

**Shanksville-Stonycreek School District
Shanksville, Pennsylvania**

Audit Report

**For the Year Ended
June 30, 2013**

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List of Report Distribution

January 3, 2014

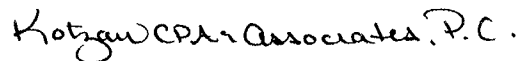
To the Members of the Board
Shanksville-Stonycreek School District
P.O. Box 128
1325 Cornerstone Road
Shanksville, PA 15560-0128

Board Members:

Not later than six months after the fiscal year end, Shanksville-Stonycreek School District must distribute the audit report as follows:

One (1) copy to: Department of Education
Bureau of Budget and Fiscal Management
333 Market Street
Harrisburg, PA 17126-0333

Sincerely,


Kotzan CPA & Associates, P.C.

Independent Auditors' Report

To the Members of the Board
Shanksville-Stonycreek School District
P.O. Box 128
1325 Cornerstone Road
Shanksville, PA 15560-0128

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Shanksville-Stonycreek School District as of and for the year ended June 30, 2013, 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 includes 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, business-type activities, each major fund, and the aggregate remaining fund information of the Shanksville-Stonycreek School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

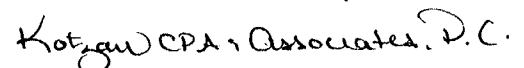
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 17 and page 54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2014 on our consideration of Shanksville-Stonycreek School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shanksville-Stonycreek School District's internal control over financial reporting and compliance.


Kotzan CPA & Associates, P.C.
Johnstown, Pennsylvania
January 3, 2014

Management's Discussion and Analysis

Shanksville-Stonycreek School District

2012-2013

The Management's Discussion and Analysis (MD&A) of the Shanksville-Stonycreek School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The MD&A is to provide reader friendly insight into management's analysis of the audit. This MD&A looks at the district's financial performance as a whole, although readers should review the independent auditor's transmittal letter and notes to the financial statements to enhance their understanding of the district's financial performance. Certain comparative information between the current year and prior year is required to be presented.

This discussion and analysis is part of the required supplementary information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. GASB Statement No. 34 requires certain comparative information to be presented between the current and the prior year and is detailed herein accordingly.

Description of the School District

The Shanksville-Stonycreek School District is nestled along the slopes of the Allegheny Mountains in the central part of Somerset County about eight miles northeast of Somerset, Pennsylvania and 30 miles northwest of Cumberland, Maryland. It is comprised of the township of Stonycreek and the boroughs of Indian Lake and Shanksville. The school district has a population of approximately 2,900 residents.

Much of the land is productively engaged in farming. Lumbering and strip mining are important components of the local economy. The area has vast opportunities for the expansion of tourism and recreation in a multi-seasonal climate. The Flight 93 National Memorial is also part of the district and is expected to have an impact on the local economy as well.

The District's facility is contained within one building. The District has an enrollment of approximately 365 which includes grades Pre-K through Grade 12.

The District employs 63 regular employees, with roughly 25 part-time substitutes. The teaching staff consists of 38 full-time professionals. Teachers in the District are members of the Pennsylvania State Education Association (PSEA) and the Shanksville-Stonycreek Education Association (SSEA), which is the representative bargaining unit. The SSEA contract is due to expire June 30, 2014.

Financial Highlights

Key financial highlights for the year ending June 30, 2013 are as follows:

- ❖ District-wide net position increased \$141,864
- ❖ Total fund balances of all governmental funds equaled \$2,855,093
- ❖ Unassigned general fund balance equaled \$644,396
- ❖ Committed general fund balance equaled \$2,080,000. This amount was committed as follows:
 - ❖ PSERS Retirement \$400,000
 - ❖ Technology Replacement \$230,000
 - ❖ Curriculum Enhancement \$200,000
 - ❖ Post-Employment Benefits \$400,000
 - ❖ Debt Service \$850,000

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

- ❖ Capital Projects fund balance equaled \$115,443
- ❖ Debt Service fund balance equaled \$1
- ❖ Total general fund revenues exceeded budget by \$355,966
- ❖ Total general fund expenses were \$1,133,751 under budget
- ❖ The District's proprietary fund/business-type activity (cafeteria) had an increase in net position of \$2,024

Long Term Issues and Commitments

- ❖ Long Term Debt: Outstanding bond issues as of June 30, 2013 include the Series of 2012, Series of 2011, and the Series of 2009 with a combined total outstanding principal balance of \$4,720,000.
 - ❖ Long Term Debt also consists of the District's estimated share of the refinanced Series of 2004 area vocational-technical school's general obligation bond. The District's share of the balance outstanding at June 30, 2013 is \$419,153.

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the required supplementary information. Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

The District's basic financial statements include two types of statements, which present different views of the District. The first type of statements are the **District-wide Financial Statements** that provide both short-term and long-term information about the District's overall financial status on a full accrual basis of accounting. The remaining statements are **Fund Financial Statements** that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide financial statements.

The Governmental fund statements indicate how the District financed its basic services such as regular and special education. Proprietary fund statements offer financial information about activities the District operates like a business, such as its Food Service Program. Fiduciary fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others to whom the resources in question belong. For this School District, these are student activity funds.

The financial statements also include notes that explain some of the information in the statements, and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

The diagram illustrates the components of financial reporting, categorized by level of summary or detail. It is structured as follows:

- Top Level (Summary):**
 - Management's Discussion and Analysis
 - Basic Financial Statements
 - Required Supplementary Information
- Bottom Level (Detail):**
 - Government-wide Financial Statements
 - Fund Financial Statements
 - Notes to the Financial Statements

A horizontal double-headed arrow at the bottom indicates the spectrum from **Summary** on the left to **Detail** on the right.

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

Figure A-2 summarizes the major features of the financial statements, including the portion of the District they cover and the types of information they contain.

Figure A-2
Major Features of Shanksville-Stonycreek School District's
District-wide and Fund Financial Statements

| | District-Wide Statements | Fund Financial Statements | | |
|--|--|--|---|--|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as education, administration and community services | Activities the District operate similar to private business – Food Services | Instances in which the District administers resources on behalf of someone else – student activity funds and private purpose trust funds |
| Required financial statements | Statement of net position Statement of activities | Balance Sheet Statement of revenues, expenditures, and changes in fund balance | Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows | Statement of fiduciary net position Statement of changes in fiduciary net position |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term |
| Type of inflow-outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

District-Wide Financial Statements

The District-wide financial statements are designed to provide the reader of the District's Annual Financial Report with a broad overview of the financial activities in a manner similar to a private sector business. The District-wide financial statements include the Statement of Net Position and the Statement of Activities.

The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

The *Statement of Activities* reports the change in net position. Net position – the difference between the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is one way of measuring the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health one must also consider additional factors such as changes in enrollment, increases (decreases) to the District's long-term debt, changes in the District's property tax base, changes in the State's funding of educational costs, changes in the economy, and the condition of or need for improvements or expansion to existing school facilities.

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

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, maintenance and operation of plant services, transportation services and administrative services. Property taxes, along with state formula aid, finance most of these activities. Fixed assets and related debt are also supported by taxes and intergovernmental activities.
- **Business-type Activities:** The District charges fees to cover the cost of certain services such as its food service program.

Fund Financial Statements

The fund financial statements provide detailed information about the School District's operations. The School District is required to provide detailed information for its "major" funds. Funds are accounting components the District uses to keep track of specific sources of funding and spending on particular programs.

The District has three types of funds as follows:

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the District-wide financial statements. Most of the District's basic services are included in the governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted into cash inflows and outflows and (2) balances left at year-end that are available for spending. Therefore, the governmental funds statements provide a short-term view of the School's operations. They are reported using an accounting method called modified accrual which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The District's governmental funds are the General Fund, the Capital Projects Fund, and the Debt Service Fund.

Because the focus of fund financial statements is narrower than that of the District-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the District-wide Statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Reconciliations for both the Governmental Fund Balance Sheet to Statement of Net Position District-wide and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities are provided to facilitate this comparison between governmental funds and governmental activities.

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

Proprietary Funds are comprised of the services for which the District charges a fee. Proprietary funds are reported on a full accrual basis of accounting in both the fund financial statements and the District-wide financial statements. A district's *Enterprise Funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, its Food Service Fund.

Fiduciary Funds are the assets that the District serves as the trustee of, such as the student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

The District's financial position is a result of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

Figure A-3 summarizes the assets, liabilities, and net position of the District at June 30, 2013.

Figure A-3
Net Position as of June 30, 2013 - (District-Wide)

| | Governmental Activities | | Business-Type Activities | | Total School District | | Total % Change 2012-13 |
|--|--------------------------------|---------------------|---------------------------------|------------------|------------------------------|---------------------|---------------------------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | |
| Assets | | | | | | | |
| Current Assets | \$ 3,853,087 | \$ 3,773,605 * | \$ 26,499 | \$ 14,621 | \$ 3,879,586 | \$ 3,788,226 | |
| Capital Assets | 5,408,727 | 5,781,053 | 16,891 | 21,957 | 5,425,618 | 5,803,010 | |
| Total Assets | \$ 9,261,814 | \$ 9,554,658 | \$ 43,390 | \$ 36,578 | \$ 9,305,204 | \$ 9,591,236 | -2.98% |
| Deferred Outflows of Resources | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | 0.00% |
| Liabilities | | | | | | | |
| Current Liabilities | \$ 1,216,970 | \$ 1,062,107 | \$ 11,702 | \$ 8,147 | \$ 1,228,672 | \$ 1,070,254 | |
| Long-Term Liabilities | 4,678,869 | 5,266,416 | 1,233 | 0 | 4,680,102 | 5,266,416 | |
| Total Liabilities | \$ 5,895,839 | \$ 6,328,523 | \$ 12,935 | \$ 8,147 | \$ 5,908,774 | \$ 6,336,670 | -6.75% |
| Deferred Inflows of Resources | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | 0.00% |
| Net Position | | | | | | | |
| Invested in Capital Assets, net of Related Debt | \$ 583,457 | \$ 358,099 | \$ 16,891 | \$ 21,957 | \$ 600,348 | \$ 380,056 | |
| Restricted | 115,444 | 134,396 | 0 | 0 | 115,444 | 134,396 | |
| Unrestricted | 2,667,074 | 2,733,640 * | 13,564 | 6,474 | 2,680,638 | 2,740,114 | |
| Total Net Position | \$ 3,365,975 | \$ 3,226,135 | \$ 30,455 | \$ 28,431 | \$ 3,396,430 | \$ 3,254,566 | 4.36% |

* Restated – see Note 22 to the financial statements.

Current assets are largely comprised of cash and cash equivalents which represent approximately \$3.1 million at June 30, 2013. Capital assets represent land, buildings and equipment less accumulated depreciation. Current liabilities are comprised primarily of accounts payable, accrued salaries and wages, and the current portion of long-term liabilities, representing an approximate total of \$1,100,000 at June 30, 2013.

The decrease in total liabilities, offset by the decrease in capital assets resulted in an increase in net position of approximately \$142,000 in fiscal year 2013.

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

Figure A-4 summarizes the revenues, expenses, and changes in net position of the District for the year ended June 30, 2013.

Figure A-4
Changes in Government-wide Net Position
For the Year Ended June 30, 2013

| | Governmental Activities | | Business-type Activities | | Total School District | | Total % Change |
|--|----------------------------|---------------------|-----------------------------|------------------|--------------------------|---------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2012-13 |
| Revenues: | | | | | | | |
| Program Revenues: | | | | | | | |
| Charges for Services | \$ 51,298 | \$ 47,338 | \$ 102,930 | \$ 105,456 | \$ 154,228 | \$ 152,794 | |
| Operating Grants and Contributions | 819,788 | 825,277 | 71,023 | 82,071 | 890,811 | 907,348 | |
| Capital Grants and Contributions | 114,884 | 133,693 | 0 | 0 | 114,884 | 133,693 | |
| Total Program Revenues | <u>985,970</u> | <u>1,006,308</u> | <u>173,953</u> | <u>187,527</u> | <u>1,159,923</u> | <u>1,193,835</u> | -2.84% |
| General Revenue: | | | | | | | |
| Property and Other Taxes Levied | 3,502,135 | 3,311,521 | 0 | 0 | 3,502,135 | 3,311,521 | |
| Grants, subsidies, contributions | 1,636,342 | 1,637,934 | 0 | 0 | 1,636,342 | 1,637,934 | |
| Investment Earnings | 3,131 | 2,962 | 4 | 8 | 3,135 | 2,970 | |
| Miscellaneous Income | 1,876 | 3,102 | 0 | 0 | 1,876 | 3,102 | |
| Transfers | (73,399) | (36,951) | 73,399 | 36,951 | 0 | 0 | |
| Total General Revenues | <u>5,070,085</u> | <u>4,918,568</u> | <u>73,403</u> | <u>36,959</u> | <u>5,143,488</u> | <u>4,955,527</u> | 3.79% |
| Expenses: | | | | | | | |
| Instruction | 3,388,483 | 3,400,578 | 0 | 0 | 3,388,483 | 3,400,578 | |
| Instructional Student Support | 493,032 | 438,891 | 0 | 0 | 493,032 | 438,891 | |
| Admin and Financial Support Services | 887,611 | 863,745 | 0 | 0 | 887,611 | 863,745 | |
| Operating and Maintenance of Plant Services | 558,957 | 545,972 | 0 | 0 | 558,957 | 545,972 | |
| Pupil Transportation | 349,236 | 310,163 | 0 | 0 | 349,236 | 310,163 | |
| Student Activities | 102,689 | 98,202 | 0 | 0 | 102,689 | 98,202 | |
| Interest on Long-term Debt | 136,207 | 176,807 | 0 | 0 | 136,207 | 176,807 | |
| Food Service | 0 | 0 | 245,332 | 237,083 | 245,332 | 237,083 | |
| Total Expenses | <u>5,916,215</u> | <u>5,834,358</u> | <u>245,332</u> | <u>237,083</u> | <u>6,161,547</u> | <u>6,071,441</u> | 1.48% |
| Increase (Decrease) in Net Position | 139,840 | 90,518 | 2,024 | (12,597) | 141,864 | 77,921 | |
| Beginning Net Position | <u>3,226,135</u> | <u>3,093,919</u> | <u>28,431</u> | <u>41,028</u> | <u>3,254,566</u> | <u>3,134,947</u> | |
| Ending Net Position | <u>\$ 3,365,975</u> | <u>\$ 3,184,437</u> | <u>\$ 30,455</u> | <u>\$ 28,431</u> | <u>\$ 3,396,430</u> | <u>\$ 3,212,868</u> | |

The School District experienced an overall increase in net position of \$141,864 for fiscal year 2013, with an overall increase in both revenues and expenditures compared to the prior year.

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues and unrestricted state entitlements.

| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
|---------------------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| | 2013 | 2013 | 2012 | 2012 |
| Program Expenses | | | | |
| Governmental Activities: | | | | |
| Instruction | \$ 3,388,483 | \$ 2,617,778 | \$ 3,400,578 | \$ 2,661,809 |
| Instructional student support | 493,032 | 493,032 | 438,891 | 438,891 |
| Administration | 887,611 | 880,484 | 863,745 | 856,874 |
| Maintenance | 558,957 | 444,073 | 545,972 | 412,279 |
| Pupil transportation | 349,236 | 261,380 | 310,163 | 191,006 |
| Student activities | 102,689 | 97,291 | 98,202 | 90,384 |
| Interest and fiscal charges | 136,207 | 136,207 | 176,807 | 176,807 |
| Net program expenses | <u>\$ 5,916,215</u> | 4,930,245 | <u>\$ 5,834,358</u> | 4,828,050 |
| Less: Unrestricted state entitlements | | <u>(1,636,342)</u> | | <u>(1,637,934)</u> |
| Total governmental activities | | <u>\$ 3,293,903</u> | | <u>\$ 3,190,116</u> |
| Business-type activities: | | | | |
| Food service | <u>\$ 245,332</u> | <u>\$ 71,379</u> | <u>\$ 237,083</u> | <u>\$ 49,556</u> |

Governmental Activities

Total net cost of service increased minimally from 2011-2012 to 2012-2013.

Business-Type Activities

Food service management—the cafeteria continues to rely on subsidy from the general fund for operations. The dependency has decreased recently as fund balance has been reduced over time to meet state requirements.

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

Figure A-5 breaks out expenditures by function per the fund financial statements (general fund) with a comparison to the prior year as well as current year budget variances.

Figure A-5
Expenditures by Function - Budget vs. Actual

| <u>Function</u> | <u>Description</u> | <u>Actual 2012-13 Expenses</u> | <u>Actual 2011-12 Expenses</u> | <u>Increase/ (Decrease) From P/Y</u> | <u>2012-13 Budget</u> | <u>(Over)/ Under Budget</u> |
|-----------------|--|--|--|--|---------------------------|-------------------------------------|
| 1100 | Regular Educational Programs | \$ 2,303,894 | \$ 2,399,579 | \$ (95,685) | \$ 2,993,098 | \$ 689,204 |
| 1200 | Special Programs | 445,084 | 396,624 | 48,460 | 520,321 | 75,237 |
| 1300 | Vocational Education | 290,858 | 291,911 | (1,053) | 306,800 | 15,942 |
| 1400 | Other Instructional Programs | 20,447 | 10,817 | 9,630 | 13,156 | (7,291) |
| 1700 | Community/junior college programs | 3,025 | 5,375 | (2,350) | 6,240 | 3,215 |
| 1800 | Pre-kindergarten | 79,255 | 64,053 | 15,202 | 70,942 | (8,313) |
| 2100 | Support Services - Pupil | 135,132 | 133,514 | 1,618 | 164,910 | 29,778 |
| 2200 | Support Services - Instructional Staff | 324,532 | 308,656 | 15,876 | 427,918 | 103,386 |
| 2300 | Support Services - Administration | 568,823 | 554,553 | 14,270 | 626,070 | 57,247 |
| 2400 | Support Services - Pupil Health | 85,914 | 83,345 | 2,569 | 91,613 | 5,699 |
| 2500 | Support Services - Business | 133,921 | 129,198 | 4,723 | 167,482 | 33,561 |
| 2600 | Operation and Maintenance | 510,189 | 506,772 | 3,417 | 529,768 | 19,579 |
| 2700 | Student Transportation Services | 326,670 | 288,372 | 38,298 | 265,720 | (60,950) |
| 2900 | Other Support Services | 3,387 | 3,216 | 171 | 5,200 | 1,813 |
| 3200 | Student Activities | 90,807 | 83,516 | 7,291 | 121,813 | 31,006 |
| 3300 | Community Services | 1,612 | 3,950 | (2,338) | 4,888 | 3,276 |
| 3400 | Scholarships and Awards | 3,500 | 4,000 | (500) | 2,080 | (1,420) |
| 4000 | Capital Outlay | 0 | 0 | 0 | 20,800 | 20,800 |
| 5100 | Debt Service | 44,141 | 33,558 | 10,583 | 46,800 | 2,659 |
| 5200 | Fund Transfers | 764,677 | 763,682 | 995 | 832,000 | 67,323 |
| 5900 | Budgetary Reserve | 0 | 0 | 0 | 52,000 | 52,000 |
| | Total Expenditures | 6,135,868 | 6,064,691 | 71,177 | 7,269,619 | 1,133,751 |
| | Revenues/Other financing sources | 6,181,176 | 5,997,489 | 183,687 | 5,825,210 | 355,966 |
| | Net Change | \$ 45,308 | \$ (67,202) | | \$ (1,444,409) | |

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that total expenditures do not exceed total appropriations. A schedule showing the School District's detail budget amounts compared with amounts actually paid and received is provided in Figure A-5. Significant variances in line items are discussed below.

- A. Total General Fund Revenues exceeded budget by \$355,966.
 - 1. Budgetary estimate differed significantly in the following areas:
 - a. Local revenues:
 - i. PILT (Payment In Lieu of Taxes) - \$13,269 is due to unbudgeted reimbursement for the Real Estate Taxes lost due to the federal government owning property that makes up the Flight 93 Memorial.
 - ii. Earned Income Taxes - \$16,085 is due to the fact that the earned income of the School District residents exceeded initial estimates. The budget figure for this particular revenue included a large estimated reduction due to the number of layoffs in the immediate area.
 - iii. Delinquent Real Estate Taxes - \$53,085 is due to an actual collection of delinquent taxes in the year compared to conservative estimates.
 - iv. Admissions - \$5,398 was due to the unbudgeted revenues for athletic admissions.
 - v. Revenues from Local Governments - \$53,480 was due to unbudgeted revenues generated through contracted services with a neighboring school district.
 - vi. Refund: Previous Year Expenses - \$41,690 was received as refund of payments from previous years. This is not an item that is budgeted for on a regular basis.
 - vii. Donations - \$3,259 in donations were received above the originally budgeted \$7,800.
- B. Total General Fund Expenditures were under budget by \$1,133,751.
 - 1. The reduction of General Fund Expenditures, along with the increase in revenues, added \$139,840 to the fund balance compared to the reduction that was originally budgeted.
 - 2. The budget variances in figure A-5 were due to the District not doing any year-end budgetary transfers to balance the overages with the savings.
 - 3. Salaries were under budget by \$424,660.
 - a. The District realized savings with not replacing two teachers in the Kindergarten and Physical Education areas, but added 1 teacher aide to the Physical Education Department.
 - b. The settled Collective Bargaining Agreement included a wage freeze on all teachers in the first year of the agreement.
 - c. The District did not need to utilize substitutes at level that was budgeted.
 - d. The District realizes savings in athletics in some of the positions that are normally paid.
 - 4. Benefits were under budget by \$552,418.
 - a. For retirement, the District budgets at a higher rate to help build a balance for future years when the rates are expected to spike.
 - b. The medical insurance premiums were reduced lower than what was originally budgeted due to new collective bargaining agreement that created premium savings moving to a new Qualified High Deductible Healthcare Plan.

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

5. Supplies and equipment were under budget by \$37,961.
 - a. The District has started to reduce the amount of supplies that are kept on hand since the District is receiving discount pricing throughout the year. This reduces the amount of overstock that is purchased and kept onsite.
 - b. Less new and replacement equipment was purchased due to the district effectively utilizing the equipment already on hand.
6. Debt Payments and Fund Transfers were under budget by \$121,982.
 - a. The Somerset County Technology Center debt was refinanced creating savings for the district.
 - b. The amount of general fund dollars used for debt service payments was reduced with the utilization of funds within the Debt Service Fund.

Revenue – Fund Financials – General Fund

The revenue for the school district comes from local, state, and federal sources. During the 2012-13 fiscal year, \$3,689,195 local funds (60%), \$2,346,086 state funds (38%) and \$145,895 federal funds (2%) were recognized by the general fund.

Local funding is primarily from real estate taxes (\$2,961,033) and earned income taxes (\$250,085). Delinquent taxes in the amount of \$209,480 were collected during the fiscal year.

Basic Education Subsidy of \$1,463,913 makes up 62% of the total grants, subsidies and contributions received.

Other significant receipts for the state include Special Education, \$229,431; Rental and Sinking Fund Subsidy, \$114,884; State Property Tax Reduction Allocation, \$172,427; and Revenue for Social Security and Retirement Payments, \$251,148.

Technology

The importance of technology is always a part of the District's philosophy and planning. During fiscal year 2013, the District began upgrading the Classroom For the Future laptops with less expensive Google Chromebooks.

Capital Assets

Figure A-6 illustrates changes in capital assets, net of depreciation, by asset type.

Figure A-6
Capital Assets Net of Depreciation

| | Governmental Activities | | Business-Type Activities | | Total School District | | % Change |
|--------------------------|----------------------------|--------------------|-----------------------------|-----------------|--------------------------|--------------------|----------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> | <u>2012-13</u> |
| Land | \$ 24,792 | \$ 24,792 | \$ 0 | \$ 0 | \$ 24,792 | \$ 24,792 | |
| Construction in progress | 0 | 15,700 | 0 | 0 | 0 | 15,700 | |
| Site improvements | 276,679 | 315,673 | 0 | 0 | 276,679 | 315,673 | |
| Buildings | 4,769,377 | 5,029,316 | 0 | 0 | 4,769,377 | 5,029,316 | |
| Equipment and furniture | 207,446 | 238,488 | 16,891 | 21,957 | 224,337 | 260,445 | |
| Total | <u>\$5,278,294</u> | <u>\$5,623,969</u> | <u>\$16,891</u> | <u>\$21,957</u> | <u>\$5,295,185</u> | <u>\$5,645,926</u> | -6.21% |

While capital additions for the District in 2012-13 totaled \$30,433, depreciation expense totaled \$381,174 resulting in a decrease in net capital assets over prior year.

Shanksville-Stonycreek School District
Management's Discussion and Analysis (MD&A)

Long-Term Debt

Figure A-7 summarizes the change in long-term debt for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-7
Outstanding Long-Term Debt

| | Total School District | | Total Percentage Change |
|---------------------------------------|--------------------------|---------------------|-------------------------------|
| | 2013 | 2012 | |
| General Obligation Bonds, Series 2012 | \$ 1,315,000 | \$ 1,535,000 | -14.33% |
| General Obligation Bonds, Series 2011 | 1,100,000 | 1,110,000 | -0.90% |
| General Obligation Bonds, Series 2009 | 2,305,000 | 2,650,000 | -13.02% |
| Technology Debt | 419,153 | 448,367 | -6.52% |
| Total | <u>\$ 5,139,153</u> | <u>\$ 5,743,367</u> | -10.52% |

Currently Known Facts, Decisions or Conditions

The School District does not expect significant growth in the near future given the residential nature of the local economy. The School District raised taxes in 2011-2012 above the Act I index with a retirement exception. The School District also filed for Act I exceptions to raise taxes above the Act I Index for the 2012-2013 year and the current 2013-2014 school year. As state funding continues to decrease or be completely eliminated, the School District is evaluating the programs to determine whether or not to continue the program with local dollars. Programs like Dual Enrollment and Intervention services are being maintained at some level by local dollars since they have proven to be a benefit to the academic process in the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the School District's finances. If you have any questions about this report or need additional information, contact the Business Office, Shanksville-Stonycreek School District.

BASIC FINANCIAL STATEMENTS

Shanksville-Stonycreek School District
Statement of Net Position
June 30, 2013

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and equivalents | \$ 3,102,820 | \$ 12,763 | \$ 3,115,583 |
| Taxes receivable | 515,522 | 0 | 515,522 |
| Intergovernmental receivables | 219,295 | 8,469 | 227,764 |
| Inventories | 15,253 | 5,267 | 20,520 |
| Other current assets | <u>197</u> | <u>0</u> | <u>197</u> |
| Total current assets | <u>3,853,087</u> | <u>26,499</u> | <u>3,879,586</u> |
| Noncurrent assets: | | | |
| Land | 24,792 | 0 | 24,792 |
| Depreciable capital assets, net | 5,253,502 | 16,891 | 5,270,393 |
| Deferred bond costs, net | <u>130,433</u> | <u>0</u> | <u>130,433</u> |
| Total noncurrent assets | <u>5,408,727</u> | <u>16,891</u> | <u>5,425,618</u> |
| Total assets | 9,261,814 | 43,390 | 9,305,204 |
| Deferred Outflows of Resources | <u>0</u> | <u>0</u> | <u>0</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 9,261,814</u></u> | <u><u>\$ 43,390</u></u> | <u><u>\$ 9,305,204</u></u> |

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Net Position
June 30, 2013

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| Liabilities | | | |
| Current liabilities: | | | |
| Internal balances | \$ (5,506) | \$ 5,506 | \$ 0 |
| Due to other governments | 18,524 | 0 | \$ 18,524 |
| Accounts payable | 194,290 | 0 | 194,290 |
| Current portion of compensated absences | 14,289 | 1,327 | 15,616 |
| Accrued salaries and wages | 271,761 | 0 | 271,761 |
| Accrued interest payable | 37,763 | 0 | 37,763 |
| Payroll deductions and withholdings | 36,828 | 0 | 36,828 |
| Deferred revenues | 0 | 4,869 | 4,869 |
| Current portion of long-term liabilities | <u>649,021</u> | <u>0</u> | <u>649,021</u> |
| Total current liabilities | <u>1,216,970</u> | <u>11,702</u> | <u>1,228,672</u> |
| Noncurrent liabilities: | | | |
| Bonds payable, net | 4,074,837 | 0 | 4,074,837 |
| Long-term portion of compensated absences | 119,084 | 1,233 | 120,317 |
| Other long-term financing | 390,132 | 0 | 390,132 |
| Other post-employment benefits (OPEB) | <u>94,816</u> | <u>0</u> | <u>94,816</u> |
| Total noncurrent liabilities | <u>4,678,869</u> | <u>1,233</u> | <u>4,680,102</u> |
| Total liabilities | <u>5,895,839</u> | <u>12,935</u> | <u>5,908,774</u> |
| Deferred Inflows of Resources | <u>0</u> | <u>0</u> | <u>0</u> |
| Net Position | | | |
| Invested in capital assets, net of debt | 583,457 | 16,891 | 600,348 |
| Restricted for: | | | |
| Debt service (expendable) | 1 | 0 | 1 |
| Capital projects (expendable) | 115,443 | 0 | 115,443 |
| Unrestricted | <u>2,667,074</u> | <u>13,564</u> | <u>2,680,638</u> |
| Total net position | <u>3,365,975</u> | <u>30,455</u> | <u>3,396,430</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 9,261,814</u> | <u>\$ 43,390</u> | <u>\$ 9,305,204</u> |

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Activities
For the Year Ended June 30, 2013

| | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | |
|---|---------------------|-------------------------|---------------------------------------|-------------------------------------|--|-----------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| Instruction | \$ 3,388,483 | \$ 45,900 | \$ 724,805 | \$ 0 | \$ (2,617,778) | \$ 0 | \$ (2,617,778) |
| Instructional student support | 493,032 | 0 | 0 | 0 | (493,032) | 0 | (493,032) |
| Administration and financial support | 887,611 | 0 | 7,127 | 0 | (880,484) | 0 | (880,484) |
| Operations and maintenance of plant | 558,957 | 0 | 0 | 114,884 | (444,073) | 0 | (444,073) |
| Pupil transportation | 349,236 | 0 | 87,856 | 0 | (261,380) | 0 | (261,380) |
| Student activities | 102,689 | 5,398 | 0 | 0 | (97,291) | 0 | (97,291) |
| Interest on long-term debt | 136,207 | 0 | 0 | 0 | (136,207) | 0 | (136,207) |
| Total governmental activities | <u>5,916,215</u> | <u>51,298</u> | <u>819,788</u> | <u>114,884</u> | <u>(4,930,245)</u> | <u>0</u> | <u>(4,930,245)</u> |
| Business-Type Activities: | | | | | | | |
| Food service | <u>245,332</u> | <u>102,930</u> | <u>71,023</u> | <u>0</u> | <u>0</u> | <u>(71,379)</u> | <u>(71,379)</u> |
| Total primary government | <u>\$ 6,161,547</u> | <u>\$ 154,228</u> | <u>\$ 890,811</u> | <u>\$ 114,884</u> | <u>(4,930,245)</u> | <u>(71,379)</u> | <u>(5,001,624)</u> |
| General Revenues: | | | | | | | |
| Taxes levied | | | | | 3,502,135 | 0 | 3,502,135 |
| Grants, subsidies and contributions, not restricted | | | | | 1,636,342 | 0 | 1,636,342 |
| Investment earnings | | | | | 3,131 | 4 | 3,135 |
| Miscellaneous | | | | | 1,876 | 0 | 1,876 |
| Transfers | | | | | (73,399) | 73,399 | 0 |
| Total general revenues | | | | | <u>5,070,085</u> | <u>73,403</u> | <u>5,143,488</u> |
| Change in net position | | | | | 139,840 | 2,024 | 141,864 |
| Net position, beginning of year, restated | | | | | <u>3,226,135</u> | <u>28,431</u> | <u>3,254,566</u> |
| Net position, end of year | | | | | <u>\$ 3,365,975</u> | <u>\$ 30,455</u> | <u>\$ 3,396,430</u> |

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Balance Sheet
Governmental Funds
June 30, 2013

| | General Fund | Major Fund Debt Service Fund | Non-Major Fund Capital Projects Fund | Total Governmental Funds |
|-------------------------------------|---------------------|------------------------------------|--|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 2,978,599 | \$ 1 | \$ 124,220 | \$ 3,102,820 |
| Taxes receivable | 515,522 | 0 | 0 | 515,522 |
| Due from other funds | 14,283 | 0 | 0 | 14,283 |
| Due from other governments | 219,295 | 0 | 0 | 219,295 |
| Inventories | 15,253 | 0 | 0 | 15,253 |
| Other current assets | 197 | 0 | 0 | 197 |
| | | | | |
| Total assets | <u>\$ 3,743,149</u> | <u>\$ 1</u> | <u>\$ 124,220</u> | <u>\$ 3,867,370</u> |
| Liabilities and Fund Balance | | | | |
| Liabilities | | | | |
| Due to other funds | \$ 0 | \$ 0 | \$ 8,777 | \$ 8,777 |
| Due to other governments | 18,524 | 0 | 0 | 18,524 |
| Accounts payable | 194,290 | 0 | 0 | 194,290 |
| Accrued salaries and benefits | 271,761 | 0 | 0 | 271,761 |
| Payroll deductions and withholding | 36,828 | 0 | 0 | 36,828 |
| Deferred revenue | 482,097 | 0 | 0 | 482,097 |
| | | | | |
| Total liabilities | <u>1,003,500</u> | <u>0</u> | <u>8,777</u> | <u>1,012,277</u> |
| | | | | |
| Fund Balance | | | | |
| Nonspendable | 15,253 | 0 | 0 | 15,253 |
| Restricted | 0 | 1 | 115,443 | 115,444 |
| Committed | 2,080,000 | 0 | 0 | 2,080,000 |
| Unassigned | 644,396 | 0 | 0 | 644,396 |
| | | | | |
| Total fund balance | <u>2,739,649</u> | <u>1</u> | <u>115,443</u> | <u>2,855,093</u> |
| | | | | |
| Total liabilities and fund balance | <u>\$ 3,743,149</u> | <u>\$ 1</u> | <u>\$ 124,220</u> | <u>\$ 3,867,370</u> |

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
June 30, 2013

Total fund balance – governmental funds \$ 2,855,093

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$10,875,431 and the accumulated depreciation is \$5,597,137. 5,278,294

Property taxes receivable will be collected in the future, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 482,097

Bond issuance costs are expensed in the year of issue in the funds. However, on the government-wide financial statements these costs are deferred and amortized over the term of the bond issue. Bond costs are \$206,388 net of accumulated amortization of \$75,955. 130,433

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

| | | |
|----------------------------|-----------------|--------------------|
| Bonds payable | \$(4,720,000) | |
| Unamortized bond discounts | 47,542 | |
| Unamortized bond premiums | (22,379) | |
| Accrued interest payable | (37,763) | |
| Compensated absences | (133,373) | |
| Technology Center debt | (419,153) | |
| OPEB obligation | <u>(94,816)</u> | <u>(5,379,942)</u> |

Net position of governmental activities \$ 3,365,975

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

| | General Fund | Major Fund Debt Service Fund | Non-Major Fund Capital Projects Fund | Total Governmental Funds |
|---|---------------------|------------------------------------|--|--------------------------------|
| Revenues | | | | |
| Local sources | \$ 3,689,195 | \$ 1 | \$ 18 | \$ 3,689,214 |
| State sources | 2,346,086 | 0 | 0 | 2,346,086 |
| Federal sources | <u>145,895</u> | <u>0</u> | <u>0</u> | <u>145,895</u> |
| Total revenues | <u>6,181,176</u> | <u>1</u> | <u>18</u> | <u>6,181,195</u> |
| Expenditures | | | | |
| Instruction | 3,142,563 | 0 | 0 | 3,142,563 |
| Support services | 2,088,568 | 0 | 10,789 | 2,099,357 |
| Non-instructional services | 95,919 | 0 | 0 | 95,919 |
| Debt service (principal and interest) | <u>44,141</u> | <u>699,460</u> | <u>0</u> | <u>743,601</u> |
| Total expenditures | <u>5,371,191</u> | <u>699,460</u> | <u>10,789</u> | <u>6,081,440</u> |
| Excess of revenues over (under) expenditures | <u>809,985</u> | <u>(699,459)</u> | <u>(10,771)</u> | <u>99,755</u> |
| Other financing sources (uses) | | | | |
| Interfund transfers | <u>(764,677)</u> | <u>684,258</u> | <u>7,020</u> | <u>(73,399)</u> |
| Total other financing sources (uses) | <u>(764,677)</u> | <u>684,258</u> | <u>7,020</u> | <u>(73,399)</u> |
| Net change in fund balance | 45,308 | (15,201) | (3,751) | 26,356 |
| Fund balance, beginning of year | <u>2,694,341</u> | <u>15,202</u> | <u>119,194</u> | <u>2,828,737</u> |
| Fund balance, end of year | <u>\$ 2,739,649</u> | <u>\$ 1</u> | <u>\$ 115,443</u> | <u>\$ 2,855,093</u> |

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2013**

Total net change in fund balance – governmental funds **\$ 26,356**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

| | | |
|----------------------|------------------|-----------|
| Capital outlays | \$ 30,433 | |
| Depreciation expense | <u>(376,108)</u> | (345,675) |

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year. (10,043)

Interest on long-term debt is recognized in the governmental funds when it is due. In the statement of activities, expense is recognized as interest accrues. Accrued interest expense decreased by this amount this year. 3,180

In the governmental funds, compensated absences are measured by the amounts used. The statement of activities measures by the amount earned. The liability for compensated absences increased by this amount this year. (26,340)

Governmental funds report bond issuance costs as expenditures in the year of issuance, whereas these costs are deferred and amortized over the term of the bond issue in the statement of activities. This is the amount of the amortized costs in the current period. (26,651)

Post-employment benefits are recognized as expenditures in the governmental funds when they are paid. In the statement of activities, post-employment benefits are recognized as expenses when incurred. This amount represents the difference. (39,536)

Shanksville-Stonycreek School District
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2013

The proceeds and principal payments on long-term debt provide and consume current financial resources of governmental funds, respectively. However, they respectively increase or reduce long-term liabilities on the statement of net position. Further, the effect of bond discounts and premiums are reported in the funds in the year of issue but are deferred and amortized in the statement of activities. The effect is shown below:

| | | |
|--------------------------------------|--------------|---------|
| Bond principal payments | \$575,000 | |
| Technology Center principal payments | 29,214 | |
| Amortization of discounts | (8,984) | |
| Accretion of bond premium | <u>5,017</u> | 600,247 |

Refund of prior year expenditures represents current financial sources in the fund financial statements. However, in the statement of activities, this represents a prior year adjustment to net position.

(41,698)

Change in net position of governmental activities

\$ 139,840

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Net Position
Proprietary Fund
June 30, 2013

| | <u>Food Service</u> |
|--|-------------------------|
| Assets | |
| Current assets: | |
| Cash and cash equivalents | \$ 12,763 |
| Due from other governments | 8,469 |
| Inventory | <u>5,267</u> |
| Total current assets | <u>26,499</u> |
| Noncurrent assets: | |
| Machinery and equipment, net | <u>16,891</u> |
| Total noncurrent assets | <u>16,891</u> |
| Total assets | <u>43,390</u> |
| Deferred Outflows of Resources | <u>0</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 43,390</u></u> |
| Liabilities | |
| Current liabilities: | |
| Due to other funds | \$ 5,506 |
| Deferred revenues | 4,869 |
| Current portion of compensated absences | <u>1,327</u> |
| Total current liabilities | <u>11,702</u> |
| Noncurrent liabilities: | |
| Long-term portion of compensated absences | <u>1,233</u> |
| Total noncurrent liabilities | <u>1,233</u> |
| Total liabilities | <u>12,935</u> |
| Deferred Inflows of Resources | <u>0</u> |
| Net Position | |
| Invested in capital assets | 16,891 |
| Unrestricted | <u>13,564</u> |
| Total net position | <u>30,455</u> |
| Total liabilities, deferred inflows of resources, and net position | <u><u>\$ 43,390</u></u> |

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2013

| | |
|---|-------------------------|
| | Food Service |
| Operating revenues | |
| Food service revenue | \$ 102,930 |
| | |
| Total operating revenues | <u>102,930</u> |
| Operating expenses | |
| Salaries | 67,688 |
| Employee benefits | 74,099 |
| Purchased property services | 6,101 |
| Other purchased service | 642 |
| Supplies | 90,188 |
| Depreciation | 5,066 |
| Dues and fees | <u>1,548</u> |
| | |
| Total operating expenses | <u>245,332</u> |
| | |
| Operating income (loss) | <u>(142,402)</u> |
| Nonoperating revenues (expenses) | |
| Earnings on investments | 4 |
| State sources | 5,557 |
| Federal sources | <u>65,466</u> |
| | |
| Total nonoperating revenues (expenses) | <u>71,027</u> |
| | |
| Income (loss) before transfers | <u>(71,375)</u> |
| Contributions and transfers | |
| Transfers in (out) | <u>73,399</u> |
| | |
| Change in net position | 2,024 |
| | |
| Total net position, beginning of year | <u>28,431</u> |
| | |
| Total net position, end of year | <u><u>\$ 30,455</u></u> |

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2013

| | <u>Food Service</u> |
|---|-------------------------|
| Cash flows from operating activities | |
| Cash received from users | \$ 102,692 |
| Cash payments to employees for services | (63,661) |
| Cash payments to suppliers for goods and services | <u>(173,648)</u> |
| Net cash provided by (used for) operating activities | <u>(134,617)</u> |
| Cash flows from non-capital financing activities | |
| State sources | 5,750 |
| Federal sources | 65,425 |
| Transfers in | <u>73,399</u> |
| Net cash provided by (used for) non-capital financing activities | <u>144,574</u> |
| Cash flows from investing activities | |
| Earnings on investments | <u>4</u> |
| Net cash provided by (used for) investing activities | <u>4</u> |
| Net increase (decrease) in cash and cash equivalents | 9,961 |
| Cash and cash equivalents, beginning of year | <u>2,802</u> |
| Cash and cash equivalents, end of year | <u>\$ 12,763</u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | <u>\$ (142,402)</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for): | |
| Depreciation | 5,066 |
| (Increase) decrease in inventories | (1,070) |
| Increase (decrease) in accounts payable | 2,560 |
| Increase (decrease) in advances from other funds | 1,467 |
| Increase (decrease) in deferred revenue | <u>(238)</u> |
| Total adjustments | <u>7,785</u> |
| Net cash provided by (used for) operating activities | <u>\$ (134,617)</u> |

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

| | <u>Agency Fund</u> |
|---|------------------------|
| Assets | |
| Cash and cash equivalents | \$ <u>32,598</u> |
| Total assets | <u>32,598</u> |
| Deferred Outflows of Resources | <u>0</u> |
| Total assets and deferred outflows of resources | <u>\$ 32,598</u> |
| Liabilities | |
| Due to students | \$ <u>32,598</u> |
| Total liabilities | <u>32,598</u> |
| Deferred Inflows of Resources | <u>0</u> |
| Net Position | <u>0</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 32,598</u> |

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

1. Description of School District and Reporting Entity

The Shanksville-Stonycreek School District is a Local Education Agency of the third class, governed by a nine-member publicly elected board, located in Somerset County, Pennsylvania. The District provides educational services to approximately 500 students from Shanksville Borough, Indian Lake Borough and Stonycreek Township. The District's facility is contained within one building. The District also participates in a local area vocational/technical school with various other districts.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Shanksville-Stonycreek School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable or other organizations whose nature and significant relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (1) either the School District's ability to impose its will on the organization or (2) there is potential for the organization to provide a financial benefit to or impose a financial burden on the School District. The School District has no component units.

2. Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of these accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

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

Fund Financial Statements

Fund financial statements are also provided in the report for all governmental funds, proprietary funds, and the fiduciary funds of the School District. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The School District uses funds to maintain its financial record during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund – The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – Accounts for resources accumulated to provide for payment of general long-term debt principal and interest.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary funds focus on the determination of net position, changes in net position and cash flows and are classified as either internal service or enterprise funds. Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District. There are no internal service funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The following is the School District's major enterprise fund:

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

Food Service Fund – This fund accounts for the financial transactions related to the food service operation of the School District.

Fiduciary Fund

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no private purpose trust funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program.

C. Measurement Focus

Government-wide Financial Statements

Government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position.

Fund Financial Statements

Fund financial statements are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Proprietary fund types distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Food Service fund are charges for sales and services. Operating expenses for proprietary funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary funds are reported using the economic resources measurement focus.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available as an advance, interest, tuition, grants, fees and rentals.

Deferred Revenue

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

Deferred revenue on the government-wide financial statements includes grants and entitlements received before the eligibility requirements were met.

On governmental fund financial statements, receivables that will not be collected within the available period (property taxes) have also been reported as deferred revenue.

Expenses/Expenditures

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

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

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

E. Budgetary Data

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting.

The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The School District is required to adopt a proposed budget at least thirty (30) days prior to adoption of the annual budget. The proposed budget shall be printed or otherwise made available for public inspection to all persons and shall be made available for duplication to any person, on request, at least twenty (20) days prior to the date set for the adoption of the budget. Final action shall not be taken on the proposed budget until after ten (10) days of public notice.

The Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the board is required. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2013.

Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board of Education, which authorized the School District to make expenditures. Appropriations lapse at the end of the fiscal period. In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order contract or other form of commitment, an encumbrance is recorded.

Included in the General Fund budget are program budgets as prescribed by the State and Federal agencies funding the program. These budgets are approved on a program by program basis by the State or Federal funding agency.

An Enterprise fund budget is not adopted; however, a formal budget is prepared and approved by management and expenditures are controlled on the basis of this budget.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Inventory

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

Inventories in governmental funds are stated at cost by the first-in, first-out method and consist of supplies held for consumption. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as an expenditure when purchased; however, an estimated value of inventories (\$15,253) is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by nonspendable fund balance which indicates they do not constitute "available spending resources" even though they are a component of net current assets.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2013. The inventory consisted of government donated commodities which are valued at estimated fair market value, and purchased commodities and supplies, both valued at cost using first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2013 are reported as deferred revenue.

H. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets used by the proprietary fund are reported in both the business-type activities column on the government-wide statement of net position and in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of fifteen hundred (\$1,500) dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Site Improvements | 15 - 20 years |
| Buildings and Improvements | 20 - 50 years |
| Furniture and Equipment | 3 - 20 years |

I. Bond Issue Costs

The costs incurred by the District to issue the General Obligation Bonds have been recorded as a deferred asset that is being amortized over the life of the related bonds using a straight-line basis of amortization.

J. Original Issue Discounts and Premiums

Bond premiums and discounts are reported as direct adjustments to the face amount of the bond and are deferred and amortized over the life of the bond using the straight-line method of amortization.

K. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are determined to be collectible, and no allowance has been established.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

L Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and notes are recognized as a liability on the fund financial statements when due.

M. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent the current *consumption* of net assets that is applicable to a future reporting period. The District currently reports no deferred outflows of resources.

Deferred inflows of resources represent the current *acquisition* of net assets that is applicable to a future reporting period. The District currently reports no deferred inflows of resources.

N. Fund Balance Classification

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance – amounts that are not in nonspendable form (such as inventory or prepaid items) or are required to be maintained intact.
- Restricted Fund Balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the School board or by an official or body to which the School Board delegates the authority.
- Unassigned Fund Balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

As of June 30, 2013, fund balance components, other than unassigned, consist of the following:

| | <u>Nonspendable</u> | <u>Restricted</u> | <u>Committed</u> |
|--------------------------|---------------------|-------------------|--------------------|
| General Fund: | | | |
| Inventory | \$15,253 | \$ 0 | \$ 0 |
| Future retirement costs | 0 | 0 | 400,000 |
| Technology replacement | 0 | 0 | 230,000 |
| Curriculum enhancement | 0 | 0 | 200,000 |
| Post-employment benefits | 0 | 0 | 400,000 |
| Debt service | 0 | 0 | 850,000 |
| Debt Service Fund | 0 | 1 | 0 |
| Capital Projects Fund | 0 | 115,443 | 0 |
| Total | <u>\$15,253</u> | <u>\$115,444</u> | <u>\$2,080,000</u> |

The School Board establishes (and modifies or rescinds) fund balance commitments by resolution of the board. A fund balance commitment is further indicated in the budget document as a commitment of the fund. Assigned fund balance is established by the Business Manager and/or Superintendent as delegated by the School Board.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

O. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The government-wide statement of net position reports \$115,444 of restricted net position, of which \$115,443 is restricted by enabling legislation for Capital Projects and \$1 by bond indenture for Debt Service.

P. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

Q. Pension Plan

Substantially all full-time and part-time employees of the District participate in a cost-sharing multiple employer defined benefit pension plan. GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, requires an employer that participates in such a plan to recognize annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure but as a long-term liability if not payable with expendable, available financial resources.) The District made all required contributions for the year ended June 30, 2013, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

3. Cash and Cash Equivalents and Investments

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

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

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

The deposit and investment policy of the school district adheres to state statutes and prudent business practice. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents consist of demand deposits at local financial institutions, money market mutual fund investments with Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania School District Liquid Asset Fund (PSDLAF), and cash on hand of \$300. The market values of deposits are equal to the cost of the deposits. The investments are stated at cost including accrued interest which approximates market value.

The District invests in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT) as authorized by the Board. PSDLAF was established to enable school districts to pool funds for investment in instruments authorized by Section 440.1 of the Pennsylvania School Code of 1949, as amended. PLGIT insures that it will not place deposits with any single issuing institution if the largest participant's pro rata share of such deposits exceeds insurance limits unless such deposits are collateralized as prescribed by Act 72 of the Commonwealth of Pennsylvania. These funds have the characteristics of open-end mutual funds and are not subject to credit risk classification.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

Cash

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk, however the District's deposits in excess of the FDIC limit are collateralized in accordance with the Pennsylvania Security for Public Deposit Act. As of June 30, 2013, \$1,387,365 of the District's bank balance of \$1,637,366 was exposed to custodial risk as:

| | |
|---|--------------------|
| Uninsured and uncollateralized | \$ 0 |
| Collateralized with securities held by the pledging financial institution | 0 |
| Uninsured and collateral held by the pledging bank's trust department not in the District's name | <u>1,387,365</u> |
| Total | <u>\$1,387,365</u> |

Reconciliation to Financial Statements

| | |
|-------------------------------------|--------------------|
| Uninsured amount above | \$1,387,365 |
| Plus: Insured amount | 250,001 |
| Plus: Deposits in transit | 2,107 |
| Less: Outstanding checks | <u>(149,858)</u> |
| Carrying amount – bank balances | 1,489,615 |
| Plus: Petty cash | 300 |
| Pooled cash equivalents | <u>1,658,266</u> |
| Total cash per financial statements | <u>\$3,148,181</u> |

Investments

As of June 30, 2013, the District had the following investments:

| <u>Investment</u> | <u>Maturity</u> | <u>Fair Value</u> |
|--------------------------------------|-----------------|--------------------|
| PA School District Liquid Asset Fund | N/A | \$1,407,087 |
| PA Local Government Investment Trust | N/A | <u>251,179</u> |
| Total | | <u>\$1,658,266</u> |

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2013, the District's investments were rated as:

| <u>Investment</u> | <u>Standard & Poor's</u> |
|--------------------------------------|------------------------------|
| PA Local Government Trust | AAAm |
| PA School District Liquid Asset Fund | AAAm |

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk

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

Reconciliation to Financial Statements

| | |
|---|--------------------|
| Total investments above | \$ 1,658,266 |
| Less: Deposits in investment pool considered cash equivalents | <u>(1,658,266)</u> |
| Total investments per financial statements | <u>\$ 0</u> |

4. Real Estate Taxes

Real estate taxes for the School District are collected from the Township of Stonycreek and the Boroughs of Indian Lake and Shanksville. The tax on real estate for public school purposes for fiscal 2013 was 34.81 mills (\$34.81 per \$1,000 of assessed valuation) as levied by the Board. Assessed valuations (\$95,820,725) of property are determined by Somerset County and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows:

| | |
|--------------------------|-----------------------|
| July 1 | - Levy Date |
| July 1 - August 31 | - 2% Discount Period |
| September 1 - October 31 | - Face Payment Period |
| November 1 - December 31 | - 5% Penalty Period |
| January 15 | - Lien Date |

5. Taxes Receivable

The elected tax collectors are required to return any uncollected real estate taxes to the county's tax claim bureau by January 15. It has been determined the amount of outstanding taxes as of June 30, 2013 is \$515,522. The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. An allowance for uncollectible taxes was not established by the administration. A portion of the amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

Uncollected taxes for the year ended June 30, 2013:

| | |
|--|------------------|
| Delinquent Real Estate | \$ 21,480 |
| Interim Real Estate | 874 |
| Realty Transfer Tax | 3,660 |
| Earned Income Taxes | <u>7,411</u> |
| Uncollected Taxes Recognized as Revenue (received within 60 days) | 33,425 |
| Real Estate Tax Deferred | <u>482,097</u> |
| Total Taxes Receivable | <u>\$515,522</u> |

6. Deferred Revenues

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On the fund financial statements, general fund deferred revenues of \$482,097 represents deferred real estate taxes at June 30, 2013. Deferred revenues in the food service fund (\$4,869) represent credits on student cafeteria accounts (\$2,144) and donated commodities inventory on hand (\$2,725) at June 30, 2013.

7. Due From Other Governments

Amounts due from other governments represent receivables for revenues earned by the School District or collections made by another governmental unit on behalf of the School District. At June 30, 2013, the following amounts are due from other governmental units:

| <u>Due From</u> | <u>General Fund</u> | <u>Proprietary Fund</u> |
|-----------------|---------------------|-------------------------|
| Federal | \$ 94,104 | \$7,726 |
| State | 61,340 | 743 |
| Local | <u>63,851</u> | <u>0</u> |
| | <u>\$219,295</u> | <u>\$8,469</u> |

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

8. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

| | Beginning Balance | Additions | Transfers/ Deductions | Ending Balance |
|--|----------------------|---------------------|--------------------------|---------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 24,792 | \$ 0 | \$ 0 | \$ 24,792 |
| Construction in progress | 15,700 | 0 | (15,700) | 0 |
| Total capital assets, not being depreciated | 40,492 | 0 | (15,700) | 24,792 |
| Capital assets, being depreciated: | | | | |
| Site improvements | 840,029 | 3,175 | 0 | 843,204 |
| Buildings and improvements | 8,933,543 | 0 | 0 | 8,933,543 |
| Furniture and equipment | 1,030,934 | 27,258 | 15,700 | 1,073,892 |
| Total capital assets, being depreciated | 10,804,506 | 30,433 | 15,700 | 10,850,639 |
| Less accumulated depreciation: | | | | |
| Site improvements | 524,356 | 42,169 | 0 | 566,525 |
| Buildings and improvements | 3,904,227 | 259,939 | 0 | 4,164,166 |
| Furniture and equipment | 792,446 | 74,000 | 0 | 866,446 |
| Total accumulated depreciation | 5,221,029 | 376,108 | 0 | 5,597,137 |
| Total capital assets, being depreciated, net | 5,583,477 | (345,675) | 15,700 | 5,253,502 |
| Governmental activities capital assets, net | <u>\$ 5,623,969</u> | <u>\$ (345,675)</u> | <u>\$ 0</u> | <u>\$ 5,278,294</u> |
| Business-Type Activities | | | | |
| Capital assets, being depreciated: | | | | |
| Equipment | \$ 234,542 | \$ 0 | \$ 0 | \$ 234,542 |
| Total capital assets, being depreciated | 234,542 | 0 | 0 | 234,542 |
| Less accumulated depreciation: | | | | |
| Equipment | 212,585 | 5,066 | 0 | 217,651 |
| Total accumulated depreciation | 212,585 | 5,066 | 0 | 217,651 |
| Business-type activities capital assets, net | <u>\$ 21,957</u> | <u>\$ (5,066)</u> | <u>\$ 0</u> | <u>\$ 16,891</u> |

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

Governmental Activities:

| | |
|--|------------------|
| Instruction | \$220,400 |
| Instruction support | 31,969 |
| Administration and finance | 57,921 |
| Operation and maintenance of plant | 36,482 |
| Pupil transportation | 22,566 |
| Student activities | 6,770 |
| Total depreciation expense - governmental activities | <u>\$376,108</u> |

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

9. Deferred Bond costs

Deferred bond costs include bond expenses on the various District bond issues as presented in the financial statements. These costs are amortized over the life of the respective bond issues.

| | Balance July 1, 2012 | Additions | Deletions | Balance June 30, 2013 |
|--------------------------------|-------------------------|-------------------|------------|--------------------------|
| Bond costs | \$206,388 | \$ 0 | \$0 | \$206,388 |
| Less: accumulated amortization | (49,304) | (26,651) | 0 | (75,955) |
| Total | <u>\$157,084</u> | <u>\$(26,651)</u> | <u>\$0</u> | <u>\$130,433</u> |

10. Defined Benefit Pension Plan

Plan Description

The District contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employee's Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a publicly available financial report that includes financial statements for the plan. That report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, 5 N. 5th Street, Harrisburg, PA, 17101-1905. This report is also available on the publications section of the PSERS website at www.psers.state.pa.us.

Funding Policy

The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth.

Contribution rates:

Member contributions –

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

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

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

Employer contributions – The contribution required of participating employers is based on an actuarial valuation and is expressed as a percentage of annual covered payroll during the period for which the amount is determined. Before July 1, 1995, the school district and the Commonwealth shared the employer contribution rate equally. Since July 1, 1995, the school districts are required to pay the entire employer contribution rate and are reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the market value/personal income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. For the fiscal year ended June 30, 2013, the rate of the employer's contribution was 12.36 percent of covered payroll. The 12.36 percent rate is composed of a pension contribution rate of 11.50 percent for pension benefits and 0.86 percent for healthcare insurance premium assistance. Shanksville-Stonycreek School District's contributions to PSERS for the years ending June 30, 2013, 2012 and 2011 were \$298,130, \$211,497, and \$148,675, respectively. Those amounts are equal to the required contribution for each year.

11. Post-employment Healthcare Benefits

The Public School Employees' Retirement System (PSERS) provides a health insurance premium assistance program (premium assistance), a post-employment healthcare plan as defined in the Public School Employees' Retirement Code and amended by Act 29. The program is available to all eligible annuitants who elect to participate. Under this program, an employer contribution rate for premium assistance was established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits.

Participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their monthly insurance premium. In order to receive premium assistance, eligible annuitants must obtain their health insurance through their employer or the System's Health Options Program (HOP), in which the system acts as a conduit between the insurance companies and the eligible annuitant.

12. Postemployment Benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2010, the District recognizes the cost of postemployment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. Because the District adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 15 years, commencing with the 2010 liability.

Plan Description

The District provides continuation of medical (PPO) and pharmacy benefits to employees who retire from the District.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

Eligibility

Age and service requirements for retirement vary by group as shown below. No benefits are provided upon termination of employment if retirement conditions are not met at termination. No benefits are provided to surviving dependents upon death if employee has not retired.

| | |
|-----------------|---|
| Teachers: | Eligibility for PSERS retirement (superannuation or early retirement provisions), including at least 15 years with the Shanksville-Stonycreek School District. Otherwise, eligible to purchase coverage upon retirement after meeting the requirements of Act 110/43. |
| Administrators: | Eligibility for PSERS retirement (superannuation or early retirement provisions), including at least 15 years with the Shanksville-Stonycreek School District. Otherwise, eligible to purchase coverage upon retirement after meeting the requirements of Act 110/43. |
| Support Staff: | Eligible to purchase coverage upon retirement after completing 15 years of District service or meeting the requirements of Act 110/43. |

Duration of Healthcare Benefits

| | |
|-----------------|---|
| Teachers: | Retiree coverage continues until age 65, death or qualification for Medicare if earlier. Spouse coverage continues until age 65, death, qualification for Medicare, or cessation of retiree coverage if earlier. Surviving spouses receive the remaining District incentive, if any. |
| Administrators: | Retiree coverage continues until age 65, or death or qualification for Medicare if earlier. Spouse coverage continues until age 65, death, qualification for Medicare, or cessation of retiree coverage if earlier. Surviving spouses receive the remaining District incentive, if any. |
| Support Staff: | Retiree coverage continues until age 65, or death or qualification for Medicare if earlier. Spouse coverage continues until age 65, death, qualification for Medicare, or cessation of retiree coverage if earlier. |

Participant Contributions

| | |
|-----------|---|
| Teachers: | Under the District incentive the retiree remits the PSERS premium assistance amount. The District provides an incentive amount of up to \$6,000 annually for up to 6 years. The retiree and spouse are responsible for any additional premium amounts. Prior retirees have a \$4,500 or \$6,500 incentive benefit, depending on date of retirement. Under Act 110/43 the retiree and/or spouse pay the full premium amount. |
|-----------|---|

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

Administrators: Under the District incentive the retiree remits the PSERS premium assistance amount. The District provides an incentive amount of up to \$6,500 annually for up to 6 years. The retiree and spouse are responsible for any additional premium amounts. Under Act 110/43 the retiree and/or spouse pay the full premium amount.

Support Staff: Retiree and/or spouse pay the full premium amount.

All contracts with the District's union employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change.

OPEB benefits are administered by District personnel. No separate financial statements are issued.

The number of participants as of July 1, 2012, the effective date of the biennial OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

| | District |
|------------------------------|-----------|
| Active employees | 44 |
| Retired employees | 6 |
| Spouses of retired employees | <u>1</u> |
| Total | <u>51</u> |

Funding Policy

The District currently pays for postemployment health care benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

Annual Other Postemployment Benefit Cost

For the fiscal year ended June 30, 2013, the District's annual OPEB cost (i.e., expense) of \$74,136 is equal to the Annual Required Contribution. Considering the District's annual OPEB cost as well as the payment of current health insurance premiums, which totaled \$34,600, the result was an increase in the District's Net OPEB Obligation of \$39,536 for the year ended June 30, 2013.

| | District |
|---|-------------------|
| Actuarial Accrued Liability (AAL) | |
| Retired employees | \$ 117,100 |
| Active employees | <u>390,600</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 507,700</u> |
| Normal cost at beginning of year | \$ 26,600 |
| Amortization factor based on 15 years | 9.9653 |
| Annual covered payroll | To be determined |
| UAAL as % of covered payroll | To be determined |

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

| | District |
|---|-----------|
| ARC Normal Cost | \$ 27,029 |
| Amortization of UAAL | 50,947 |
| Annual required contribution (ARC) | 77,976 |
| Interest on Net OPEB Obligation | 0 |
| Adjustment to ARC | (3,840) |
| Annual OPEB cost (expense) | 74,136 |
| Contribution for the fiscal year | (34,600) |
| Increase in Net OPEB Obligation | 39,536 |
| Net OPEB Obligation June 30, 2012 | 55,280 |
| Net OPEB Obligation June 30, 2013 | \$ 94,816 |
| Percent of annual OPEB cost contributed | 46.7% |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation of the fiscal years ending June 30, 2013, 2012 and 2011 for the benefits were as follows:

| Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|------------|------------------|-------------------------------------|---------------------|
| 6/30/2013 | \$ 74,136 | 46.7% | \$ 94,816 |
| 6/30/2012 | \$ 89,853 | 55.8% | \$ 55,280 |
| 6/30/2011 | \$ 88,062 | 87.9% | \$ 15,527 |

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. Most included coverages are "community-rated" and annual premiums for community-rated coverages were used as a proxy for claims costs without age adjustment. The unfunded actuarial accrued liability is being amortized over 15 years on a closed level dollar basis, beginning in fiscal year 2009-10.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

In the July 1, 2012 actuarial valuation, the liabilities were computed using the projected unit credit method and closed level dollar amortization. The actuarial assumptions utilized a 3.25% discount rate. Because the plan is unfunded, reference to the general assets, which are short-term in nature (such as money market funds), was considered in the selection of the 3.25% rate. The valuation assumes a 7.9% healthcare cost trend increase for fiscal year 2013-14, reduced by decrements to a rate of 5.3% by 2017.

13. Long-Term Obligations

During the fiscal year ended June 30, 2013, general long-term obligations changed as follows:

| | Bonds Payable | Other Long-term Financing | Compensated Absences | Total General Long-term Debt |
|------------------------------------|---------------------|---------------------------------|-------------------------|------------------------------------|
| Beginning of year | \$ 5,295,000 | \$ 448,367 | \$ 107,033 | \$ 5,850,400 |
| Debt proceeds | 0 | 0 | 0 | 0 |
| Principal retirement | (575,000) | (29,214) | 0 | (604,214) |
| Changes in compensated absences | 0 | 0 | 28,900 | 28,900 |
| End of year | 4,720,000 | 419,153 | 135,933 | 5,275,086 |
| Less: Current portion | (620,000) | (29,021) | (15,616) | (664,637) |
| Less: Original issue discount, net | (47,542) | 0 | 0 | (47,542) |
| Add: Original issue premium, net | 22,379 | 0 | 0 | 22,379 |
| Long-term liabilities | <u>\$ 4,074,837</u> | <u>\$ 390,132</u> | <u>\$ 120,317</u> | <u>\$ 4,585,286</u> |

The future annual payments required to amortize all outstanding debt and obligations, except for the compensated absences and the Technology Center debt, as of June 30, 2013, including total interest payments are as follows:

| Year Ended June 30, | General Obligation Bonds | | |
|------------------------|--------------------------|---------------------|---------------------|
| | Interest | Principal | Total |
| 2014 | \$ 113,901 | \$ 620,000 | \$ 733,901 |
| 2015 | 100,545 | 640,000 | 740,545 |
| 2016 | 85,525 | 655,000 | 740,525 |
| 2017 | 70,093 | 670,000 | 740,093 |
| 2018 | 53,573 | 690,000 | 743,573 |
| 2019-2020 | 45,860 | 1,445,000 | 1,490,860 |
| | <u>\$ 469,497</u> | <u>\$ 4,720,000</u> | <u>\$ 5,189,497</u> |

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

General Obligation Bonds, Series of 2012

The District issued General Obligation Bonds, Series of 2012, dated March 15, 2012, in the principal amount of \$1,535,000. The proceeds of the bonds were used to advance refund the District's General Obligation Bonds, Series of 2006 (\$1,485,000) and to pay all costs incidental to the issuance of these bonds. The present value of the net economic gain the School District realized as a result of the advance refunding of the Series of 2006 bonds is \$53,714. The bonds bear interest rates ranging from 0.35% to 1.5% with annual principal maturities from September 2012 through September 2017. The balance outstanding at June 30, 2013 was \$1,315,000.

General Obligation Bonds, Series of 2011

The District issued General Obligation Bonds, Series of 2011, dated June 15, 2011, in the principal amount of \$1,110,000. The proceeds of the bonds were used to advance refund the District's General Obligation Bonds, Series of 2001 (\$1,015,000) and to pay all costs incidental to the issuance of these bonds. The present value of the net economic gain the School District realized as a result of the advance refunding of the Series of 2001 bonds is \$55,480. The bonds bear interest rates ranging from 2.80% to 3.15% with annual principal maturities from September 2012 through September 2019. The balance outstanding at June 30, 2013 was \$1,100,000.

General Obligation Bonds, Series of 2009

The District issued General Obligation Bonds, Series of 2009, dated March 1, 2009, in the principal amount of \$3,565,000. The proceeds of the bonds were used to advance refund the District's General Obligation Bonds, Series of 2002 and to pay all costs incidental to the issuance of these bonds. The bonds bear interest rates ranging from 2.0% to 3.3% with annual principal maturities from September 2009 through September 2018. The balance outstanding at June 30, 2013 was \$2,305,000.

Other Long-Term Financing: Somerset County Technology Center

Other long-term liabilities at June 30, 2013 include Shanksville-Stonycreek School District's estimated share of the Series of 2011 General Obligation Note, related to the area vocational-technical school, issued in the principal amount of \$4,825,000. The proceeds of the note were used to refinance the Series 2004 State Public School Building Authority Bonds. This debt service is shared by eight surrounding school districts including Shanksville-Stonycreek School District.

The Series of 2011 Note has a scheduled maturity of May 15, 2025. Interest is payable semi-annually on May 15th and November 15th, commencing on November 15, 2011.

Shanksville-Stonycreek School District's prorated share of the scheduled debt service payments fluctuates based on the estimated market value of the real estate within the District. The Commonwealth of Pennsylvania establishes the annual debt allocation rate. Because of the fluctuating nature of the allocation rate, no schedule of future debt payments is presented. However, the District did recognize an estimated current (\$29,021) and long-term (\$390,132) liability for their estimated share of the future debt service principal payments. These estimates are based on the District's 2012-2013 debt allocation rate of 10.07%. Accordingly, the Shanksville-Stonycreek School District's share of the balance outstanding at June 30, 2013 is \$419,153.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

Accumulated Compensated Absences

In accordance with accounting principles generally accepted in the United States of America, the District accrues liabilities for compensated absences. Compensated absences reflect the potential cost of sick leave earned by employees as of June 30, 2013. The School District allows all employees to accumulate their unused sick leave. Upon retirement, employees shall receive separation benefits based upon the total days of unused sick leave accumulated while in the employ of Shanksville-Stonycreek School District at the rate of \$50 per day for professional staff up to a maximum of 120 days and \$15 per day for administrators and support staff up to a maximum of 100 days.

The School District has computed a total liability of \$135,933 at June 30, 2013 with \$133,373 reflected in the General Fund and \$2,560 reflected in the proprietary fund. Due to the nature of the obligation for accrued separation benefits, annual requirements to amortize such obligations are not determinable and have not been presented.

General obligation bonds issued for governmental activity purposes are liquidated by the debt service fund. Long-term financing agreements entered into for governmental activity purposes are liquidated by the general fund. Compensated absences liabilities for governmental activities will be paid by the general fund; whereas those related to business-type activities will be paid by the proprietary fund.

14. Operating Leases

The School District entered into noncancellable operating leases for copiers and a postage meter. Rental expenditures under all operating lease agreements were \$12,777. Future minimum rental payments required under operating leases that have remaining lease terms as of June 30 are as follows:

| Year Ended June 30, | <u>Payment</u> |
|---------------------------------|-----------------|
| 2014 | \$12,624 |
| 2015 | 12,624 |
| 2016 | 12,251 |
| 2017 | 11,133 |
| 2018 | <u>4,639</u> |
| Total minimum payments required | <u>\$53,271</u> |

15. Interfund Transactions

The following is a summary of interfund receivables and payables at June 30, 2013:

| | <u>Receivables</u> | <u>Payables</u> |
|---|--------------------|-----------------|
| General Fund (Major Fund) | \$14,283 | \$ 0 |
| Enterprise Fund – Food Service (Major Fund) | 0 | 5,506 |
| Capital Projects Fund (Non-Major Fund) | <u>0</u> | <u>8,777</u> |
| | <u>\$14,283</u> | <u>\$14,283</u> |

The School District typically pays employees of the Food Service Fund and subsequently charges the Food Service Fund for reimbursement in order to assist the fund in providing meals. The amount owed the District by Food Service at June 30, 2013 represents summer wages.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

In some cases, the General Fund incurs the cost of capital expenditures and is later reimbursed for such capital costs by the Capital Projects fund.

Interfund transactions during the year ended June 30, 2013 consisted of the following:

| | <u>Transfer in</u> | <u>Transfer out</u> |
|---|--------------------|---------------------|
| General Fund (Major Fund) | \$ 0 | \$684,258 |
| Debt Service Fund (Major Fund) | 684,258 | 0 |
| General Fund (Major Fund) | 0 | 7,020 |
| Capital Projects Fund (Non-Major Fund) | 7,020 | 0 |
| General Fund (Major Fund) | 0 | 73,399 |
| Enterprise Fund - Food Service (Major Fund) | <u>73,399</u> | <u>0</u> |
| Total | <u>\$764,677</u> | <u>\$764,677</u> |

The School District pays its debt service out of the Debt Service Fund, therefore, the General Fund transfers amounts each year to pay the annual debt service. The School District typically transfers funds each year from the General Fund to the Capital Projects Fund to fund future capital improvements. Further, the General Fund transfers funds to Food Service to assist in subsidizing operating expenditures, as needed.

16. Contingent Liabilities

Grant Programs

The School District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditures which may be disallowed pursuant to the term of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

17. Self-Insurance - Medical Insurance

The School District is participating in the insurance consortium with the Bedford-Somerset Consortium to provide for the medical care for eligible employees and their dependents. The consortium, which administers the plan, monitors the School's deposit into the school district trust account to be held for the benefits described above and Highmark Services, the plan administrator, processes and pays the claims. The consortium limits its liability by stop-loss insurance coverage. Shanksville-Stonycreek School District's liability at June 30, 2013, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2013, as the District recognizes medical claim expenses as claims are paid.

18. Risk Management

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended June 30, 2013 and the two previous fiscal years, no settlements exceeded insurance coverage.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2013

19. Related Party Transactions

Intermediate Unit Participation

The District is a member of Appalachia Intermediate Unit 8. The District avails itself of various services provided by this membership including special education, curriculum development, and certain internal service functions. The total of services provided to Shanksville-Stonycreek School District for the year ended June 30, 2013 for Appalachia Intermediate Unit 8 programs amounted to \$92,574. At June 30, 2013, the District had a balance due from Appalachia IU8 of \$7,379 (overpayment).

Technology Center School Participation

The School District governs, with seven other school districts, the Somerset County Technology Center. Each district is represented on the Technology Center's school board. Students of the Shanksville-Stonycreek School District have available at the Technology Center courses and curriculums related to the technical training field. The District's portion of tuition payments for its students attending the Technology Center for fiscal year 2013 amounted to \$290,858.

20. Economic Dependency

Shanksville-Stonycreek School District receives approximately 38% of its revenue from the State of Pennsylvania in the form of state subsidies. Changes in funding levels by the State could have a material effect on future operations of the District.

21. Nonmonetary Transactions

The District receives one of its federal program subsidies by means of noncash transfer. The U.S. Department of Agriculture, through the Pennsylvania Department of Agriculture, provides food commodities under the National School Lunch Program. These nonmonetary commodity items are valued at market values and recorded as revenue as received. The total food commodities donated by the federal government for the fiscal year 2013 totaled \$11,590.

22. Restatement of Net Position

Net position of the governmental activities was restated effective July 1, 2012 to correct for understated long-term receivables resulting in an increase in net position of \$41,698. This adjustment affects the government-wide statements only.

Shanksville-Stonycreek School District
Schedule of Revenues, Expenditures and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2013

| | Budgeted Amounts | | Actual | Variance with Final |
|---|------------------|--------------|-------------------|--------------------------------|
| | Original | Final | (Budgetary Basis) | Budget Favorable (Unfavorable) |
| Revenues | | | | |
| Local sources | \$ 3,527,283 | \$ 3,527,283 | \$ 3,689,195 | \$ 161,912 |
| State sources | 2,167,927 | 2,167,927 | 2,346,086 | 178,159 |
| Federal sources | 130,000 | 130,000 | 145,895 | 15,895 |
| Total revenues | 5,825,210 | 5,825,210 | 6,181,176 | 355,966 |
| Expenditures | | | | |
| Instruction: | | | | |
| Regular programs | 2,993,098 | 2,993,098 | 2,303,894 | 689,204 |
| Special programs | 520,321 | 520,321 | 445,084 | 75,237 |
| Vocational education programs | 306,800 | 306,800 | 290,858 | 15,942 |
| Other instructional programs | 13,156 | 13,156 | 20,447 | (7,291) |
| Community/junior college programs | 6,240 | 6,240 | 3,025 | 3,215 |
| Pre-kindergarten | 70,942 | 70,942 | 79,255 | (8,313) |
| Support services: | | | | |
| Pupil personnel | 164,910 | 164,910 | 135,132 | 29,778 |
| Instructional staff | 427,918 | 427,918 | 324,532 | 103,386 |
| Administration | 626,070 | 626,070 | 568,823 | 57,247 |
| Pupil health | 91,613 | 91,613 | 85,914 | 5,699 |
| Business | 167,482 | 167,482 | 133,921 | 33,561 |
| Operation and maintenance of plant | 529,768 | 529,768 | 510,189 | 19,579 |
| Student transportation | 265,720 | 265,720 | 326,670 | (60,950) |
| Other support services | 5,200 | 5,200 | 3,387 | 1,813 |
| Operation of noninstructional services: | | | | |
| Student activities | 121,813 | 121,813 | 90,807 | 31,006 |
| Community services | 4,888 | 4,888 | 1,612 | 3,276 |
| Scholarships and awards | 2,080 | 2,080 | 3,500 | (1,420) |
| Capital outlay | 20,800 | 20,800 | 0 | 20,800 |
| Debt service: | | | | |
| Principal and interest | 46,800 | 46,800 | 44,141 | 2,659 |
| Total expenditures | 6,385,619 | 6,385,619 | 5,371,191 | 1,014,428 |
| Excess (deficiency) of revenues over expenditures | (560,409) | (560,409) | 809,985 | 1,370,394 |
| Other financing sources (uses) | | | | |
| Transfers out | (832,000) | (832,000) | (764,677) | 67,323 |
| Budgetary reserve | (52,000) | (52,000) | 0 | 52,000 |
| Total other financing sources (uses) | (884,000) | (884,000) | (764,677) | 119,323 |
| Net change in fund balance | (1,444,409) | (1,444,409) | 45,308 | 1,489,717 |
| Fund balance, beginning of year | 2,761,000 | 2,761,000 | 2,694,341 | (66,659) |
| Fund balance, end of year | \$ 1,316,591 | \$ 1,316,591 | \$ 2,739,649 | \$ 1,423,058 |

See accompanying notes to basic financial statements.

**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***

Independent Auditors' Report

To the Members of the Board
Shanksville-Stonycreek School District
P.O. Box 128
1325 Cornerstone Road
Shanksville, Pennsylvania 15560-0128

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 Shanksville-Stonycreek School District as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise Shanksville-Stonycreek School District's basic financial statements, and have issued our report thereon dated January 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shanksville-Stonycreek 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 Shanksville-Stonycreek School District's internal control.

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

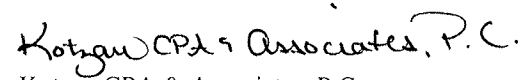
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shanksville-Stonycreek School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on

the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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


Kotzan CPA & Associates, P.C.
Johnstown, Pennsylvania
January 3, 2014