

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

**Single Audit as Required
by OMB Circular A-133**

**For the Year Ended
June 30, 2011**

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List of Report Distribution

December 20, 2011

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 thirty days after receipt of the audit report, Shanksville-Stonycreek School District must distribute the audit report as follows:

One (1) copy to: Commonwealth of Pennsylvania
Bureau of Audits
(submitted electronically)

One (1) copy to: Single Audit Clearinghouse
(submitted electronically)

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

We have audited the accompanying basic 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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

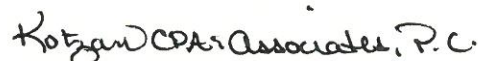
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shanksville-Stonycreek School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2011 on our consideration of Shanksville-Stonycreek School District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 56, 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.

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



Kotzan CPA & Associates, P.C.

December 20, 2011

Management's Discussion and Analysis

Shanksville-Stonycreek School District

2010-2011

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, 2011. 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 405 which includes grades Pre-K through Grade 12.

The District employs 61 regular employees, with roughly 25 part-time substitutes. The teaching staff consists of 40 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, 2012.

Financial Highlights

Key financial highlights for the year ending June 30, 2011 are as follows:

- ❖ District-wide net assets decreased \$30,925
- ❖ Total fund balances of all governmental funds equaled \$2,899,298
- ❖ Unassigned general fund balance equaled \$666,290

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

- ❖ 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
- ❖ Capital Projects fund balance equaled \$119,345
- ❖ Debt Service fund balance equaled \$18,410
- ❖ Total general fund revenues exceeded budget by \$340,436
- ❖ Total general fund expenses were \$777,325 under budget
- ❖ The District's proprietary fund/business-type activity (cafeteria) had a decrease in net assets of \$50,085.

Long Term Issues and Commitments

- ❖ Long Term Debt: The District refinanced the Series of 2001 bond issue in June 2011. Outstanding bond issues as of June 30, 2011 include the Series of 2011, Series of 2009, and the Series of 2006 with a combined total outstanding principal balance of \$5,800,000.
 - ❖ Long Term Debt also consists of the District's estimated share of the Series of 2004 area vocational-technical school's general obligation bond. The District's share of the balance outstanding at June 30, 2011 is \$453,040.
 - ❖ The District also has one year remaining on a loan with a local financial institution for the purchase of a van. The balance outstanding at June 30, 2011 is \$6,476.

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 and a private purpose trust fund.

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.

Figure A-1
Required components of
Shanksville-Stonycreek School District's
Financial Report

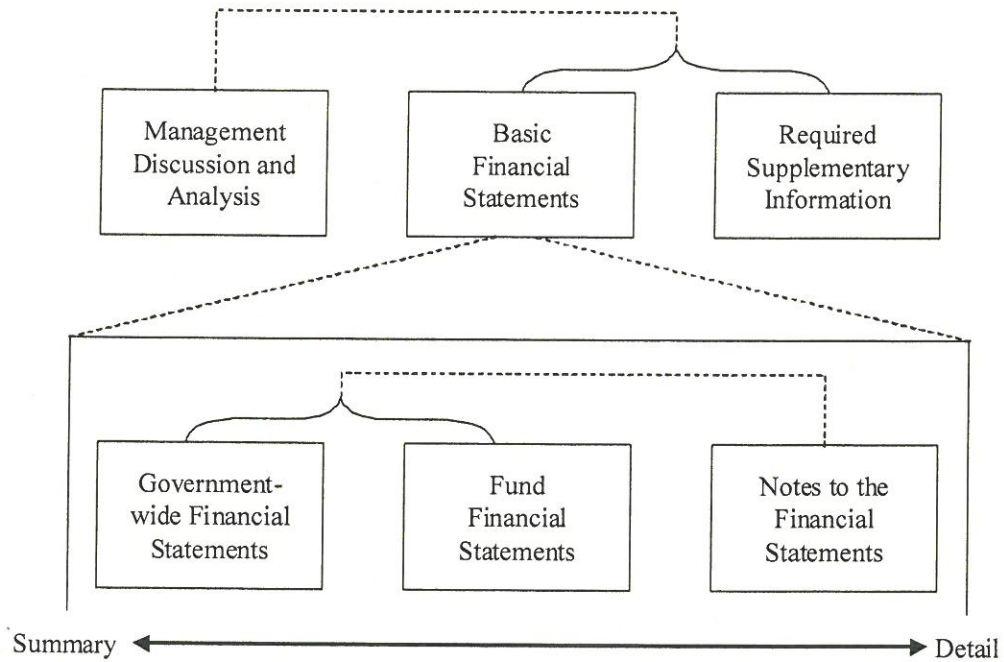


Figure A-2 summarizes the major features of the financial statements, including the portion of the District they cover and the types of information they contain.

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 & private purpose trust funds
Required financial statements	Statement of net assets Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
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

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 Assets and the Statement of Activities.

The *Statement of Net Assets* includes all of the District's assets and liabilities. 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 assets. Net assets – the difference between the District's assets and liabilities – are one way of measuring the District's financial health or position. Over time, increases or decreases in the District's net assets 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 Assets 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.

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 and the private purpose trust fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. 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.

Figure A-3 summarizes the assets, liabilities, and net assets of the District at June 30, 2011.

Figure A-3 Net Assets As of June 30, 2011 - (District-Wide)							
	Governmental Activities		Business-Type Activities		Total School District		Total % Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Assets							
Current Assets	\$3,759,781	\$ 4,116,448*	\$20,437	\$54,921	\$3,780,218	\$ 4,171,369	
Capital Assets	<u>6,058,363</u>	<u>6,249,539*</u>	<u>27,023</u>	<u>39,774*</u>	<u>6,085,386</u>	<u>6,289,313</u>	
Total Assets	<u>\$9,818,144</u>	<u>\$10,365,987</u>	<u>\$47,460</u>	<u>\$94,695</u>	<u>\$9,865,604</u>	<u>\$10,460,682</u>	-5.69%
Liabilities							
Current Liabilities	\$ 983,690	\$ 1,181,735*	\$ 6,432	\$ 3,582	\$ 990,122	\$ 1,185,317	
Long-Term Liabilities	<u>5,740,535</u>	<u>6,109,493*</u>	<u>0</u>	<u>0</u>	<u>5,740,535</u>	<u>6,109,493</u>	
Total Liabilities	<u>\$6,724,225</u>	<u>\$ 7,291,228</u>	<u>\$ 7,327</u>	<u>\$ 3,582</u>	<u>\$6,730,657</u>	<u>\$ 7,294,810</u>	-7.73%
Net Assets							
Invested in Capital Assets, net of Related Debt	\$ 195,025	\$ (461)	\$27,023	\$39,774	\$ 222,048	\$ 39,313	
Restricted	137,755	123,713	0	0	137,755	123,713	
Unrestricted	<u>2,761,139</u>	<u>2,951,507</u>	<u>14,005</u>	<u>51,339</u>	<u>2,775,144</u>	<u>3,002,846</u>	
Total Net Assets	<u>\$3,093,919</u>	<u>\$ 3,074,759</u>	<u>\$41,028</u>	<u>\$91,113</u>	<u>\$3,134,947</u>	<u>\$ 3,165,872</u>	-0.98%

* Restated – see note 22 to the financial statements

Current assets are largely comprised of cash and cash equivalents which represents approximately \$2.9 million at June 30, 2011. 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 \$890,000 at June 30, 2011.

The decrease in current and capital assets combined with a decrease in both current and long-term liabilities resulted in a decrease in net assets of approximately \$31,000 in fiscal year 2011.

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

Figure A-4 summarizes the revenues, expenses, and changes in net assets of the District for the year ended June 30, 2011.

<p align="center">Figure A-4 Changes in Government-wide Net Assets For the Year Ended June 30, 2011</p>							
	Governmental Activities		Business-type Activities		Total School District		Total % Change 2010-2011
	2011	2010	2011	2010	2011	2010	
Revenues:							
Program Revenues:							
Charges for Services	\$ 44,657	\$ 32,611	\$ 97,100	\$ 101,790	\$ 141,757	\$ 134,401	
Operating Grants and Contributions	967,656	1,063,504 *	87,508	96,950	1,055,164	1,160,454	
Capital Grants and Contributions	113,860	112,154	0	0	113,860	112,154	
Total Program Revenues	<u>1,126,173</u>	<u>1,208,269</u>	<u>184,608</u>	<u>198,740</u>	<u>1,310,781</u>	<u>1,407,009</u>	-6.84%
General Revenue:							
Property and Other Taxes Levied	3,203,296	3,602,472 *	0	0	3,203,296	3,602,472	
Grants, subsidies, contributions	1,695,499	1,499,265	0	0	1,695,499	1,499,265	
Investment Earnings	13,500	23,540	37	227	13,537	23,767	
Miscellaneous Income	315	76,496	0	0	315	76,496	
Transfers	(21,558)	(22,061)	21,558	22,061	0	0	
Special Item:					0	0	
SCTC Debt Reduction	<u>0</u>	<u>11,010</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,010</u>	
Total General Revenues	<u>4,891,052</u>	<u>5,190,722</u>	<u>21,595</u>	<u>22,288</u>	<u>4,912,647</u>	<u>5,213,010</u>	-5.76%
Expenses:							
Instruction	3,562,648	3,326,619 *	0	0	3,562,648	3,326,619	
Instructional Student Support	433,328	473,157	0	0	433,328	473,157	
Admin and Financial Support Services	822,800	804,578	0	0	822,800	804,578	
Operating and Maintenance							
of Plant Services	502,639	449,762	0	0	502,639	449,762	
Pupil Transportation	343,463	310,124	0	0	343,463	310,124	
Student Activities	99,339	111,876	0	0	99,339	111,876	
Community Services	0	923	0	0	0	923	
Scholarships	0	4,000	0	0	0	4,000	
Interest on Long-term Debt	233,848	94,490 *	0	0	233,848	94,490	
Depreciation - Unallocated	0	83,573 *	0	0	0	83,573	
Food Service	<u>0</u>	<u>0</u>	<u>256,288</u>	<u>260,000</u>	<u>256,288</u>	<u>260,000</u>	
Total Expenses	<u>5,998,065</u>	<u>5,659,102</u>	<u>256,288</u>	<u>260,000</u>	<u>6,254,353</u>	<u>5,919,102</u>	-5.66%
Increase (Decrease) in Net Assets	19,160	739,889	(50,085)	(38,972)	(30,925)	700,917	
Beginning Net Assets, restated	<u>3,074,759</u>	<u>2,334,870</u>	<u>91,113</u>	<u>130,085</u>	<u>3,165,872</u>	<u>2,464,955</u>	
Ending Net Assets	<u>\$ 3,093,919</u>	<u>\$ 3,074,759</u>	<u>\$ 41,028</u>	<u>\$ 91,113</u>	<u>\$ 3,134,947</u>	<u>\$ 3,165,872</u>	
*restated - see Note 22 to the financial statements							

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

The school district experienced an overall decrease in net assets of \$30,925. The increase in net assets of \$700,917 for fiscal year 2010 reflects adjustments effective July 1, 2010 (see Note 22 to the financial statements). However, the portion of the adjustments related to understated taxes receivable and overstated Technology Center debt for periods prior to fiscal year 2010 have not been computed. As a result, comparability of the change in net assets as well revenue from property taxes has been compromised.

The previous table shows the cost of program services and the charges for services and grants offsetting those services. 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
	2011	2011	2010	2010
Program Expenses				
Governmental Activities:				
Instruction	\$ 3,562,648	\$ 2,701,928	\$ 3,326,619 *	\$ 2,427,262 *
Instructional student support	433,328	433,328	473,157	462,900
Administration	822,800	815,185	804,578	772,247
Maintenance	502,639	388,779	449,762	441,460
Pupil transportation	343,463	206,676	310,124	176,786
Student activities	99,339	92,148	111,876	99,346
Community services	0	0	923	923
Scholarships	0	0	4,000	4,000
Interest and fiscal charges	233,848	233,848	94,490 *	(17,664) *
Depreciation - unallocated	0	0	83,573 *	83,573 *
Net program expenses	<u>\$ 5,998,065</u>	4,871,892	<u>\$ 5,659,102</u>	4,450,833
Less: Unrestricted state entitlements		<u>(1,695,499)</u>		<u>(1,499,265)</u>
Total governmental activities		<u>\$ 3,176,393</u>		<u>\$ 2,951,568</u>
Business-type activities:				
Food service	<u>\$ 256,288</u>	<u>\$ 71,680</u>	<u>\$ 260,000 *</u>	<u>\$ 61,260 *</u>

* restated - see Note 22 to the financial statements

Governmental Activities

Total net cost of service remained relatively unchanged from 2009-2010 to 2010-2011.

Business-Type Activities

Food service management—the cafeteria continues to rely on subsidy from the general fund for operations, but this number had decreased in the past few years.

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 2010-11 Expenses</u>	<u>Actual 2009-10 Expenses</u>	<u>Increase/ (Decrease) From P/Y</u>	<u>2010-11 Budget</u>	<u>(Over)/ Under Budget</u>
1100	Regular Educational Programs	\$ 2,453,681	\$ 2,269,194 *	\$ 184,487	\$ 2,836,390	\$ 382,709
1200	Special Programs	505,117	493,669	11,448	487,652	(17,465)
1300	Vocational Education	257,196	286,993	(29,797)	295,000	37,804
1400	Other Instructional Programs	23,657	4,499	19,158	10,600	(13,057)
1700	Community/junior college programs	7,408	9,032	(1,624)	10,000	2,592
1800	Pre-kindergarten	33,667	35,687	(2,020)	40,404	6,737
2100	Support Services - Pupil	134,287	129,805	4,482	289,107	154,820
2200	Support Services - Instructional Staff	308,035	320,107	(12,072)	256,732	(51,303)
2300	Support Services - Administration	542,277	533,356	8,921	574,621	32,344
2400	Support Services - Pupil Health	76,862	87,381	(10,519)	84,488	7,626
2500	Support Services - Business	132,986	134,158	(1,172)	185,780	52,794
2600	Operation and Maintenance	470,552	433,591	36,961	520,271	49,719
2700	Student Transportation Services	322,559	297,828	24,731	300,500	(22,059)
2900	Other Support Services	4,582	3,477	1,105	5,000	418
3200	Student Activities	96,398	93,875	2,523	103,266	6,868
3300	Community Services	1,226	923	303	5,200	3,974
3400	Scholarships and Awards	3,500	4,000	(500)	0	(3,500)
4000	Capital Outlay	0	0	0	20,000	20,000
5100	Debt Service	49,651	50,349	(698)	45,000	(4,651)
5130	Refund of Prior Year Receipts	0	60	(60)	0	0
5200	Fund Transfers	789,045	681,800	107,245	870,000	80,955
5900	Budgetary Reserve	<u>0</u>	<u>0</u>	<u>0</u>	<u>50,000</u>	<u>50,000</u>
	Total Expenditures	6,212,686	5,869,784	342,902	6,990,011	777,325
	Revenues/Other financing sources	<u>6,121,859</u>	<u>5,933,417</u> *	188,442	<u>5,830,728</u>	291,131
	Net Change	<u>\$ (90,827)</u>	<u>\$ 63,633</u>		<u>\$ (1,159,283)</u>	

* restated - see Note 22 to the financial statements

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 expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in Figure A-5. Significant variances are discussed below.

- A. Total General Fund Revenues exceeded budget by \$291,131.
 - 1. Budgetary estimate differed significantly in the following areas:
 - a. Local revenues:
 - i. Real Estate Taxes - \$94,624 is due the fact that payments received exceeded the average 90% collection rate that was used for budgeting purposes.
 - ii. Interim Real Estate Taxes - \$15,195 is due the fact that an above normal amount of interim real estate taxes were levied during the fiscal year.
 - iii. Delinquent Taxes - \$12,142 is due to the fact that payments received toward overdue taxes were greater than estimated.
 - iv. Earned Income Taxes - \$44,724 is due to the fact that the earned income of the School District residents exceeded estimates. The budget figure for this particular revenue included a large estimated reduction due to the number of layoffs in the immediate area.
 - v. IDEA (ARRA) - \$87,180 is due as additional monies received through the ARRA stimulus money that was originally scheduled to spend in 2009-2010 but was carried over into 2010-2011.
 - vi. Donations - \$25,209 is due to donations that exceeded the normal, small budgeted amount which includes \$20,000 for the greenhouse project that will be started in 2011-2012.
 - vii. Refund: Previous Year Expenses - \$43,379 was received as refund of payments from previous years. This is not an item that is budgeted for on a regular basis.
 - b. Federal Revenues
 - i. Title I-A (ARRA) – There was \$9,029 due to some of the ARRA allocation being spent in the second year (2010-2011) of the ARRA timeframe.
- B. Total General Fund Expenditures were under budget by \$777,325.
 - 1. The reduction of General Fund Expenditures, along with the increase in revenues, only required the use of \$90,927 of fund balance compared to the \$1,159,283 originally budgeted.
 - 2. The budget variances in figure A-5 were due to the District not doing any budgetary transfers for the year to balance the overages with the savings.

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

3. Salaries were under budget by \$212,499.
 - a. The District realized savings with the hiring of 2 new support staff personnel in relationship to the salary that was previously paid.
 - b. The District did not need to utilize substitutes at level that was budgeted.
 - c. The District realizes savings in athletics in some of the positions that are normally paid.
4. Benefits were under budget by \$496,631.
 - a. The District budgets all eligible employees with medical insurance. There were a larger number of employees who collected the non-participation incentive in 2010-2011.
 - b. The District budgets at a higher rate to help build a balance for future years when the rates are expected to spike. The rate was also decreased by the state after school budgets are done.
 - c. The medical insurance premiums were reduced lower than what was originally budgeted due to improved yearly figures for the health consortium that the District belongs to.
5. Supplies were under budget by \$30,772.
 - 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.
6. Fund Transfers were under budget by \$65,909.
 - a. The District refinanced one of the bond issues creating savings in the fund transfers to Debt Service.
 - b. The food service department's improved performance decreased the amount of funds needed from the General Fund to balance their books this year.

Revenue – Fund Financials – General Fund

The revenue for the school district comes from local, state, and federal sources. During the 2010-11 fiscal year, \$3,551,762 local funds (58%), \$2,140,721 state funds (35%) and \$429,376 federal funds (7%) were recognized by the general fund.

Local funding is primarily from real estate taxes (\$2,761,786) and earned income taxes (\$282,037). Delinquent taxes in the amount of \$162,142 were collected during the fiscal year. Also, Federal IDEA Pass Through revenue represented \$173,710 in 2010-11.

Basic Education Subsidy of \$1,248,135 makes up 41% of the total state subsidies received.

Other significant receipts for the state include Special Education, \$229,431; Transportation Subsidy, \$136,787; State Property Tax Reduction Allocation, \$172,443; and Revenue for Social Security and Retirement Payments, \$172,586.

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

ARRA State Fiscal Stabilization Fund and Education Jobs Fund revenues make up the most significant portion of federal funds received in the amounts of \$172,636 and \$102,284, respectively.

Technology

The importance of technology is always a part of the District's philosophy and planning. During fiscal year 2011, the District upgraded the business education lab, added numerous netbook computers for learning support, and 8 additional smartboards / projectors for classroom use. New reading software was purchased to aid learning support. The District also continues to improve support staff efficiency by upgrading support staff equipment and purchasing transportation software. The District also invested in its network infrastructure with purchase of a new computer server.

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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-11</u>
Land	\$ 24,792	\$ 24,792	\$ 0	\$ 0	\$ 24,792	\$ 24,792	
Site improvements	357,763	399,853	0	0	357,763	399,853	
Buildings	5,289,255	5,549,194	0	0	5,289,255	5,549,194	
Equipment and furniture	<u>274,748</u>	<u>275,700*</u>	<u>27,023</u>	<u>39,773*</u>	<u>301,771</u>	<u>315,473</u>	
Total	<u>\$5,946,558</u>	<u>\$6,249,539</u>	<u>\$27,023</u>	<u>\$39,773</u>	<u>\$5,973,581</u>	<u>\$6,289,312</u>	-5.02%

* restated – see Note 22 to the financial statements

While capital additions for the District in 2010-11 totaled \$94,736, depreciation expense totaled \$315,731 resulting in a decrease in net capital assets over prior year.

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 2010-2011 to the Act I index. The School District also filed for Act I exceptions to go raise taxes above the Act I Index for the 2011-2012 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 Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and equivalents	\$ 2,871,263	\$ 17,166	\$ 2,888,429
Taxes receivable	600,648	0	600,648
Intergovernmental receivables	272,617	0	272,617
Inventories	15,253	3,271	18,524
Total current assets	<u>3,759,781</u>	<u>20,437</u>	<u>3,780,218</u>
Noncurrent assets:			
Land	24,792	0	24,792
Depreciable capital assets, net	5,921,766	27,023	5,948,789
Deferred bond costs, net	111,805	0	111,805
Total noncurrent assets	<u>6,058,363</u>	<u>27,023</u>	<u>6,085,386</u>
Total assets	<u>\$ 9,818,144</u>	<u>\$ 47,460</u>	<u>\$ 9,865,604</u>
Liabilities			
Current liabilities:			
Internal balances	\$ (3,005)	\$ 3,005	\$ 0
Intergovernmental payables	20,620	0	20,620
Accounts payable	104,516	0	104,516
Current portion of compensated absences	10,263	0	10,263
Accrued salaries and wages	195,051	0	195,051
Accrued interest payable	3,764	0	3,764
Payroll deductions and withholdings	51,325	0	51,325
Deferred revenues	14,538	3,427	17,965
Current portion of long-term liabilities	586,618	0	586,618
Total current liabilities	<u>983,690</u>	<u>6,432</u>	<u>990,122</u>
Noncurrent liabilities:			
Bonds payable, net	5,190,057	0	5,190,057
Long-term portion of compensated absences	107,053	0	107,053
Other long-term financing	427,898	0	427,898
Other post-employment benefits (OPEB)	15,527	0	15,527
Total noncurrent liabilities	<u>5,740,535</u>	<u>0</u>	<u>5,740,535</u>
Total liabilities	<u>6,724,225</u>	<u>6,432</u>	<u>6,730,657</u>
Net assets			
Invested in capital assets, net of debt	195,025	27,023	222,048
Restricted for:			
Debt service (expendable)	18,410	0	18,410
Capital projects (expendable)	119,345	0	119,345
Unrestricted	2,761,139	14,005	2,775,144
Total net assets	<u>3,093,919</u>	<u>41,028</u>	<u>3,134,947</u>
Total liabilities and net assets	<u>\$ 9,818,144</u>	<u>\$ 47,460</u>	<u>\$ 9,865,604</u>

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Activities
For the Year Ended June 30, 2011

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 3,562,648	\$ 37,466	\$ 823,254	\$ 0	\$ (2,701,928)	\$ 0	\$ (2,701,928)
Instructional student support	433,328	0	0	0	(433,328)	0	(433,328)
Administration and financial support	822,800	0	7,615	0	(815,185)	0	(815,185)
Operations and maintenance of plant	502,639	0	0	113,860	(388,779)	0	(388,779)
Pupil transportation	343,463	0	136,787	0	(206,676)	0	(206,676)
Student activities	99,339	7,191	0	0	(92,148)	0	(92,148)
Interest on long-term debt	233,848	0	0	0	(233,848)	0	(233,848)
Total governmental activities	<u>5,998,065</u>	<u>44,657</u>	<u>967,656</u>	<u>113,860</u>	<u>(4,871,892)</u>	<u>0</u>	<u>(4,871,892)</u>
Business-Type Activities:							
Food service	<u>256,288</u>	<u>97,100</u>	<u>87,508</u>	<u>0</u>	<u>0</u>	<u>(71,680)</u>	<u>(71,680)</u>
Total primary government	<u>\$ 6,254,353</u>	<u>\$ 141,757</u>	<u>\$ 1,055,164</u>	<u>\$ 113,860</u>	<u>(4,871,892)</u>	<u>(71,680)</u>	<u>(4,943,572)</u>
General Revenues:							
Taxes levied					3,203,296	0	3,203,296
Grants, subsidies and contributions, not restricted					1,695,499	0	1,695,499
Investment earnings					13,500	37	13,537
Miscellaneous					315	0	315
Transfers					(21,558)	21,558	0
Total general revenues					<u>4,891,052</u>	<u>21,595</u>	<u>4,912,647</u>
Change in net assets					19,160	(50,085)	(30,925)
Net assets, beginning of year, restated					<u>3,074,759</u>	<u>91,113</u>	<u>3,165,872</u>
Net assets, end of year					<u>\$ 3,093,919</u>	<u>\$ 41,028</u>	<u>\$ 3,134,947</u>

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Balance Sheet
Governmental Funds
June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 2,727,183	\$ 125,670	\$ 18,410	\$ 2,871,263
Taxes receivable	600,648	0	0	600,648
Due from other funds	9,330	0	0	9,330
Due from other governments	272,617	0	0	272,617
Inventories	<u>15,253</u>	<u>0</u>	<u>0</u>	<u>15,253</u>
Total assets	<u>\$ 3,625,031</u>	<u>\$ 125,670</u>	<u>\$ 18,410</u>	<u>\$ 3,769,111</u>
Liabilities and Fund Balance				
Liabilities				
Due to other funds	\$ 0	\$ 6,325	\$ 0	\$ 6,325
Due to other governments	20,620	0	0	20,620
Accounts payable	104,516	0	0	104,516
Accrued salaries and benefits	195,051	0	0	195,051
Payroll deductions and withholding	3,764	0	0	3,764
Deferred revenue	<u>539,537</u>	<u>0</u>	<u>0</u>	<u>539,537</u>
Total liabilities	<u>863,488</u>	<u>6,325</u>	<u>0</u>	<u>869,813</u>
Fund Balance				
Nonspendable	15,253	0	0	15,253
Restricted	0	119,345	18,410	137,755
Committed	2,080,000	0	0	2,080,000
Unassigned	<u>666,290</u>	<u>0</u>	<u>0</u>	<u>666,290</u>
Total fund balance	<u>2,761,543</u>	<u>119,345</u>	<u>18,410</u>	<u>2,899,298</u>
Total liabilities and fund balance	<u>\$ 3,625,031</u>	<u>\$ 125,670</u>	<u>\$ 18,410</u>	<u>\$ 3,769,111</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 Assets
June 30, 2011

Total fund balance – governmental funds	\$ 2,899,298
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Amounts reported for governmental activities in the statement of net assets 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 \$10,771,379 and the accumulated depreciation is \$4,824,821.	5,946,558
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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.	524,999
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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 \$142,234 net of accumulated amortization of \$30,429.	111,805
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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	\$(5,800,000)	
Unamortized bond discounts	65,510	
Unamortized bond premiums	(10,567)	
Accrued interest payable	(51,325)	
Compensated absences	(117,316)	
Technology Center debt	(453,040)	
Vehicle loan	(6,476)	
OPEB obligation	(15,527)	(6,388,741)

Net assets of governmental activities	<u>\$ 3,093,919</u>
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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, 2011

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Revenues				
Local sources	\$ 3,551,762	\$ 446	\$ 662	\$ 3,552,870
State sources	2,140,721	0	0	2,140,721
Federal sources	429,376	0	0	429,376
Total revenues	6,121,859	446	662	6,122,967
Expenditures				
Instruction	3,280,726	0	0	\$ 3,280,726
Support services	1,992,140	0	47,250	2,039,390
Non-instructional services	101,124	0	0	101,124
Capital outlay	0	6,554	0	6,554
Debt service (principal and interest)	49,651	0	751,530	801,181
Total expenditures	5,423,641	6,554	798,780	6,228,975
Excess of revenues over (under) expenditures	698,218	(6,108)	(798,118)	(106,008)
Other financing sources (uses)				
Interfund transfers	(789,045)	16,380	751,107	(21,558)
Refunding bonds issued	0	0	1,110,000	1,110,000
Bond discounts	0	0	(18,844)	(18,844)
Refunded bond issue	0	0	(1,040,375)	(1,040,375)
Total other financing sources (uses)	(789,045)	16,380	801,888	29,223
Net change in fund balance	(90,827)	10,272	3,770	(76,785)
Fund balance, beginning of year, restated	2,852,370	109,073	14,640	2,976,083
Fund balance, end of year	\$ 2,761,543	\$ 119,345	\$ 18,410	\$ 2,899,298

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, 2011

Total net change in fund balance – governmental funds \$ (76,785)

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	\$ 94,736	
Depreciation expense	<u>(397,717)</u>	(302,981)

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. (34,951)

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. 16,282

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. (54,834)

Governmental funds report the effect of bond issuance costs in the year of issuance, whereas these costs are deferred and amortized over the term of the bond issue in the government-wide financial statements. The effect is shown below:

Current year bond costs	\$47,250	
Amortization expense	<u>(9,768)</u>	37,482

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. (10,662)

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, 2011

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 statements of net assets. 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:

Net proceeds on 2011 Refunding Bond	\$(95,000)	
Discount on 2011 Refunding Bond	18,844	
Bond principal payments	545,000	
Technology Center principal payments	24,667	
Vehicle loan payments	6,759	
Amortization of discounts	(6,902)	
Accretion of bond premium	<u>1,475</u>	494,843

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

(49,234)

Change in net assets of governmental activities

\$ 19,160

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Net Assets
Proprietary Fund
June 30, 2011

	<u>Food Service</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 17,166
Inventory	<u>3,271</u>
Total current assets	<u>20,437</u>
Noncurrent assets:	
Machinery and equipment, net	<u>27,023</u>
Total noncurrent assets	<u>27,023</u>
Total assets	<u><u>\$ 47,460</u></u>
Liabilities	
Current liabilities:	
Due to other funds	\$ 3,005
Deferred revenues	<u>3,427</u>
Total current liabilities	<u>6,432</u>
Noncurrent liabilities:	
Total noncurrent liabilities	<u>0</u>
Total liabilities	<u>6,432</u>
Net assets	
Invested in capital assets	27,023
Unrestricted	<u>14,005</u>
Total net assets	<u>41,028</u>
Total liabilities and net assets	<u><u>\$ 47,460</u></u>

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2011

	<u>Food Service</u>
Operating revenues	
Food service revenue	\$ 97,100
Total operating revenues	<u>97,100</u>
Operating expenses	
Salaries	62,067
Employee benefits	81,261
Purchased property services	8,990
Other purchased services	726
Supplies	88,163
Depreciation	12,750
Dues and fees	<u>2,331</u>
Total operating expenses	<u>256,288</u>
Operating income (loss)	<u>(159,188)</u>
Nonoperating revenues (expenses)	
Earnings on investments	37
State sources	9,949
Federal sources	<u>77,559</u>
Total nonoperating revenues (expenses)	<u>87,545</u>
Income (loss) before transfers	<u>(71,643)</u>
Contributions and transfers	
Transfers in (out)	<u>21,558</u>
Change in net assets	(50,085)
Total net assets, beginning of year, restated	<u>91,113</u>
Total net assets, end of year	<u><u>\$ 41,028</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, 2011

	<u>Food Service</u>
Cash flows from operating activities	
Cash received from users	\$ 97,072
Cash payments to employees for services	(61,930)
Cash payments to suppliers for goods and services	<u>(181,469)</u>
Net cash provided by (used for) operating activities	<u>(146,327)</u>
Cash flows from non-capital financing activities	
State sources	10,389
Federal sources	80,386
Transfers in	<u>21,558</u>
Net cash provided by (used for) non-capital financing activities	<u>112,333</u>
Cash flows from investing activities	
Earnings on investments	<u>37</u>
Net cash provided by (used for) investing activities	<u>37</u>
Net increase (decrease) in cash and cash equivalents	(33,957)
Cash and cash equivalents, beginning of year	<u>51,123</u>
Cash and cash equivalents, end of year	<u>\$ 17,166</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	<u>\$ (159,188)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for):	
Depreciation	12,750
(Increase) decrease in inventories	2
Increase (decrease) in accounts payable	137
Increase (decrease) in deferred revenue	<u>(28)</u>
Total adjustments	<u>12,861</u>
Net cash provided by (used for) operating activities	<u>\$ (146,327)</u>

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Agency Fund	Private Purpose Trust	Total Fiduciary Funds
Assets			
Cash and cash equivalents	\$ 24,306	\$ 1,138	\$ 25,444
Total assets	<u>\$ 24,306</u>	<u>\$ 1,138</u>	<u>\$ 25,444</u>
Liabilities			
Due to students	\$ 24,306	\$ 0	\$ 24,306
Total liabilities	<u>24,306</u>	<u>0</u>	<u>24,306</u>
Net assets			
Held in trust for scholarships	<u>0</u>	<u>1,138</u>	<u>1,138</u>
Total net assets	<u>0</u>	<u>1,138</u>	<u>1,138</u>
Total liabilities and net assets	<u>\$ 24,306</u>	<u>\$ 1,138</u>	<u>\$ 25,444</u>

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2011

	Private Purpose Trust
Additions:	
Earnings on investments	\$ <u>1</u>
Total additions	<u>1</u>
Deductions:	
Donations	<u>65</u>
Total deductions	<u>65</u>
Change in net assets	(64)
Net assets, beginning of year	<u>1,202</u>
Net assets, end of year	<u><u>\$ 1,138</u></u>

See accompanying notes to the basic financial statements.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

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. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits or provide financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. 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 assets 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 assets 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.

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The statement of net assets 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.

Capital Projects Fund – The capital projects fund is used to account for and report financial resources that are restricted to be used for the acquisition, construction, renovation, and deferred maintenance of major capital facilities or equipment, and for debt service.

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

Proprietary Funds

Proprietary funds focus on the determination of changes in net assets, financial 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:

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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 assets and changes in net assets. 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's only trust fund is a private purpose trust which accounts for funds donated specifically to benefit individuals or private organization. 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 and all liabilities associated with the operation of the School District are included on the statement of net assets.

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 and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in net assets 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 providing 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.

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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.

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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 2011.

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, 2011, 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. No prepaid items are reported at June 30, 2011.

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.

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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.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2011. 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, 2011 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 assets 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 assets 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.

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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.

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. 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.

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- Unassigned Fund Balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

As of June 30, 2011, 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	18,410	0
Capital Projects Fund	0	119,345	0
Total	<u>\$15,253</u>	<u>\$137,755</u>	<u>\$2,080,000</u>

Beginning fund balances for the District's governmental funds have been restated to reflect the above classifications.

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.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets 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 assets are reported as restricted when there are limitations imposed on their 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 assets reports \$137,755 of restricted net assets, of which \$119,345 is restricted by enabling legislation for Capital Projects and \$18,410 by bond indenture for Debt Service.

O. 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.

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P. 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, 2011, 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 and certificates of deposit 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.

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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, 2011, \$866,032 of the District's bank balance of \$1,134,442 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>866,032</u>
Total	<u>\$ 866,032</u>

Reconciliation to Financial Statements

Uninsured amount above	\$ 866,032
Plus: Insured amount	268,410
Less: Outstanding checks	<u>(99,438)</u>
Carrying amount – bank balances	1,035,004
Plus: Petty cash	300
Pooled cash equivalents	<u>1,878,569</u>
Total cash per financial statements	<u>\$ 2,913,873</u>

Investments

As of June 30, 2011, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
PA School District Liquid Asset Fund	N/A	\$1,406,637
PA Local Government Investment Trust	N/A	<u>471,932</u>
Total		<u>\$1,878,569</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, 2011, 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

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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	\$1,878,569
Less: Deposits in investment pool considered cash equivalents	<u>(1,878,569)</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 2011 was 32.87 mills (\$32.87 per \$1,000 of assessed valuation) as levied by the Board. Assessed valuations (\$94,046,090) 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, 2011 is \$600,648. 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.

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Uncollected taxes for the year ended June 30, 2011:

Delinquent Real Estate	\$ 23,853
Interim Real Estate	630
Realty Transfer Tax	1,986
Earned Income Taxes	<u>49,180</u>
Uncollected Taxes Recognized as Revenue (received within 60 days)	75,649
Real Estate Tax Deferred	<u>524,999</u>
Total Taxes Receivable	<u>\$600,648</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 \$539,537 represent deferred real estate taxes (\$524,999) and deferred grant revenue (\$14,538) at June 30, 2011. Deferred revenues in the food service fund (\$3,427) represent credits on student cafeteria accounts (\$2,029) and donated commodities inventory on hand (\$1,398) at June 30, 2011.

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, 2011, the following amounts are due from other governmental units:

<u>Due From</u>	<u>General Fund</u>	<u>Proprietary Fund</u>
Federal	\$184,803	\$0
State	30,259	0
Local	<u>57,555</u>	<u>0</u>
	<u>\$272,617</u>	<u>\$0</u>

Shanksville-Stonycreek School District
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8. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 24,792	\$ 0	\$0	\$ 24,792
Total capital assets, not being depreciated	<u>24,792</u>	<u>0</u>	<u>0</u>	<u>24,792</u>
Capital assets, being depreciated:				
Site improvements	840,029	0	0	840,029
Buildings and improvements	8,933,543	0	0	8,933,543
Furniture and equipment	878,279	94,736	0	973,015
Total capital assets, being depreciated	<u>10,651,851</u>	<u>94,736</u>	<u>0</u>	<u>10,746,587</u>
Less accumulated depreciation:				
Site improvements	440,176	42,090	0	482,266
Buildings and improvements	3,384,349	259,939	0	3,644,288
Furniture and equipment	602,579*	95,688	0	698,267
Total accumulated depreciation	<u>4,427,104</u>	<u>397,717</u>	<u>0</u>	<u>4,824,821</u>
Total capital assets, being depreciated, net	<u>6,224,747</u>	<u>(302,981)</u>	<u>0</u>	<u>5,921,766</u>
Governmental activities capital assets, net	<u>\$ 6,249,539</u>	<u>\$(302,981)</u>	<u>\$0</u>	<u>\$ 5,946,558</u>
Business-Type Activities				
Capital assets, being depreciated:				
Equipment	\$ 234,542	\$ 0	\$0	\$ 234,542
Total capital assets, being depreciated	<u>234,542</u>	<u>0</u>	<u>0</u>	<u>234,542</u>
Less accumulated depreciation:				
Equipment	194,769*	12,750	0	207,519
Total accumulated depreciation	<u>194,769</u>	<u>12,750</u>	<u>0</u>	<u>207,519</u>
Business-type activities capital assets, net	<u>\$ 39,773</u>	<u>\$ (12,750)</u>	<u>\$0</u>	<u>\$ 27,023</u>

*Restated – see further discussion at Note 22.

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

Governmental Activities:

Instruction	\$245,829
Instruction support	29,908
Administration and finance	34,681
Operation and maintenance of plant	23,704
Pupil transportation	56,754
Student activities	<u>6,841</u>
Total depreciation expense - governmental activities	<u>\$397,717</u>

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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 <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2011</u>
Bond costs	\$94,984	\$47,250	\$0	\$ 142,234
Less: accumulated amortization	<u>(20,661)</u>	<u>(9,768)</u>	<u>0</u>	<u>(30,429)</u>
Total	<u>\$74,323</u>	<u>\$37,482</u>	<u>\$0</u>	<u>\$ 111,805</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, P.O. Box 125, Harrisburg, PA, 17108-0125. 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 employees, employers, and the Commonwealth. Plan members are required to contribute 5.25 or 6.25 percent of their qualifying compensation if they joined the plan before July 22, 1983. Members who joined the system on or after July 22, 1983 contribute at 6.5 percent or 7.5 percent of their qualifying compensation. 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, 2011, the rate of the employer's contribution was 5.64 percent of covered payroll. The 5.64 percent rate is composed of a pension contribution rate of 5.00 percent for pension benefits and 0.64 percent for healthcare insurance premium assistance. Shanksville-Stonycreek School District's contributions to PSERS for the years ending June 30, 2011, 2010 and 2009 were \$148,675, \$121,570, and \$109,041, respectively. This amount is equal to the required contribution for each year.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

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.

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.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

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 \$6,500 annually for up to 6 years. The retiree and spouse are responsible for any additional premium amounts. Prior retirees have a \$4,500 incentive benefit. Under Act 110/43 the retiree and/or spouse pay the full premium amount.

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.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

The number of participants as of July 1, 2009, 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	53
Retired employees	11
Spouses of retired employees	<u>4</u>
Total	<u>68</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, 2011, the District's annual OPEB cost (i.e., expense) of \$88,062 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 \$77,400, the result was an increase in the District's Net OPEB Obligation of \$10,662 for the year ended June 30, 2011.

	District
Actuarial Accrued Liability (AAL)	
Retired employees	\$ 251,500
Active employees	<u>415,500</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 667,000</u>
Normal cost at beginning of year	\$ 27,200
Amortization factor based on 15 years	11.3385
Annual covered payroll	\$ 2,607,000
UAAL as % of covered payroll	25.6%

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

	District
ARC Normal Cost	\$ 29,042
Amortization of UAAL	59,286
Annual required contribution (ARC)	88,328
Interest on Net OPEB Obligation	0
Adjustment to ARC	(266)
Annual OPEB cost (expense)	88,062
Contribution for the fiscal year	(77,400)
Increase in Net OPEB Obligation	10,662
Net OPEB Obligation June 30, 2010	4,865
Net OPEB Obligation June 30, 2011	<u>\$ 15,527</u>
Percent of annual OPEB cost contributed	87.9%

Since this is the second year of implementation for GASB Statement 45, prior year data has been omitted for the second preceding year. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation of the fiscal year ending June 30, 2011 for the benefits were as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 88,062	87.9%	\$ 15,527
6/30/2010	\$ 86,565	94.4%	\$ 4,865
6/30/2009	\$ 0	0.0%	\$ 0

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.

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, 2011

In the July 1, 2009 actuarial valuation, the liabilities were computed using the projected unit credit method and closed level dollar amortization. The actuarial assumptions utilized a 4% 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 4% rate. The valuation assumes a 6.5% healthcare cost trend increase for fiscal year 2011-12, reduced by decrements to a rate of 4.7% by 2082.

13. Long-Term Obligations

During the fiscal year ended June 30, 2011, general long-term obligations changed as follows:

	Bonds Payable	Other Long-Term Financing	Compensated Absences	Total General Long-Term Obligations
Beginning of the year	\$6,250,000	\$490,942*	\$62,482	\$6,803,424
Additions	95,000	0	0	95,000
Principal retirement	(545,000)	(31,426)	0	(576,426)
Changes in compensated absences	<u>0</u>	<u>0</u>	<u>54,834</u>	<u>54,834</u>
End of year	5,800,000	459,516	117,316	6,376,832
Less: Current portion	(555,000)	(31,618)	(10,263)	(596,881)
Less: Original issue discount, net	(65,510)	0	0	(65,510)
Add: Original issue premium, net	<u>10,567</u>	<u>0</u>	<u>0</u>	<u>10,567</u>
Long-term liabilities	<u>\$5,190,057</u>	<u>\$427,898</u>	<u>\$107,053</u>	<u>\$5,725,008</u>

*Restated to include prior period adjustment on Technology Center Debt. See Note 22.

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, 2011, including total interest payments are as follows:

Year Ended June 30,	General Obligation Bonds/Notes		
	Interest	Principal	Total
2012	\$ 164,800	\$ 561,476	\$ 726,276
2013	157,069	580,000	737,069
2014	139,576	595,000	734,576
2015	120,348	625,000	745,348
2016	100,163	645,000	745,163
2017 – 2020	<u>181,693</u>	<u>2,800,000</u>	<u>2,981,693</u>
	<u>\$863,649</u>	<u>\$5,806,476</u>	<u>\$6,670,125</u>
Add: Technology Center Debt		<u>453,040</u>	
		<u>\$6,259,516</u>	

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

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, 2011 was \$1,110,000.

An escrow account was in place at June 30, 2011 for the total retirement of the Series 2001 bond issue. This liability totaled \$1,015,000 at June 30, 2011. This liability and corresponding asset (escrow) have not been included on the financial statements or the debt schedule presented above as the Series 2001 bonds are considered defeased.

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, 2011 was \$2,990,000.

General Obligation Bonds, Series of 2006

The District issued General Obligation Bonds, Series of 2006, dated December 15, 2006, in the principal amount of \$2,505,000. The proceeds of the bonds were used to advance refund a portion of the District's General Obligation Bonds, Series of 2001 and to pay all costs incidental to the issuance of these bonds. The bonds bear interest rates ranging from 3.5% to 3.75% with annual principal maturities from September 2007 through September 2017. The balance outstanding at June 30, 2011 was \$1,700,000.

General Obligation Bonds, Series of 2001

The District issued General Obligation Bonds, Series of 2001, dated August 15, 2001, in the principal amount of \$4,440,000. The proceeds of the bonds were used to advance refund the District's General Obligation Bonds, Series of 1999 and to pay all costs incidental to the issuance of these bonds. The bonds bear an interest rate of 5.0% with annual principal maturities from March 2002 through September 2019. In December 2006, the Shanksville-Stonycreek School District advance refunded the Series of 2001 bonds maturing September 15, 2007 through September 15, 2017, through the issuance of General Obligation Bonds, Series of 2006. In June 2011, the District advance refunded the remaining maturities of the Series of 2001 bonds (September 15, 2018 through September 15, 2019) through the issuance of General Obligation Bonds, Series of 2011. The balance outstanding of \$1,015,000 is considered defeased at June 30, 2011 and as such is not included in the financial statements.

Other Long-Term Financing: Van Loan

In May 2009, the District entered into an agreement with First National Bank in the amount of \$20,225 for the purchase of a van. The terms for repayment are as follows: interest at 4.75% per annum for a 36-month term (June 2009 – May 2012) and monthly payments of \$604.25 including interest. The balance outstanding at June 30, 2011 was \$6,476.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

Other Long-Term Financing: Somerset County Technology Center

Other long-term liabilities at June 30, 2011 include Shanksville-Stonycreek School District's estimated share of the General Obligation Bond, Series of 2004, related to the area vocational-technical school, issued in the principal amount of \$6,140,000. The proceeds of the bonds are to be used toward the cost of acquiring, designing, constructing, furnishing and equipping alterations, additions, renovations and other improvements to the Somerset County Technology Center's existing school building and other related facilities, and to pay the costs of issuing the bonds. The bonds were issued pursuant to the State Public School Building Authority Act of 1947 and secured by a Trust Indenture entered into between the State Public School Building Authority (the Authority) and a financial institution as Trustee. This debt service is shared by eight surrounding school districts including Shanksville-Stonycreek School District.

The Series of 2004 has a scheduled maturity of May 15, 2025. Bonds mature annually on November 15th of the respective year. Interest is payable semi-annually on May 15th and November 15th, commencing on November 15, 2004. However, as discussed in Note 23, these bonds were refinanced on September 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 (\$25,142) and long-term (\$427,898) liability for their estimated share of the future debt service principal payments. These estimates are based on the District's 2010-2011 debt allocation rate of 9.67%. Accordingly, the Shanksville-Stonycreek School District's share of the balance outstanding at June 30, 2011 is \$453,040.

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, 2011. 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 up to a maximum of 100 days.

The School District has computed a liability of \$117,316 for accumulated sick leave for employees that have met the required length of service and are entitled to receive the benefits described above as of June 30, 2011. The current portion of the liability has been estimated at \$10,263 with the long-term portion at \$107,053 at June 30, 2011. 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.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

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 \$11,979. 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>
2012	\$13,097
2013	13,097
2014	8,261
2015	1,490
2016	<u>1,118</u>
Total minimum payments required	<u>\$37,063</u>

15. Interfund Transactions

The following is a summary of interfund receivables and payables at June 30, 2011:

	<u>Receivables</u>	<u>Payables</u>
General Fund (Major Fund)	\$9,330	\$ 0
Capital Projects Fund (Major Fund)	0	6,325
Enterprise Fund – Food Service (Major Fund)	<u>0</u>	<u>3,005</u>
	<u>\$9,330</u>	<u>\$9,330</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, 2011 represents summer wages.

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

Interfund transactions during the year ended June 30, 2011 consisted of the following:

	<u>Transfer in</u>	<u>Transfer out</u>
General Fund (Major Fund)	\$ 0	\$751,107
Debt Service Fund (Major Fund)	751,107	0
General Fund (Major Fund)	0	16,380
Capital Projects Fund (Major Fund)	16,380	0
General Fund (Major Fund)	0	21,558
Food Service Fund (Proprietary Fund)	<u>21,558</u>	<u>0</u>
Total	<u>\$789,045</u>	<u>\$789,045</u>

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

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, 2011, for unpaid claims incurred prior to fiscal year end is not readily determinable. No liability has been recorded for these claims at June 30, 2011, 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, 2011 and the two previous fiscal years, no settlements exceeded insurance coverage.

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, 2011 for Appalachia Intermediate Unit 8 programs amounted to \$132,310. At June 30, 2011, the District had a balance due from Appalachia IU8 of \$10,889 (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 2011 amounted to \$257,196.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

20. Economic Dependency

Shanksville-Stonycreek School District receives approximately 35% 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 2011 totaled \$12,199.

22. Restated Fund Balance and Net Assets

The following *fund balance restatement* is effective July 1, 2010 and affects the governmental funds of the District as follows:

General Fund

Overstated receivables	\$ (8,267)
Understated taxes receivable	43,633
Overstated accounts payable	9,650
Overstated payroll liabilities	8,377
Understated payroll accrual	(9,383)
Restatement for former special revenue fund (GASB No. 54)	<u>117</u>

Net increase in fund balance	<u>\$ 44,127</u>
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Athletics Fund (Non-major)

Elimination of former special revenue fund (GASB No. 54)	<u>\$ (117)</u>
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Net decrease in fund balance	<u>\$ (117)</u>
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The fund balance restatements above are reflected on both the fund financial statements and the government-wide financial statements, aside from the GASB No. 54 restatement which affects the fund financial statements only.

The following *net asset restatement* is effective July 1, 2010 and affects the governmental and business-type activities of the District as follows:

Governmental Activities

Understated taxes receivable	\$ 432,186
Understated other receivables	49,234
Overstated debt (Technology Center)	144,596
Understated accumulated depreciation	<u>(3,445)</u>
Net increase in net assets	<u>\$ 622,571</u>

This increase is reflected on the District's government-wide financial statements only.

Shanksville-Stonycreek School District
Notes to Financial Statements
June 30, 2011

Business-type Activities

Overstated accumulated depreciation	<u>\$7,992</u>
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Net increase in net assets	<u>\$7,992</u>
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This increase is reflected on both the fund financial statements and the government-wide financial statements.

23. Subsequent Event

Somerset County Technology Center Debt

On September 15, 2011, the Somerset County Technology Center refunded the Series 2004 State Public School Building Authority Bonds. Each member District issued a Series of 2011 General Obligation Note to Somerset Trust Company for its respective portion of the Technology Center bank loan totaling \$4,825,000 at a 3.30% fixed rate commencing November 15, 2011 and maturing May 15, 2025. Shanksville-Stonycreek School District's prorated share of the schedule debt service payments fluctuates, as discussed in Note 13. The District's current pro-rata share of the Series 2011 General Obligation Note is 9.67% or \$466,746. The District's share of the anticipated savings from the refinancing is \$11,896.

Shanksville-Stonycreek School District
Statement of Revenues, Expenditures and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts Original	Final	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Local sources	\$ 3,217,467	\$ 3,217,467	\$ 3,551,762	\$ 334,295
State sources	2,474,761	2,474,761	2,140,721	(334,040)
Federal sources	138,500	138,500	429,376	290,876
Total revenues	<u>5,830,728</u>	<u>5,830,728</u>	<u>6,121,859</u>	<u>291,131</u>
Expenditures				
Instruction:				
Regular programs	2,836,390	2,836,390	2,453,681	382,709
Special programs	487,652	487,652	505,117	(17,465)
Vocational education programs	295,000	295,000	257,196	37,804
Other instructional programs	10,600	10,600	23,657	(13,057)
Community/junior college programs	10,000	10,000	7,408	2,592
Pre-kindergarten	40,404	40,404	33,667	6,737
Support services:				
Pupil personnel	289,107	289,107	134,287	154,820
Instructional staff	256,732	256,732	308,035	(51,303)
Administration	574,621	574,621	542,277	32,344
Pupil health	84,488	84,488	76,862	7,626
Business	185,780	185,780	132,986	52,794
Operation and maintenance of plant	520,271	520,271	470,552	49,719
Student transportation	300,500	300,500	322,559	(22,059)
Other support services	5,000	5,000	4,582	418
Operation of noninstructional services:				
Student activities	103,266	103,266	96,398	6,868
Community services	5,200	5,200	1,226	3,974
Scholarships and awards	0	0	3,500	(3,500)
Capital outlay	20,000	20,000	0	20,000
Debt service:				
Principal and interest	45,000	45,000	49,651	(4,651)
Total expenditures	<u>6,070,011</u>	<u>6,070,011</u>	<u>5,423,641</u>	<u>646,370</u>
Excess (deficiency) of revenues over expenditures	<u>(239,283)</u>	<u>(239,283)</u>	<u>698,218</u>	<u>937,501</u>
Other financing sources (uses)				
Transfers out	(870,000)	(870,000)	(789,045)	80,955
Budgetary reserve	(50,000)	(50,000)	0	50,000
Total other financing sources (uses)	<u>(920,000)</u>	<u>(920,000)</u>	<u>(789,045)</u>	<u>130,955</u>
Net change in fund balance	(1,159,283)	(1,159,283)	(90,827)	1,068,456
Fund balance, beginning of year, restated	<u>2,879,854</u>	<u>2,879,854</u>	<u>2,852,370</u>	<u>(27,484)</u>
Fund balance, end of year	<u>\$ 1,720,571</u>	<u>\$ 1,720,571</u>	<u>\$ 2,761,543</u>	<u>\$ 1,040,972</u>

See accompanying notes to basic financial statements.

**Shanksville-Stonycreek School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Federal/Grant Project Title	Source Code	Federal C.F.D.A. Number	Pass Through Grantors Number	Grant Period Beginning/End Date	Program Or Award Amount	Total Received For the Year	Accrued (Deferred) Revenue at July 1, 2010	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2011
<u>U.S. DEPARTMENT OF EDUCATION</u>										
Small Rural School Achievement	D	84.358A	N/A	07/01/09-09/30/10	\$ 31,217	\$ 31,217	\$ 0	\$ 16,679	\$ 16,679	\$ (14,538)
Small Rural School Achievement	D	84.358A	N/A	07/01/08-09/30/09	32,324	0	(25,012)	25,012	25,012	0
Passed through the Pennsylvania Department of Education:										
ECIA Title I - Low Income	I	84.010	(1) 013-110381	07/01/10-09/30/11	83,467	72,373	0	83,467	83,467	11,094
Academic Achievement Award	I	84.010	(1) 077-100381	07/01/09-09/30/10	1,800	1,440	1,440	0	0	0
ECIA Title II Improving Teacher Quality	I	84.367	020-110381	07/01/10-09/30/11	20,269	20,338	0	20,269	20,269	(69)
ECIA Title II Improving Teacher Quality	I	84.367	020-100381	07/01/09-09/30/10	20,633	4,127	4,127	0	0	0
ARRA - Fiscal Stabilization	I	84.394	126-110381	07/01/10-06/30/11	172,636	172,636	0	172,636	172,636	0
ARRA - Title I Part A	I	84.389	(1) 127-100381	05/26/09-09/30/11	42,876	0	(9,029)	9,029	9,029	0
Education Jobs Fund	I	84.410	140-140026	08/10/10-09/30/11	102,284	102,284	0	102,284	102,284	0
Passed through Intermediate Unit 08:										
IDEA Part B	I	84.027	(3) 062-110008	07/01/10-06/30/11	86,530	0	0	86,530	86,530	86,530
IDEA Part B	I	84.027	(3) 062-100008	07/10/09-06/30/10	81,556	81,556	81,556	0	0	0
ARRA - IDEA Part B		84.391A	(3) 128-100008	02/17/09-09/30/11	89,990	0	0	87,180	87,180	87,180
Total U.S. Department of Education					<u>765,582</u>	<u>485,971</u>	<u>53,082</u>	<u>603,086</u>	<u>603,086</u>	<u>170,197</u>

(1) Title I, Part A Cluster
(3) Special Education cluster (IDEA)

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

<u>Federal/Grant Project Title</u>	<u>Source Code</u>	<u>Federal C.F.D.A. Number</u>	<u>Pass Through Grantors Number</u>	<u>Grant Period Beginning/End Date</u>	<u>Program Or Award Amount</u>	<u>Total Received For the Year</u>	<u>Accrued (Deferred) Revenue at July 1, 2010</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2011</u>
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>										
Passed through the Pennsylvania Emergency Management Agency:										
Public Assistance Grants	I	97.036	N/A	02/06/10-02/08/10	N/A	1,631	1,631	0	0	0
Total Federal Emergency Management Agency						1,631	1,631	0	0	0
<u>U.S. DEPARTMENT OF AGRICULTURE</u>										
Passed through the Pennsylvania Department of Agriculture:										
USDA Donated Commodities	I	10.555 (2)	N/A	07/01/10-06/30/11	N/A	(a) 12,199	(b) (1,525)	12,326	(c) 12,326	(d) (1,398)
Passed through the Pennsylvania Department of Education:										
National School Lunch Federal	I	10.555 (2)	N/A	07/01/10-06/30/11	N/A	53,857	2,238	51,619	51,619	0
School Breakfast Program	I	10.553 (2)	N/A	07/01/10-06/30/11	N/A	14,330	715	13,615	13,615	0
State Matching Funds	S	N/A	N/A	07/01/10-06/30/11	N/A	10,389	440	9,949	9,949	0
Total U.S. Department of Agriculture						90,775	1,868	87,509	87,509	(1,398)
TOTAL FINANCIAL ASSISTANCE						<u>\$ 765,582</u>	<u>\$ 578,377</u>	<u>\$ 56,581</u>	<u>\$ 690,595</u>	<u>\$ 168,799</u>

(2) Child Nutrition Cluster

See accompanying notes to the basic financial statements.

**Shanksville-Stonycreek School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Notes to Schedule of Expenditures of Federal Awards

Note A – Significant Accounting Policies

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

Note B – Donated Commodities

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. At June 30, 2011, the District had food commodities totaling \$1,398 in inventory.

- (a) Total amount of commodities received from the Department of Agriculture.
- (b) Beginning inventory at July 1, 2010.
- (c) Total amount of commodities used.
- (d) Ending inventory at June 30, 2011.

Note C – Direct/Indirect Funding

The following source codes reflect program funding:

- D = Direct Funding
- I = Indirect Funding
- F = Federal Share
- S = State Share

Note D – Reconciliation to Financial Statements

Total Federal Sources reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances	\$429,376
Add: IDEA-B passed through, recorded as Local Sources	86,530
Add: ARRA IDEA-B passed through, recorded as Local Sources	<u>87,181</u>
Total Federal Expenditures – Governmental Funds	<u>603,087</u>
Total Federal Sources reported on Statement of Revenues, Expenses, and Changes in Fund Net Assets	<u>77,559</u>
Total Federal Expenditures – Proprietary Fund	<u>77,559</u>
Total Federal Expenditures	<u>\$680,646</u>

**Shanksville-Stonycreek School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Note E – Test of 50% Rule

Total Expenditures	\$690,595	
Less: State's share of National School Lunch and Severe Need Breakfast Programs	<u>(9,949)</u>	
Total Federal Expenditures	<u>\$680,646</u>	
ARRA – State Fiscal Stabilization Fund	172,636	
Special Education Cluster (IDEA)	<u>173,710</u>	
Tested	<u>346,346</u>	= 50.9%
Total Federal Expenditures	\$680,646	

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of Shanksville-Stonycreek School District as of and for the year ended June 30, 2011, which collectively comprise Shanksville-Stonycreek School District's basic financial statements and have issued our report thereon dated December 20, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shanksville-Stonycreek School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness - #2011-1.

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 these 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Shanksville-Stonycreek School District in a separate letter dated December 20, 2011.

Shanksville-Stonycreek School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Shanksville-Stonycreek School District's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Kotzan CPA & Associates, P.C.
Kotzan CPA & Associates, P.C.
December 20, 2011

**Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance
with OMB Circular A-133**

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

Compliance

We have audited Shanksville-Stonycreek School District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Shanksville-Stonycreek School District's major federal programs for the year ended June 30, 2011. Shanksville-Stonycreek School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shanksville-Stonycreek School District's management. Our responsibility is to express an opinion on Shanksville-Stonycreek School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shanksville-Stonycreek School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Shanksville-Stonycreek School District's compliance with those requirements.

In our opinion, Shanksville-Stonycreek School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Shanksville-Stonycreek School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Shanksville-Stonycreek School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in

order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal courses of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Kotzan CPAs Associates, P.C.
Kotzan CPA & Associates, P.C.
December 20, 2011

**Shanksville-Stonycreek School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

unqualified

Internal control over financial reporting:

Material weakness(es) identified?

 X Yes No

Significant deficiency identified not
considered to be material weaknesses?

 Yes X None reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 Yes X No

Significant deficiency identified not
considered to be material weakness(es)?

 Yes X None reported

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

unqualified

Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510(a)?

 Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.394
84.027/84.391A

ARRA - State Fiscal Stabilization Fund
Special Education Cluster (IDEA)

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 Yes X No

Section II – Financial Statement Findings

INTERNAL CONTROL OVER FINANCIAL REPORTING

Finding #2011-1

CONDITION:

Material audit adjustments were required in order for the financial statements to be fairly presented in accordance with U.S. generally accepted accounting principles at June 30, 2011.

**Shanksville-Stonycreek School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

CRITERIA:

In accordance with Statement on Auditing Standards No. 115 (SAS 115), an indicator of a material weakness is when the auditor identifies a material misstatement in the financial statements that was not detected by the entity's internal control.

CAUSE:

The misstatements resulted from oversights that were not detected by management's review of the financial statements, due in large part to prior period adjustments.

EFFECT:

The effect was materially misstated receivables, accruals, capital asset, and equity accounts as well as associated revenues and expenditures/expenses in the governmental and proprietary funds, the details of which were provided to management in the form of proposed audit adjustments.

RECOMMENDATION:

We recommend that management adjust the general ledger for the proposed audit adjustments. Further, we recommend that management perform a frequent and careful review of the financial statements, paying particular attention to the balance sheet accounts, to ensure all current year accruals are complete and accurate.

MANAGEMENT RESPONSE:

Management has made the proposed audit adjustments effective June 30, 2011. Further, management will ensure that financial statements are reviewed regularly and will focus more attention on the balance sheet accounts to ensure reasonableness.

Section III – Federal Award Findings and Questioned Costs No Findings or Questioned Costs