	0	56,188,231
Furniture & equipment	1,470,876	372,218	1,843,094
Construction in progress	15,095,016	0	15,095,016
Total Noncurrent Assets	<u>74,691,774</u>	<u>372,218</u>	<u>75,063,992</u>
Total Assets	<u>104,839,092</u>	<u>758,689</u>	<u>105,597,781</u>
Deferred Outflows of Resources	<u>8,197,756</u>	<u>0</u>	<u>8,197,756</u>
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Accounts payable	1,488,918	4,646	1,493,564
Accrued salaries and benefits	5,248,251	39,058	5,287,309
Payroll withholdings	528,530	5,008	533,538
Accrued interest payable	816,760	0	816,760
Current portion of long-term debt	4,603,712	0	4,603,712
Unearned revenues	0	13,043	13,043
Total Current Liabilities	<u>12,686,171</u>	<u>61,755</u>	<u>12,747,926</u>
<u>Noncurrent Liabilities:</u>			
Compensated absences payable	208,686	22,729	231,415
Lease payable	1,344,229	0	1,344,229
Bonds and notes payable	70,338,400	0	70,338,400
Net pension liability	80,047,000	0	80,047,000
Other postemployment benefits	5,571,757	0	5,571,757
Total Noncurrent Liabilities	<u>157,510,072</u>	<u>22,729</u>	<u>157,532,801</u>
Total Liabilities	<u>170,196,243</u>	<u>84,484</u>	<u>170,280,727</u>
Deferred Inflows of Resources	<u>492,000</u>	<u>0</u>	<u>492,000</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	(1,594,567)	372,218	(1,222,349)
Restricted for capital projects	5,002,311	0	5,002,311
Unrestricted	(61,059,139)	301,987	(60,757,152)
Total Net Position	<u>\$(57,651,395)</u> =====	<u>\$ 674,205</u> =====	<u>\$(56,977,190)</u> =====

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

SOUTHERN LEHIGH SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		<u>Program Revenues</u>		
		Charges for	Operating	Capital
<u>Expenses</u>	<u>Services</u>	Grants and	Grants and	
		<u>Contributions</u>	<u>Contributions</u>	
<u>Governmental Activities</u>				
Instruction	\$36,997,315	\$ 65,611	\$2,094,227	\$ 0
Instructional student support	6,085,683	0	70,068	0
Administrative and financial support services	3,895,464	0	0	0
Operation and maintenance of plant services	5,456,833	0	0	1,071,563
Pupil transportation	3,788,078	0	1,600,971	0
Student activities	1,334,735	121,489	0	0
Interest on long-term debt	2,261,620	0	0	649,851
Total Governmental Activities	<u>\$59,819,728</u>	<u>\$ 187,100</u>	<u>\$3,765,266</u>	<u>\$1,721,414</u>
<u>Business-type Activities</u>				
Food service	<u>\$ 1,266,195</u>	<u>\$ 789,444</u>	<u>\$ 387,515</u>	<u>\$ 0</u>
Total Business-type Activities	<u>1,266,195</u>	<u>789,444</u>	<u>387,515</u>	<u>0</u>
Total	<u>\$61,085,923</u>	<u>\$ 976,544</u>	<u>\$4,152,781</u>	<u>\$1,721,414</u>
=====	=====	=====	=====	=====

Property taxes, levied for general purposes, net
Taxes levied for specific purposes
Grants, subsidies and contributions net
restricted to specific programs
Investment earnings
Miscellaneous income
Transfers between governmental and
business-type activities

Total general revenues and transfers

Change in net position

Net position, July 1

Net position, June 30

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

SOUTHERN LEHIGH SCHOOL DISTRICT
STATEMENTS OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (34,837,477)	0	\$ (34,837,477)
(6,015,615)	0	(6,015,615)
(3,895,464)	0	(3,895,464)
(4,385,270)	0	(4,385,270)
(2,187,107)	0	(2,187,107)
(1,213,246)	0	(1,213,246)
<u>(1,611,769)</u>	<u>0</u>	<u>(1,611,769)</u>
<u>\$ (54,145,948)</u>	<u>\$ 0</u>	<u>\$ (54,145,948)</u>
\$ 0	\$ (89,236)	\$ (89,236)
\$ 0	(89,236)	(89,236)
<u>\$ (54,145,948)</u>	<u>\$ (89,236)</u>	<u>\$ (54,235,184)</u>
38,803,227	0	38,803,227
5,593,725	0	5,593,725
9,170,500	0	9,170,500
246,795	931	247,726
173,287	0	173,287
<u>0</u>	<u>0</u>	<u>0</u>
<u>53,987,534</u>	<u>931</u>	<u>53,988,465</u>
(158,414)	(88,305)	(246,719)
<u>(57,492,981)</u>	<u>762,510</u>	<u>(56,730,471)</u>
\$ (57,651,395)	\$ 674,205	\$ (56,977,190)
=====	=====	=====

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

SOUTHERN LEHIGH SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

<u>ASSETS AND DEFERRED</u> <u>OUTFLOWS OF RESOURCES</u>	<u>General</u>	<u>Capital</u> <u>Projects</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Cash and cash equivalents	\$14,353,657	\$ 6,045,512	\$ 20,399,169
Investments	6,327,651	0	6,327,651
Taxes receivable	937,348	0	937,348
Intergovernmental receivables	2,266,220	0	2,266,220
Other receivables	256,222	0	256,222
Inventories	100,000	0	100,000
Total Assets	<u>24,241,098</u>	<u>6,045,512</u>	<u>30,286,610</u>
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$24,241,098</u> =====	<u>\$ 6,045,512</u> =====	<u>\$ 30,286,610</u> =====
<u>LIABILITIES, DEFERRED INFLOWS</u> <u>OF RESOURCES AND FUND BALANCES</u>			
<u>Liabilities:</u>			
Due to other funds	\$ 139,292	\$ 0	\$ 139,292
Accounts payable	445,717	1,043,201	1,488,918
Compensated absences payable	657,135	0	657,135
Accrued salaries and benefits	4,591,116	0	4,591,116
Payroll withholdings	<u>528,530</u>	<u>0</u>	<u>528,530</u>
Total Liabilities	<u>6,361,790</u>	<u>1,043,201</u>	<u>7,404,991</u>
Deferred Inflows of Resources	<u>592,214</u>	<u>0</u>	<u>592,214</u>
<u>Fund Balances:</u>			
Nonspendable	100,000	0	100,000
Restricted	0	5,002,311	5,002,311
Committed	0	0	0
Assigned	12,987,094	0	12,987,094
Unassigned	<u>4,200,000</u>	<u>0</u>	<u>4,200,000</u>
Total Fund Balances	<u>17,287,094</u>	<u>5,002,311</u>	<u>22,289,405</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$24,241,098</u> =====	<u>\$ 6,045,512</u> =====	<u>\$ 30,286,610</u> =====

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

SOUTHERN LEHIGH SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES:			
Local sources	\$ 45,449,730	\$ 36,643	\$ 45,486,373
State sources	12,954,223	1,071,563	14,025,786
Federal sources	<u>316,256</u>	<u>0</u>	<u>316,256</u>
Total revenues	<u>58,720,209</u>	<u>1,108,206</u>	<u>59,828,415</u>
EXPENDITURES:			
Instruction	32,424,510	0	32,424,510
Support services	18,891,004	559,109	19,450,113
Noninstructional services	1,329,584	0	1,329,584
Capital outlay	0	13,508,098	13,508,098
Debt service	6,331,465	13,082	6,344,547
Refund of prior year revenues	<u>10</u>	<u>0</u>	<u>10</u>
Total expenditures	<u>58,976,573</u>	<u>14,080,289</u>	<u>73,056,862</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(256,364)</u>	<u>(12,972,083)</u>	<u>(13,228,447)</u>
OTHER FINANCING SOURCES (USES):			
Face value of bonds issued	0	15,330,000	15,330,000
Proceeds from refunding bonds	0	7,140,000	7,140,000
Bond premiums	0	1,192,943	1,192,943
Transfers in	0	700,000	700,000
Sale of fixed assets	77,480	0	77,480
Debt service - refunded bonds	0	(8,115,000)	(8,115,000)
Transfers out	<u>(700,000)</u>	<u>0</u>	<u>(700,000)</u>
Total other financing sources (uses)	<u>(622,520)</u>	<u>16,247,943</u>	<u>15,625,423</u>
Net change in fund balances	(878,884)	3,275,860	2,396,976
Fund Balances, July 1	<u>18,165,978</u>	<u>1,726,451</u>	<u>19,892,429</u>
Fund Balances, June 30	\$ 17,287,094 =====	\$ 5,002,311 =====	\$22,289,405 =====

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

SOUTHERN LEHIGH SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES:				
Local sources	\$ 45,706,270	\$ 45,706,270	\$ 45,449,730	\$ (256,540)
State sources	12,779,465	12,779,465	12,954,223	174,758
Federal sources	358,835	358,835	316,256	(42,579)
Total revenues	<u>58,844,570</u>	<u>58,844,570</u>	<u>58,720,209</u>	<u>(124,361)</u>
EXPENDITURES:				
Instruction	32,916,173	32,916,173	32,424,510	491,663
Support services	19,844,904	19,844,904	18,891,004	953,900
Noninstructional services	1,246,671	1,246,671	1,329,584	(82,913)
Capital outlay	0	0	0	0
Debt service	6,080,032	6,080,032	6,331,465	(251,433)
Refund of prior year revenues	0	0	10	(10)
Total expenditures	<u>60,087,780</u>	<u>60,087,780</u>	<u>58,976,573</u>	<u>1,111,207</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,243,210)</u>	<u>(1,243,210)</u>	<u>(256,364)</u>	<u>986,846</u>
OTHER FINANCING SOURCES (USES):				
Sale of fixed assets	0	0	77,480	77,480
Transfers out	(276,675)	(276,675)	(700,000)	(423,325)
Budgetary reserve	(397,936)	(397,936)	0	397,936
Total other financing sources (uses)	<u>(674,611)</u>	<u>(674,611)</u>	<u>(622,520)</u>	<u>52,091</u>
Net change in fund balances	(1,917,821)	(1,917,821)	(878,884)	1,038,937
FUND BALANCES, JULY 1	<u>15,275,717</u>	<u>15,275,717</u>	<u>18,165,978</u>	<u>2,890,261</u>
FUND BALANCES, JUNE 30	\$ 13,357,896	\$ 13,357,896	\$ 17,287,094	\$ 3,929,198
	=====	=====	=====	=====

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

SOUTHERN LEHIGH SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016

	Food Service Fund
<u>ASSETS AND DEFERRED</u>	
<u>OUTFLOWS OF RESOURCES</u>	
<u>Current Assets:</u>	
Cash and cash equivalents	\$ 138,556
Due from other funds	139,292
Intergovernmental receivables	59,844
Other receivables	19,527
Inventories	<u>29,252</u>
Total Current Assets	<u>386,471</u>
<u>Noncurrent Assets:</u>	
Furniture and equipment (net)	<u>372,218</u>
Total Assets	<u>758,689</u>
Deferred Outflows of Resources	<u>0</u>
Total Assets and Deferred Outflows of Resources	\$ 758,689 =====
<u>LIABILITIES, DEFERRED INFLOWS</u>	
<u>OF RESOURCES AND NET POSITION</u>	
<u>Current Liabilities:</u>	
Accounts payable	\$ 4,646
Accrued salaries and benefits	39,058
Payroll taxes payable	5,008
Unearned revenues	<u>13,043</u>
Total Current Liabilities	<u>61,755</u>
<u>Noncurrent Liabilities:</u>	
Compensated absences	<u>22,729</u>
Total Liabilities	<u>84,484</u>
Deferred Inflows of Resources	<u>0</u>
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	372,218
Unrestricted	<u>301,987</u>
Total Net Position	<u>674,205</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 758,689 =====

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

SOUTHERN LEHIGH SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Food Service Fund</u>
Operating Revenues	
Food service revenue	\$ 789,444
Total Operating Revenues	<u>789,444</u>
Operating Expenses	
Salaries	542,475
Employee benefits	193,555
Purchased property services	20,198
Other purchased services	2,276
Supplies	449,883
Depreciation	33,688
Dues and fees	<u>24,120</u>
Total Operating Expenses	<u>1,266,195</u>
Operating (Loss)	<u>(476,751)</u>
Nonoperating Revenues	
Earnings on deposits	931
State sources	105,079
Federal sources	<u>282,436</u>
Total Nonoperating Revenue	<u>388,446</u>
Income (loss) before contributions and transfers	(88,305)
Transfers in or out	<u>0</u>
Change in Net Position	(88,305)
Net Position, July 1	<u>762,510</u>
Net Position, June 30	\$ 674,205 =====

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

SOUTHERN LEHIGH SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Food Service Fund</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash received from users	\$ 792,429
Cash payments to employees	(545,898)
Cash payments to suppliers	(501,597)
Cash payments for other operating expenses	(268,652)
Net Cash Used by Operating Activities	<u>(523,718)</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>	
Grants and subsidies received for non-operating activities:	
State	103,169
Federal	259,354
Operating transfers in	<u>0</u>
Net Cash Provided by Non-Capital Financing Activities	<u>362,523</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Purchase of equipment	<u>(0)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(0)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Earnings on deposits	<u>931</u>
Net Cash Provided by Investing Activities	<u>931</u>
Net Decrease in Cash and Cash Equivalents	(160,264)
Cash and Cash Equivalents, July 1	<u>298,820</u>
Cash and Cash Equivalents, June 30	\$ 138,556 =====
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</u>	
Operating (Loss)	\$ (476,751)
Adjustments to reconcile operating (loss) to net cash used by operating activities:	
Depreciation	33,688
(Increase) decrease in accounts receivable	2,985
(Increase) decrease in inventory	(6,105)
Increase (decrease) in accounts payable	(54,368)
Increase (decrease) in accrued salaries	(24,474)
Increase (decrease) in payroll taxes payable	(7,452)
Increase (decrease) in unearned revenue	8,759
Total Adjustments	<u>(46,967)</u>
Net Cash Used by Operating Activities	\$ (523,718) =====
Non-cash investing, capital, and financing activities	None

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

SOUTHERN LEHIGH SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>Private Purpose Trust</u>	<u>Activity</u>	<u>Agency</u>	<u>Post- Employment Benefits</u>	<u>Total Fiduciary Funds</u>
<u>Assets</u>					
Cash and cash equivalents	\$ 69,946	\$ 190,097	\$ 13,013	\$2,364,613	\$2,637,669
Investments	148,713	90,711	0	0	239,424
Due from other funds	0	0	0	0	0
<u>Total Assets</u>	<u>218,659</u>	<u>280,808</u>	<u>13,013</u>	<u>2,364,613</u>	<u>2,877,093</u>
<u>Deferred Outflows of Resources</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Total Assets and Deferred Outflows of Resources</u>	<u>\$ 218,659</u> =====	<u>\$ 280,808</u> =====	<u>\$ 13,013</u> =====	<u>\$2,364,613</u> =====	<u>\$2,877,093</u> =====
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>					
<u>Liabilities:</u>					
Accounts payable	\$ 0	\$ 0	\$ 13,013	\$ 0	\$ 13,013
Payroll deductions and withholdings	0	0	0	0	0
Due to student organizations	0	280,808	0	0	280,808
<u>Total Liabilities</u>	<u>0</u>	<u>280,808</u>	<u>13,013</u>	<u>0</u>	<u>293,821</u>
<u>Deferred Inflows of Resources</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Net Position:</u>					
Restricted for legal purposes	218,659	0	0	2,364,613	2,583,272
<u>Total Net Position</u>	<u>218,659</u>	<u>0</u>	<u>0</u>	<u>2,364,613</u>	<u>2,583,272</u>
<u>Total Liabilities and Deferred Inflows of Resources and Net Position</u>	<u>\$ 218,659</u> =====	<u>\$ 280,808</u> =====	<u>\$ 13,013</u> =====	<u>\$2,364,613</u> =====	<u>\$2,877,093</u> =====

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

SOUTHERN LEHIGH SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Private Purpose Trust	Post- Employment Benefits	Total Fiduciary Funds
<u>ADDITIONS TO NET POSITION</u>			
Contributions	\$ 9,051	\$ 0	\$ 9,051
Other additions	<u>748</u>	<u>3,207</u>	<u>3,955</u>
Total additions to net position	<u>9,799</u>	<u>3,207</u>	<u>13,006</u>
<u>DEDUCTIONS FROM NET POSITION</u>			
Scholarships awarded	8,500	0	8,500
Other deductions	<u>0</u>	<u>0</u>	<u>0</u>
Total deductions from net position	<u>8,500</u>	<u>0</u>	<u>8,500</u>
Change in net position	1,299	3,207	4,506
Net Position, July 1	<u>217,360</u>	<u>2,361,406</u>	<u>2,578,766</u>
Net Position, June 30	\$ 218,659 =====	\$2,364,613 =====	\$2,583,272 =====

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

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 Summary of Significant Accounting Policies

The accounting policies and accompanying financial statements of Southern Lehigh School District (the District) conform to generally accepted accounting principles as applicable to governmental units. The District applies relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Principles Determining Scope of Reporting Entity

The Board of School Directors, a nine member group, has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Southern Lehigh School District, in accordance with an act established by the Commonwealth legislature. The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the financial reporting entity was made by applying the criteria set forth by GASB Statement 61. The criteria for including a potential component unit within the financial reporting entity is the significance of the potential component unit's operational or financial relationship with the District. Based upon the application of these criteria, there are no component units to be included in the financial reporting entity of the District.

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities which report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 1 Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. Substantially all tax revenues, Federal and State aid

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

(except aid restricted for use in the Special Revenue Fund) and other operating revenues are accounted for in the General Fund. This fund also accounts for expenditures and transfers as appropriated in the budget which provides for the District's day-to-day operations.

The Capital Projects Fund accounts for resources used to construct or acquire fixed assets and capital improvements. Resources of the capital projects fund are derived principally from budget transfers, long-term debt proceeds, and investment earnings.

The District reports the following major proprietary fund:

The Food Service Fund is the District's proprietary fund established to account for all revenues, food purchases, costs, and expenses for the food service.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods. The principal operating revenue of the District is the sale of food to students and other related organizations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District also reports the following fund types:

The private purpose trust is used to account for resources legally held in trust to award scholarships to students, and to pay employee benefits for unemployment compensation and vision expenditures. All resources of the fund, including earnings on investments, may be used to support the fund's activities. There is no requirement that any portion of these resources must be preserved as capital.

The agency and activity funds are established to administer resources received and held by the District in a fiduciary capacity for others. Use of these funds facilitates the discharge of responsibilities placed upon the District by virtue of law or other authority. These funds are established to account for the resources of student groups and payroll taxes which is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

The post-employment benefits fund was established to account for resources reserved for the payment of benefits related to GASB 45.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 1 Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) In accordance with State law and District procedures, prior to May 31, the District Superintendent and Business Manager submit to the Board of School Directors, with whom the legal level of budgetary control resides, a proposed budget for the fiscal year beginning the following July 1. The budget includes proposed expenditures and the means of financing them for the upcoming year. The only legally adopted budget is for the General Fund.
- 2) Public hearings are conducted to obtain taxpayer comment concerning the proposed budget.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.
- 4) Each month the administration prepares a detailed budget report. The report cites the past month and year-to-date activity, as well as encumbrances and unencumbered balances by account.
- 5) All modifications, transfers and amendments must be approved by the Board of School Directors.
- 6) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- 7) The budget for the General Fund is adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is employed in governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 1 Summary of Significant Accounting Policies (Continued)

Cash and Investments

Statutes allow the District to invest in obligations of the U.S. Treasury and U.S. Agencies, savings accounts or time deposits of institutions insured by FDIC and deposits in excess of insured amounts if collateralized by the depository.

Prepaid Expenses

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

Property Taxes Receivable

The property tax calendar for the fiscal year is as follows:

July 1	-	Levy Date
July 1 to August 31	-	2% Discount Period
September 1 to October 31	-	Face Payment Period
November 1 to December 31	-	10% Penalty Period
January 1	-	Lien Date

The tax rate for the year ended June 30, 2016 was \$15.62 per \$1,000 on a taxable valuation of \$2,485,026,110.

Inventory

Inventory in the General Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time the individual inventory items are purchased. Inventory of the Food Service Fund is valued at the lower of cost or market. Inventories are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation and Amortization

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the financial statements.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 1 Summary of Significant Accounting Policies (Continued)

Capital Assets, Depreciation and Amortization (Continued)

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Vehicles	8
Furniture, machinery and equipment	10 - 20
Computers	5

Compensated Absences

Sick leave is recorded as an expenditure in the year paid. Upon retirement, the District compensates employees for unused accumulated sick leave at the rate of \$10.00 to \$43.00 per day dependent upon their job classification, provided that the employee has completed 15 years of service within the District and has met the requirements of retirement with the Public School Employees' Retirement System. Administrators must have completed 10 years of service within the District.

District employees who are required to work a twelve-month schedule are credited with vacation rates which vary with length of service and job classification.

Long-term Obligations

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using a method that approximates the effective interest method.

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

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 1 Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Transfers

Legally authorized payments or authorizations to make payments from a fund receiving revenue to a fund through which the resources are to be expended are reported as operating transfers.

NOTE 2 Deposits and Investments

The District's current investment policy is to place as much of the available funds into interest bearing accounts as feasible. Current cash requirements are kept in bank demand deposits. The District does not pool cash of the various funds.

Deposits

The District requires all deposits and investments to be covered by federal depository insurance or to be fully collateralized by the financial institution issuing the investment or acquiring the deposit. Deposits that are not fully insured by the Federal Deposit Insurance Corporation are collateralized using the pooled asset method to 100% of value as required by Pennsylvania law. The securities pledged as collateral are held by the trust department of a financial institution or by its agents in the financial institution's name.

The District's deposits are categorized to give an indication of the level of risk assumed by the District. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Uncollateralized.

As of June 30, 2016, the carrying amount of the District's deposits is \$22,038,201 and the bank balance is \$23,584,473. Of the bank balance, \$1,266,419 is covered by federal depository corporation insurance.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 2 Deposits and Investments (Continued)

Deposits (Continued)

Deposits, categorized by level of risk, are:

	<u>1</u>	<u>Categories</u>	<u>2</u>	<u>3</u>	<u>Bank</u> <u>Balance</u>	<u>Carrying</u> <u>Amount</u>
Cash	\$1,266,419	\$	0	\$22,318,054	\$23,584,473	\$22,038,201
<u>Uncategorized</u>						
Pennsylvania Invest					28	28
Pennsylvania School District						
Liquid Asset Fund					617,841	677,685
Pennsylvania Local Government						
Investment Trust					<u>471,318</u>	<u>459,480</u>
					\$24,673,660	\$23,175,394
					=====	=====

The District deposits cash in the Pennsylvania School District Liquid Asset Fund (PSDLAF), the Pennsylvania Local Government Investment Trust (PLGIT), and Pennsylvania Invest, which are governmental cash management pools. The purpose of the pools are to allow governmental units to maximize investment potential through cash pooling while providing security and liquidity. The investments of the pools are held in safekeeping by the investment custodians. Although the PSDLAF, PLGIT and Pennsylvania Invest portfolios contain investments that are individually insured and guaranteed, the deposits are not categorized as to credit risk, as required by Governmental Accounting Standards Board Statement No. 3.

Investments

Authorized types of investments for the District funds are as follows:

- a) United States Treasury Bills and Notes.
- b) Short-term obligations of the United States, its agencies or instrumentalities.
- c) Deposits in savings accounts or time deposits insured by the Federal Deposit Insurance Corporation or similar insurance and provided that approved collateral for public deposits is pledged by the depository for excess amounts over the insured maximum.
- d) Obligations of the United States and the Commonwealth of Pennsylvania or any of their agencies or instrumentalities backed by the full faith and credit of the United States, Commonwealth of Pennsylvania or political subdivisions.
- e) Shares of an investment company provided that the only investments of the company are in the investments listed in a) through d) above.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 2 Deposits and Investments (Continued)

Investments (Continued)

Investments made by the District are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the District or its agent in the District's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the District's name.

Investments, categorized by level of risk, are:

	<u>1</u>	<u>2</u>	<u>Categories</u> <u>3</u>	<u>Fair</u> <u>Value</u>	<u>Carrying</u> <u>Amount</u>
U.S. Government Securities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Gov't money market fund	0	0	0	0	0
Certificates of deposit	0	0	6,567,075	6,567,075	6,567,075
				\$ 6,567,075	\$ 6,567,075
				=====	=====

NOTE 3 Taxes Receivable and Deferred Inflows

Property taxes are collected and remitted to the District by three local tax collectors. Earned income taxes are collected and remitted to the District by Berkheimer Associates.

In the governmental fund financial statements, property taxes receivable are recorded in the General Fund after the taxes are levied. At June 30, 2016, the receivables represent delinquent property taxes, as well as current earned income taxes and interim real estate taxes. Delinquent property taxes not paid within sixty days of June 30 are recorded as deferred inflows.

In the government-wide financial statements, taxes receivable and related revenue include all amounts due to the District regardless of when cash is received. Over time, substantially all property taxes are collected.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 4 Interfund Receivable and Payable Balances

The District had interfund receivable and payable balances in the following amounts at June 30, 2016:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 0	\$ 139,292
Food Service Fund	139,292	0
Total	\$ 139,292	\$ 139,292
	=====	=====

The general fund owes the food service fund for state subsidies received for food service lunches, retirement and social security benefits that have not been transferred by the general fund for the last year. The amount is expected to be paid within one year.

NOTE 5 Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are comprised of amounts due from the state and federal governments for grants and subsidies. Revenue is recorded as earned when eligibility requirements are satisfied. The receivable balance consists of the following at June 30, 2016:

	<u>General Fund</u>	<u>Food Service Fund</u>
Federal grant revenues	\$ 122,747	\$ 54,783
State subsidy revenues	2,143,473	5,061
Total	\$2,266,220	\$ 59,844
	=====	=====

Grant revenues unearned in the financial statements represent inventory of the Food Service Fund from donated commodities received from the federal government.

NOTE 6 Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Balance 07/01/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/16</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 1,563,415	\$ 0	\$ 0	\$ 1,563,415
Construction in progress	1,263,377	13,831,639	0	15,095,016
Total capital assets not depreciated	2,826,792	13,831,639	0	16,658,431
Capital assets, being depreciated:				
Site improvements	790,167	0	0	790,167
Buildings and improvements	106,432,593	83,066	0	106,515,659
Furniture and equipment	8,804,786	156,285	(91,785)	8,869,286
Total capital assets being depreciated	116,027,546	239,351	(91,785)	116,175,112

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 6 Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance 07/01/15	Increases	Decreases	Balance 06/30/16
<u>Governmental activities:</u>				
Less accumulated depreciation for:				
Site improvements	(387,353)	(28,578)	0	(415,931)
Buildings and improvements	(47,058,509)	(3,268,919)	0	(50,327,428)
Furniture and equipment	(6,880,282)	(609,913)	91,785	(7,398,410)
Total accumulated depreciation	(54,326,144)	(3,907,410)	91,785	(58,141,769)
Total capital assets, being depreciated, net	61,701,402	(3,668,059)	0	58,033,343

Governmental activities capital assets, net	\$64,528,194	\$10,163,580	\$ 0	\$ 74,691,774
	=====	=====	=====	=====

	Balance 07/01/15	Increases	Decreases	Balance 06/30/16
<u>Business-type activities:</u>				
Capital assets, being depreciated:				
Furniture and equipment	\$ 998,466	\$ 0	\$ 0	\$ 998,466
Less accumulated depreciation	(592,560)	(33,688)	0	(626,248)
Business-type activities capital assets, net	\$ 405,906	\$ (33,688)	\$ 0	\$ 372,218
	=====	=====	=====	=====

Depreciation expense was charged to functions as follows:

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
Instruction	\$3,540,016	Food service	\$ 33,688
Instructional support	362,243		
Noninstruction	5,151		
Total	\$3,907,410		\$ 33,688
	=====		=====

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 7 Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities only.

The following is a summary of long-term debt transactions for the year ended June 30, 2016:

	Balance 7/1/15	Additions	Reductions	Balance 6/30/16
General obligation bonds and notes-				
Series of 2009A	\$ 8,250,000	\$ 0	\$ 8,250,000	\$ 0
Series of 2010	10,435,000	0	245,000	10,190,000
Series of 2011	9,940,000	0	20,000	9,920,000
Series of 2012	4,410,000	0	1,315,000	3,095,000
Series of 2013A	18,150,000	0	1,160,000	16,990,000
Series of 2013AA	9,625,000	0	15,000	9,610,000
Series of 2014	3,509,400	0	1,107,000	2,402,400
Series of 2015	0	15,330,000	0	15,330,000
Series of 2015A	0	7,140,000	0	7,140,000
Lease payable	1,860,446	0	251,505	1,608,941
Total general long-term debt	\$66,179,846	\$22,470,000	\$12,363,505	\$76,286,341
	=====	=====	=====	=====

The following is a summary of the details of outstanding debt as of June 30, 2016:

General Obligation Bonds Series of 2009A: date of issue was October 15, 2009; registered bonds; original amount was \$8,465,000; yield to maturity varies from 2.00% to 3.50%. These bonds were paid off in 2015 from the proceeds of the 2015A issue.

General Obligation Bonds Series of 2010: date of issue was August 23, 2010; registered bonds; original amount was \$10,695,000; yield to maturity varies from 2.00% to 3.00%; maturity date is September 1, 2023.

General Obligation Bonds Series of 2011: date of issue was November 7, 2011; registered bonds; original amount was \$9,995,000; yield to maturity varies from 2.00% to 3.125%; maturity date is July 1, 2025.

General Obligation Bonds Series of 2012: date of issue was May 7, 2012; registered bonds; original amount was \$6,960,000; yield to maturity varies from 2.00% to 4.00%; maturity date is September 1, 2017.

General Obligation Bonds Series of 2013A: date of issue was March 12, 2013; registered bonds; original amount was \$19,400,000; yield to maturity varies from 2.00% to 4.00%; maturity date is September 1, 2027.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 7 Long-Term Debt (Continued)

General Obligation Bonds Series of 2013AA: date of issue was March 12, 2013; registered bonds; original amount was \$9,665,000; yield to maturity varies from 0.30% to 4.00%; maturity date is September 1, 2027.

General Obligation Note Series of 2014: date of issue was April 24, 2014; original amount was \$4,646,400; yield to maturity is .85%; maturity date is September 1, 2017.

General Obligation Note Series of 2015: date of issue was September 16, 2015; original amount was \$15,330,400; yield to maturity varies from .54% to 3.20%; maturity date is September 1, 2030.

General Obligation Note Series of 2015A: date of issue was September 16, 2015; original amount was \$7,140,000; yield to maturity varies from .54% to 2.30%; maturity date is September 1, 2023.

Lease payable: date of issue was November 23, 2005; original amount was \$3,549,805; interest rate to maturity is 3.865%; maturity date is November 21, 2021.

Annual debt service requirements to maturity for general obligation debt including interest are as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 4,603,712	\$ 2,306,514	\$ 6,910,226
2018	4,731,898	2,182,305	6,914,203
2019	4,832,889	2,029,268	6,862,157
2020	5,017,909	1,853,105	6,871,014
2021	5,213,584	1,667,220	6,880,804
2022	5,201,349	1,486,685	6,688,034
2023	5,225,000	1,319,616	6,544,616
2024	5,405,000	1,141,037	6,546,037
2025	5,555,000	969,588	6,524,588
2026	5,670,000	810,978	6,480,978
2027	5,695,000	653,656	6,348,656
2028	5,740,000	490,331	6,230,331
2029	5,660,000	319,331	5,979,331
2030	5,830,000	146,981	5,976,981
2031	1,905,000	29,766	1,934,766
	<u>\$76,286,341</u>	<u>\$17,406,381</u>	<u>\$ 93,692,722</u>
	=====	=====	=====

NOTE 8 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 and deductions from PSERS's

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 8 Pension Plan (Continued)

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.

General Information about the Pension Plan

Plan Description

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

PSER provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 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% 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.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 8 Pension Plan (Continued)

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 - Members

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

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

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (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%.

Contributions - Employers

The school district's contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$6,031,756 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$80,047,000 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 8 Pension Plan (Continued)

the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was .1848 percent, which was an increase of .0024 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$7,576,253. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 0	\$ 330,000
Net difference between projected and actual investment earnings	0	162,000
Changes in proportions	2,166,000	0
Contributions subsequent to the measurement date	<u>6,031,756</u>	<u>0</u>
Total	\$ 8,197,756 =====	\$ 492,000 =====

\$ 6,031,756 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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 ending June 30:

2016	\$ 183,000
2017	183,000
2018	183,000
2019	1,125,000

Actuarial Assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- * Actuarial cost method - Entry Age Normal - level % of pay
- * Investment return - 7.50%, includes inflation at 3.00%

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 8 Pension Plan (Continued)

- * Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1.00%, and merit or seniority increases of 1.50%
- * Mortality rates were 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, 2014 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	100.0%	
	=====	

The chart above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major class as of June 30, 2015.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 8 Pension Plan (Continued)

Discount Rate

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

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

The following 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 <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
District's proportionate share of the net pension liability	\$98,665,000	\$80,047,000	\$64,398,000

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 the System's website at www.psers.state.pa.us.

NOTE 9 Litigation

Various tax appeals have been brought against the District. Defenses are being conducted by counsel for the District or the insurance carrier, and losses, if any, are not anticipated to have a significant effect on the District's financial statements.

NOTE 10 Contingencies

The District participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs including the year ended June 30, 2016,

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 10 Contingencies (Continued)

have not yet been conducted. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTE 11 Risk Management

Significant losses are covered by commercial insurance for all major programs. There has been no significant reduction in insurance coverages. Settlement amounts have not exceeded insurance coverages for the current year or the three prior years.

NOTE 12 Joint Ventures

The District is a participating member of the Lehigh Career and Technical Institute (the Institute). The Institute is governed by a joint board consisting of school directors from each member district. The board of directors from each member district must approve the Institute's annual operating budget. Each member district participates in the operating, capital, debt service and other costs of the Institute based on the number of students attending the Institute from each district. For the year ended June 30, 2016, the District's share was \$1,059,233. The Institute issues separate financial statements which are available to the public.

The District also participates with the Lehigh Carbon Community College (the College) and the Carbon Lehigh Intermediate Unit (the Unit). The District's involvement is limited to District member representatives serving on committees of the Boards of the College and the Unit as well as approving their annual budgets. The District shares in the operating, capital and other costs of the College and Unit, which amounted to \$329,224 and \$286,936, respectively, for the year ended June 30, 2016. The College and the Unit issue separate financial statements which are available to the public.

NOTE 13 Postemployment Benefits Other Than Pensions

In addition to the pension benefits described in Note 8, the District provides certain post-retirement healthcare benefits to its retirees who meet eligibility requirements based upon whether they are entitled to receive a pension allowance or a disability allowance through PSERS. Post-retirement benefits consist of medical, prescription drug, dental and life insurance.

The District's contribution is based on projected pay as you go financing requirements. As of June 30, 2016, the District has made accumulated contributions and investment earnings of \$2,364,613 to fund these benefits.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 13 Postemployment Benefits Other Than Pensions (Continued)

Retirees receiving benefits are required to pay a certain portion of the premiums based upon their group classification.

The District's annual OPEB cost for the plan is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed sixteen years.

Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following table shows the components of the District's annual OPEB cost for the year, the amount of estimated contributions to the plan, and changes in the District's estimated net OPEB obligations, as well as assumptions used to calculate the estimated net OPEB obligation:

Annual required contribution (ARC)	\$ 1,376,994
Estimated interest on net OPEB obligation	220,960
Estimated adjustment to ARC	(507,103)
Annual OPEB cost	1,090,851
Contributions made (estimated)	(429,318)
Estimated increase in net OPEB obligation	661,533
Estimated net OPEB obligation beginning of year	4,910,224
Estimated net OPEB obligation end of year	\$ 5,571,757
	=====

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 16 Fund Balance Reporting (Continued)

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

1. Nonspendable - this fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. Items associated with this category include inventories, prepaids, long-term loans and notes receivable, and property held for resale, unless the proceeds are restricted, committed, or assigned.

2. Restricted - this fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Enabling legislation authorizes the District to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the District can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use the resources created by enabling legislation only for the purposes specified by the legislation.

3. Committed - this fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action by the School Board of Directors who is the highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the School Board of Directors removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the School Board, separate from authorization to raise the underlying revenue, therefore, compliance with those constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

4. Assigned - this fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

5. Unassigned - this fund balance category is the residual classification for the government's General Fund and includes all spendable amounts not contained in the other classifications.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

NOTE 16 Fund Balance Reporting (Continued)

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The following represents the fund balance classifications of the District at June 30, 2016:

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Inventories	\$ 100,000	\$ 0	\$ 100,000
Prepaid expenses	0	0	0
Restricted for:			
Capital improvements	0	5,002,311	5,002,311
Assigned for:			
Retirement increases	4,000,000	0	4,000,000
Other post-employment benefits	4,000,000	0	4,000,000
Health insurance increases	1,487,094	0	1,487,094
Capital construction	3,500,000	0	3,500,000
Unassigned:			
Unassigned	<u>4,200,000</u>	<u>0</u>	<u>4,200,000</u>
Total fund balances	\$17,287,094 =====	\$ 5,002,311 =====	\$22,289,405 =====

SOUTHERN LEHIGH SCHOOL DISTRICT
POSTEMPLOYMENT BENEFIT PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
(An Integral Part of the Financial Statements)

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)
6/30/2015	\$ 0	\$ 7,974,433	\$ 7,974,433	0.0%	\$21,605,860	36.9%
6/30/2013	0	7,230,340	7,230,340	0.0%	20,688,648	34.9%
6/30/2011	0	6,538,151	6,538,151	0.0%	19,781,797	33.1%
6/30/2009	0	6,614,420	6,614,420	0.0%	19,744,669	33.5%
6/30/2007	0	6,423,224	6,423,224	0.0%	15,863,018	40.5%

SOUTHERN LEHIGH SCHOOL DISTRICT
PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONAL SHARE
OF THE NET PENSION LIABILITY
(An Integral Part of the Financial Statements)

Last 10 Fiscal Years*

	<u>06/30/16</u>	<u>06/30/15</u>	<u>06/30/14</u>
District's proportion of the net pension liability	0.1848%	0.1824%	0.1770%
District's proportionate share of the net pension liability	\$80,047,000	\$72,195,000	\$72,457,000
District's covered-employee payroll**	\$23,775,541	\$23,278,691	\$22,713,727
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	336.68%	310.13%	319.00%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%	54.49%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

** District's covered-employee payroll for this schedule was furnished by PSERS, and is one year behind.

SOUTHERN LEHIGH SCHOOL DISTRICT
PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
(An Integral Part of the Financial Statements)

Last 10 Fiscal Years*

	<u>06/30/16</u>	<u>06/30/15</u>	<u>06/30/14</u>
Contractually required contribution	\$ 6,031,756	\$ 4,778,253	\$ 3,634,000
Contributions in relation to the contractually required contribution	<u>6,031,756</u>	<u>4,778,253</u>	<u>3,634,000</u>
Contribution deficiency (excess)	0	0	0
District's covered-employee payroll	\$24,127,024	\$23,775,541	\$23,278,691
Contributions as a percentage of covered-employee payroll	25.00%	20.50%	15.61%

Amounts are based on actual contributions during the fiscal year.

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

SOUTHERN LEHIGH SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

<u>Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Date</u>	<u>Program or Award Amount</u>
U.S. Dept. of Agriculture					
Passed through the PA					
Dept. of Education:					
National School Lunch Program	I	10.555	N/A	7/1/15-6/30/16	N/A
National School Lunch Program	I	10.555	N/A	7/1/14-6/30/15	N/A
Passed through the PA					
Dept. of Agriculture:					
Value of USDA					
Donated Food	I	10.555	N/A	7/1/15-6/30/16	N/A
Total U.S. Dept. of Agriculture					
U.S. Dept. of Education					
Passed through the PA					
Dept. of Education:					
Title I Improve Basic Pr.	I	84.010	13-160407	7/1/15-6/30/16	\$ 236,439
Title I Improve Basic Pr.	I	84.010	13-150407	7/1/14-6/30/15	\$ 201,608
IDEA Grants to States	I	84.027	62-160021	7/1/15-6/30/16	\$ 314,857
IDEA Grants to States	I	84.027	62-150021	7/1/14-6/30/15	\$ 336,757
IDEA Preschool Grants	I	84.173	131-160021	7/1/15-6/30/16	\$ 282
IDEA Preschool Grants	I	84.173	131-150021	7/1/14-6/30/15	\$ 2,096
Title II Improve Teach.	I	84.367	20-160407	7/1/15-6/30/16	\$ 56,229
Title II Improve Teach.	I	84.367	20-150407	7/1/14-6/30/15	\$ 56,020

Total U.S. Dept. of Education

Total Federal Assistance

Source Codes: I - Indirect Funding
D - Direct Funding

Footnotes:

- (a) Total amount of commodities received.
- (b) Beginning inventory at July 1.
- (c) Total amount of commodities used.
- (d) Ending inventory June 30.

There were no federal awards passed through to subrecipients.

See notes to the Schedule of Expenditures of Federal Awards.

SOUTHERN LEHIGH SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED JUNE 30, 2016

<u>Total</u> <u>Received</u> <u>for the Year</u>	<u>Accrued or</u> <u>(Deferred)</u> <u>Revenue at</u> <u>7/1/15</u>	<u>Revenue</u> <u>Recognized</u>	<u>Expenditures</u>	<u>Accrued or</u> <u>(Deferred)</u> <u>Revenue at</u> <u>6/30/16</u>
\$ 160,978.13	\$ 0.00	\$ 215,761.46	\$ 215,761.46	\$ 54,783.33
31,700.50	31,700.50	0.00	0.00	0.00
(a)	(b)		(c)	(d)
<u>75,434.13</u>	<u>(4,284.03)</u>	<u>66,674.86</u>	<u>66,674.86</u>	<u>(13,043.30)</u>
<u>\$ 268,112.76</u>	<u>\$ 27,416.47</u>	<u>\$ 282,436.32</u>	<u>\$ 282,436.32</u>	<u>\$ 41,740.03</u>
\$ 173,237.40	\$ 0.00	\$ 215,258.32	\$ 215,258.32	\$ 42,020.92
66,225.30	21,456.85	44,768.45	44,768.45	0.00
245,609.85	0.00	314,856.67	314,856.67	69,246.82
77,988.25	77,988.25	0.00	0.00	0.00
0.00	0.00	282.00	282.00	282.00
2,096.00	2,096.00	0.00	0.00	0.00
45,032.13	0.00	56,229.00	56,229.00	11,196.87
<u>7,421.71</u>	<u>7,421.71</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<u>617,610.64</u>	<u>108,962.81</u>	<u>631,394.44</u>	<u>631,394.44</u>	<u>\$ 122,746.61</u>
\$ 885,723.40	\$136,379.28	\$ 913,830.76	\$ 913,830.76	\$ 164,486.64
=====	=====	=====	=====	=====

Total expenditures per above schedule \$ 913,830.76

Programs selected for testing:

IDEA Grants to States	\$ 314,856.67
IDEA Preschool Grants	282.00
	<u>\$ 315,138.67</u>
	=====

There were no federal awards passed through to subrecipients.

See notes to the Schedule of Expenditures of Federal Awards.

SOUTHERN LEHIGH SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

NOTE 1 Summary of Significant Accounting Policies

Basis of Accounting

The revenues and expenditures recognized on this schedule are reported on the accrual basis of accounting. Such revenues and expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Southern Lehigh School District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Inventory

It is the policy of Southern Lehigh School District to expense the value of all donated commodities used during the year. Recognition is given to inventories of donated goods on hand at year end on this schedule.

NOTE 2 Federal Revenue Summary

The following is a summary of federal revenue by CFDA number:

10.555	\$ 282,436.32
84.010	260,026.77
84.027	314,856.67
84.173	282.00
84.367	<u>56,229.00</u>
Total	\$ 913,830.76
	=====

NOTE 3 Schedule Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Southern Lehigh School District under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Southern Lehigh School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Southern Lehigh School District.

SOUTHERN LEHIGH SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? NO

Reportable condition(s) identified
not considered to be material weaknesses? NONE

Noncompliance material to financial
statements noted? NO

Federal Awards

Internal control over major programs:

Material weakness(es) identified? NO

Reportable condition(s) identified
not considered to be material weaknesses? NONE

Type of auditors' report issued on compliance
for major programs: Unmodified

Any audit findings disclosed that are required
to be reported in accordance with the Uniform
Guidance? NO

Major programs:

<u>CFDA No.</u>	<u>Name of Federal Program</u>
84.027	Grants to States (IDEA, Part B)
84.173	Preschool Grants (IDEA Preschool)

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 750,000
=====

Auditee qualified as a low risk auditee? YES

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SOUTHERN LEHIGH SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
YEAR ENDED JUNE 30, 2016

SUMMARY OF PRIOR AUDIT FINDINGS

NONE

FRANCE, ANDERSON, BASILE and COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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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 of School Directors
Southern Lehigh School District
Center Valley, 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 Southern Lehigh School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 16, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Francis Anderson, Bonnell and Company, P.C.

Emmaus, Pennsylvania
January 16, 2017

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

To the Board of Directors
Southern Lehigh School District
Center Valley, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Southern Lehigh School District's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of their major federal programs for the year ended June 30, 2016. Southern Lehigh School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Southern Lehigh School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southern Lehigh 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 Southern Lehigh School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Southern Lehigh School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Southern Lehigh 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 Southern Lehigh School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southern Lehigh 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Lance, Anderson, Boudle and Company, P.C.

Emmaus, Pennsylvania

January 16, 2017

SOUTHERN LEHIGH SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND DISBURSEMENTS -
ACTIVITY FUND ACCOUNTS
YEAR ENDED JUNE 30, 2016

	Balance 7/01/15	Receipts	Disburse- ments	Balance 6/30/16
HIGH SCHOOL:				
Art Show Account	\$ 566	\$ 441	\$ 945	\$ 62
Band Fund	8,800	534	2,928	6,406
Cheerleaders	5	0	0	5
Class of 2015	7,630	50	7,680	0
Class of 2016	2,605	9,343	9,989	1,959
Class of 2017	1,110	42,666	36,465	7,311
Class of 2018	1,441	4,964	3,179	3,226
Class of 2019	0	390	0	390
Drama Club	920	6,949	5,754	2,115
Ecology Club	0	0	0	0
Faculty Fund	900	2,171	1,501	1,570
Future Business Leaders	1,085	11,782	9,150	3,717
Guidance	14,431	32,668	34,157	12,942
High School Fund	53,442	51,315	59,195	45,562
Invested Interest	2,278	694	0	2,972
Interact	93	0	0	93
Key Club	346	5,037	3,907	1,476
Motion/Colorguard	0	0	0	0
Musical	2,068	26,338	24,493	3,913
National Honor Society	2,070	4,071	4,028	2,113
Newspaper "Spotlight"	727	0	112	615
Orchestra	927	0	0	927
Robotics Club	38	8,600	8,500	138
S.A.D.D.	1,524	0	688	836
Scholastic Scrimmage	1,585	1,630	865	2,350
Senior High Chorus	3,451	1,204	3,768	887
Ski Intramurals	0	0	0	0
Spanish Club	17	710	710	17
Spartan Enterprises	1,899	3,221	3,530	1,590
Speech Debate Team	4,244	36,635	40,813	66
Student Council	7,161	21,576	21,674	7,063
Summer School	282	0	0	282
Sunshine Fund	251	590	568	273
Teen Counseling	31	0	31	0
Tutorial Account	147	0	0	147
Varsity Club	420	485	667	238
Yearbook	5,431	34,883	10,378	29,936
Young Americans	91	0	91	0
Total High School	128,016	308,947	295,766	141,197
Middle School	57,367	63,198	62,483	58,082
Elementary Schools:				
Hopewell	6,009	14,261	15,377	4,893
Intermediate	22,474	28,117	28,485	22,106
Liberty Bell	4,679	2,774	2,705	4,748
Lower Milford	50,933	19,918	21,069	49,782
TOTAL	\$269,478	\$437,215	\$425,885	\$280,808
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