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Independent Auditor's Report

To the Members of the
Shanksville-Stonycreek School Board
Shanksville, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Shanksville-Stonycreek School District, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Shanksville-Stonycreek School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Shanksville-Stonycreek School District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof 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 our report dated August 16, 2010, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 50 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bulow, Hottle & Co.

Somerset, Pennsylvania

August 16, 2010

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

The Management, Discussion, and Analysis (MD&A) of the Shanksville-Stonycreek School District's financial performance provides an overall narrative review of the School District's financial activities for the fiscal year ended June 30, 2008. 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 Report and notes to the financial statements to augment their understanding of the District's financial performance.

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 2,700 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 450 which includes grades Pre-K through Grade 12.

The District employs 67 regular employees, with roughly 25 part-time substitutes. The teaching staff consists of 41 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.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Financial Highlights

Key financial highlights for the year ending June 30, 2008, are as follows:

- ◆ The District's assets exceeded liabilities by \$1,885,315
- ◆ District-wide net assets increased \$265,349 or 16.38%
- ◆ Total fund balance of all governmental funds equaled \$2,893,508.
- ◆ Undesignated general fund balance equaled \$2,681,441 or 92.67%.
- ◆ Total general fund revenues exceeded budget by \$350,752 or 6.35%.
- ◆ Total general fund expenses were \$22,911, less than 1%, under budget after transfers.
- ◆ The District's Proprietary Fund/Business-Type Activity (Cafeteria) showed a net loss of \$2,194.
- ◆ The District accomplished these results with no new tax increases.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and 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 kinds of statements, which present different views of the District. The first type of statement is the **District-Wide Financial Statements** that provide both short-term and long-term information about the District's overall financial status. The remaining statements are **Fund Financial Statements** that focus on individual parts of the District, reporting the District's operations in more detail than the District-Wide Financial Statements.

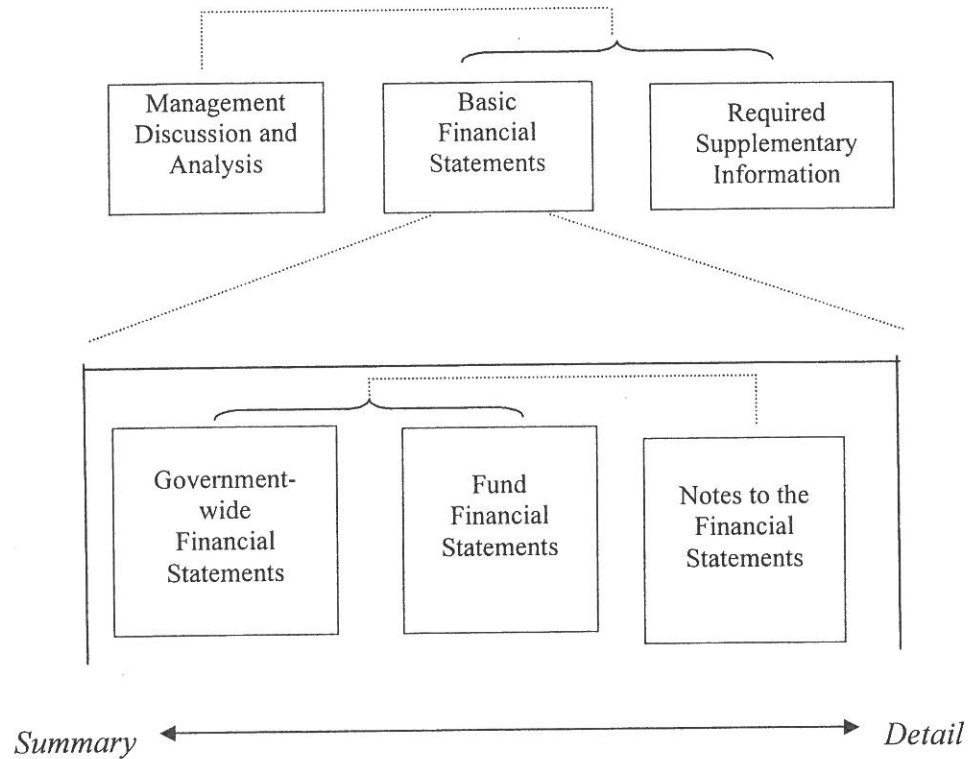
The **Governmental Fund** statements indicate how the District financed its basic services such as regular and special education. **Proprietary Fund** statements offer financial information about the one activity the District operates like a business, its Food Service Fund. **Fiduciary Fund** statements provide information regarding the District's Student Activity Fund for which the District acts solely as a trustee for the benefit of the students who manage the funds.

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

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

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

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



SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Figure A-2 summarizes the major features of the financial statements, including the portion of the Program they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

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

	District-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School (except fiduciary funds).	The activities of the School that are not proprietary or fiduciary, such as education, administration and community services.	Activities the School operates similar to private business – Food Services and Production.	Instances in which the School is the trustee or agent to someone else's resources – 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 included.	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of inflow-outflow information.	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

District-Wide Financial Statements

The District-wide financial statements are designed to provide the reader 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 two District-wide statements report the District's *net assets* and how they have changed. 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 is 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.

The District-wide financial statements can be found on pages 17 through 18 of this report.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant of the School's funds; the School 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. Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes, such as repaying its long-term debts.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

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 Fund Statements provide a short-term view of the School's operations. They are reported using an accounting method called modified accrual accounting 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.

Because the focus of governmental funds 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. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic Governmental Fund Financial Statements can be found on pages 19 to 22.

- ◆ **Proprietary Funds** are comprised of the services for which the District charges a fee. Proprietary funds are reported in the same way as 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.

The Proprietary Fund Financial Statements can be found on pages 23 to 25.

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

The District's fiduciary activities are presented on pages 26 to 27.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Financial Analysis of the District as a Whole

The change in net assets (the difference between total assets and total liabilities) over time is one indicator of whether the School's financial health is improving or deteriorating. The District had maintained total net assets of \$1.88 million at June 30, 2008. This increase is largely due to the continued reduction of long-term debt.

The District's financial position is a product 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.

The portion of the District's governmental activities net assets that reflects its investments in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, furniture and equipment and construction in progress less any related debt used to acquire those assets that is still outstanding) shows a deficit of \$1.2 million. This is, in part, due to the age of many of the District's facilities and the fact that they have been depreciated entirely or in large part.

The District maintains a positive net asset position because of the sum of the cash balances in its governmental funds.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Figure A-3 summarizes the assets, liabilities, and net assets of the District at June 30, 2008.

Figure A-3							
Net Assets As of June 30, 2008 - (Government-Wide)							
	Governmental Activities		Business-Type Activities		Total School District		% Change
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>07-08</u>
Assets							
Current & Other Assets	\$3,419,104	\$3,546,704	\$46,029	\$59,473	\$3,465,133	\$3,606,177	
Capital Assets	6,707,646	6,561,311	89,509	68,824	6,797,155	6,630,135	
Total Assets	10,126,750	10,108,015	135,538	128,297	10,262,288	10,236,312	-0.25%
Liabilities							
Current Liabilities	865,808	1,096,374	10,064	5,017	1,101,391	1,101,391	
Long-Term Liabilities	7,766,450	7,249,606	0	0	8,350,997	7,249,606	
Total Liabilities	8,632,258	8,345,980	10,064	5,017	9,452,388	8,350,997	-11.65%
Net Assets							
Invested in Capital Assets Net of Related Debt	-1,577,577	-1,215,229	89,509	68,824	-1,488,068	-1,146,405	
Restricted for Retirement of Debt	6,139	6,139	0	0	5,800	6,139	
Restricted for Capital Projects	0	0	0	0	0	0	
Other Restrictions	25,606	19,903	0	0	25,606	19,903	
Unrestricted	2,787,403	2,951,222	35,965	54,456	3,076,628	3,005,678	
Total Net Assets	\$1,241,571	\$1,762,035	\$125,474	\$123,280	\$1,619,966	\$1,885,315	16.38%

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Changes in Net Assets (Figures A-4 though A-6).

Figure A-4 summarizes the revenues, expenses, and changes in net assets of the District for the year ended June 30, 2008.

Figure A-4							
Changes in Government-wide Net Assets							
For the Year Ended June 30, 2007							
	Governmental Activities		Business-Type Activities		Total School District		% Change
	2007	2008	2007	2008	2007	2008	07-08
Revenues:							
Program Revenues:							
Charges for Services	\$8,800	\$11,327	\$115,018	\$114,642	\$123,818	\$125,969	1.74%
Operating Grants and Contributions	948,545	1,104,984	75,582	84,499	1,024,127	1,189,483	16.15%
Capital Grants and Contributions	146,726	115,396	0	0	146,726	115,396	-21.35%
General Revenues:							
Property and Other Taxes							
Levied for General Operations	3,048,261	3,083,812	0	0	3,048,261	3,083,812	1.17%
State Formula Aid	1,393,047	1,421,275	0	0	1,393,047	1,421,275	2.03%
Other	174,091	172,383	2,000	1,726	176,091	174,109	-1.13%
Total Revenues	5,719,470	5,909,177	192,600	200,867	5,912,070	6,110,044	3.35%
Expenses:							
Instruction	3,133,451	3,280,202	0	0	3,133,451	3,280,202	4.68%
Instructional Student Support	324,222	322,674	0	0	324,222	322,674	-0.48%
Administrative and Financial Support Services	674,596	705,363	0	0	674,596	705,363	4.56%
Operation and Maintenance of Plant Services	432,353	484,066	0	0	432,353	484,066	11.96%
Pupil Transportation	269,101	306,021	0	0	269,101	306,021	13.72%
Student Activities	90,294	105,163	0	0	90,294	105,163	16.47%
Community Services	5,843	6,044	0	0	5,843	6,044	3.44%
Interest on Long-Term Debt	323,951	298,628	0	0	323,951	298,628	-7.82%
Depreciation - Unallocated	75,306	75,306	0	0	75,306	75,306	0.00%
Food Service	0	0	264,252	267,879	264,252	267,879	1.37%
Total Expenses	5,329,117	5,583,467	264,252	267,879	5,593,369	5,851,346	4.61%
Change in Net Assets before Transfers and Special Items	390,353	325,710	-71,652	-67,012	318,701	258,698	-18.83%
Transfer Between Govn't Activities	-60,911	-64,818	60,911	64,818	0	0	0.00%
Special Item:							
Somerset County Technology Center Debt Difference	7,378	6,651	0	0	7,378	6,651	-9.85%
Increase (Decrease) in Net Assets	336,820	267,543	-10,741	-2,194	326,079	265,349	-18.62%
Beginning Net Assets	1,157,672	1,494,492	136,215	125,474	1,293,887	1,619,966	25.20%
Ending Net Assets	\$1,494,492	\$1,762,035	\$125,474	\$123,280	\$1,619,966	\$1,885,315	16.38%

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Figure A-5 – Sources of Revenue – Chart

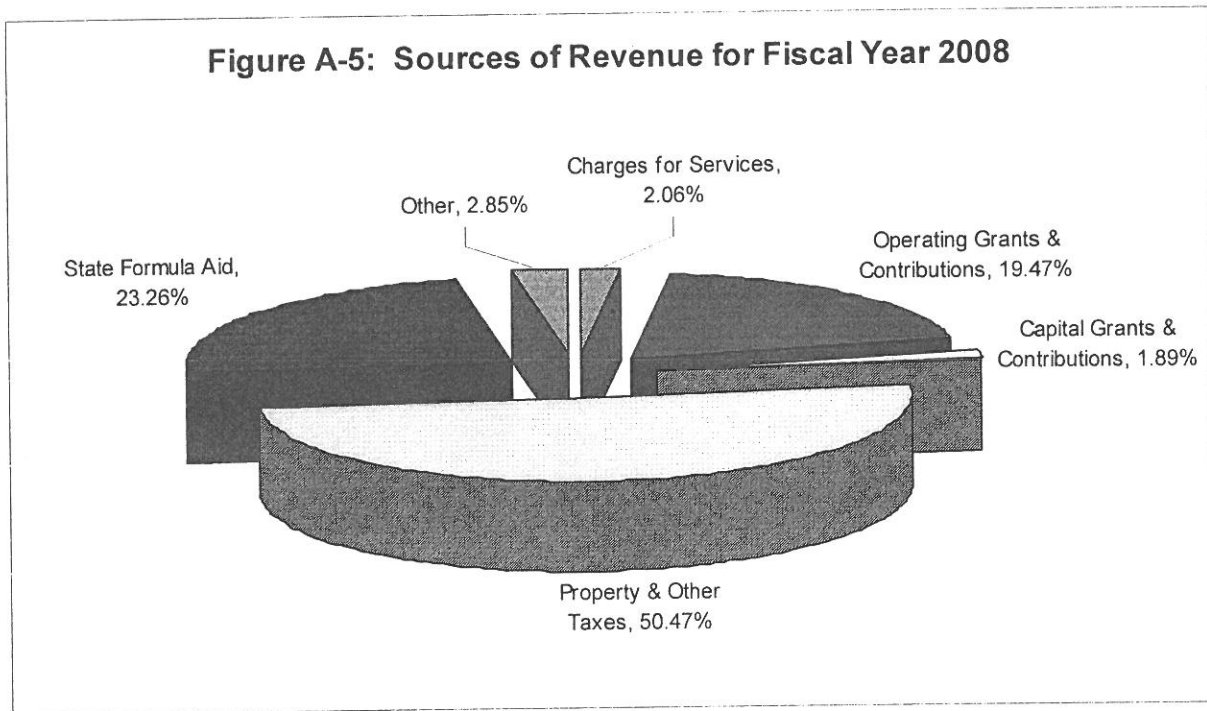
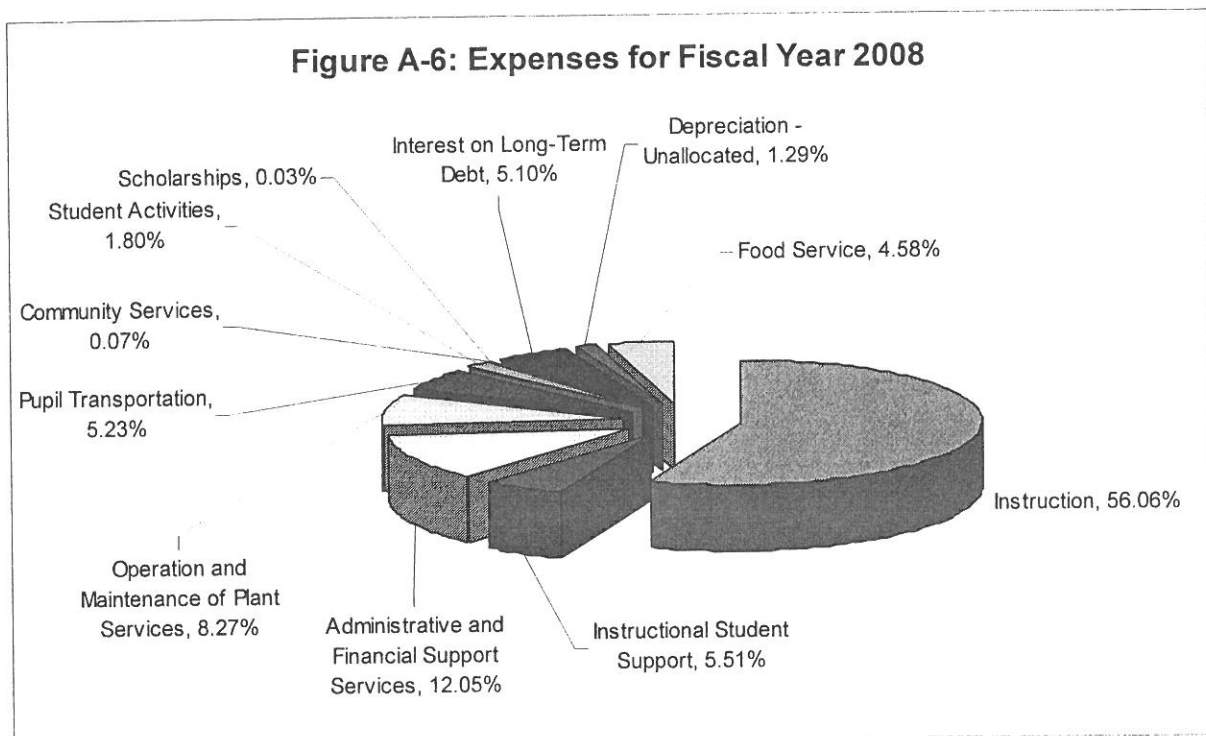


Figure A-6 – Expenditures - Chart



SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Governmental Activities

Figure A-7 represents the cost of six(6) major District activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation and other. The table also shows each activity's net cost (total cost less fees generated by the activities and governmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

The net cost of governmental activities increased 3.0% to \$4,351,760 and was financed by general revenue, which is made up of primarily property and other local taxes levied by the District (\$3,083,812) and state formula aid (\$1,421,275).

Figure A-7					
Net Cost of Governmental Activities					
For the Year Ended June 30, 2008					
	Total Cost of Services		Net Cost of Services		%
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>07-08</u>
Regular Expenses					
Instruction	\$3,133,451	\$3,280,202	\$2,411,920	\$2,380,100	-1.32%
Instructional Student Support	324,222	322,674	312,576	\$310,820	-0.56%
Administrative and Financial Support Services	674,596	705,363	639,733	\$668,245	4.46%
Operation and Maintenance of Plant Services	432,353	484,066	423,214	\$474,456	12.11%
Pupil Transportation	269,101	306,021	116,530	\$160,966	38.13%
Other	495,394	485,141	321,073	357,173	11.24%
	\$5,329,117	\$5,583,467	\$4,225,046	\$4,351,760	3.00%

Financial Analysis of the District's Funds

Governmental Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District, as a whole, is reflected, in large part, in the change in its governmental fund balances and the increase (decrease) in its long-term debt. As the District completed the year, its governmental funds reported a combined fund balance of \$2,893,508. This is a decrease of \$111,563 from last year. The General Fund balance is comprised of

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

\$2,681,441 which is unreserved and undesignated, which is available for spending at the District's discretion.

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 required supplemental information of these financial statements.

Although this year's expenditures were below budget, there were no budgetary transfers done to correct any overages or surpluses in various areas of the budget.

- ◆ Total General Fund Revenues exceeded budget by \$350,752 or 6.35%.
 - Budgetary estimate differed in the following areas:
 - Local revenues were \$197,607 over budget. The overage was primarily comprised of the following:
 - Local Real Estate Taxes – exceeded estimates by \$142,251 (5.72%) due to an increase in the District's tax base and percentage collected before delinquency over the estimated 90%.
 - Per Capita Tax (Act 511 and Section 679) exceeded estimates by \$4,683 or 44.6%.
 - Realty Transfer Tax fell short of estimates by \$5,405 or -7.2%
 - Local Earned Income Tax (EIT) revenue exceeded estimates by \$18,495 or 10.0%.
 - Investment Earnings exceeded estimates by \$63,936 or 63.9% as a result of conservatively budgeting to the low interest rates available when the budget was compiled.
 - Delinquent Collections fell short of estimates by \$23,320 or 15.5%
 - Donations of \$20,100 were received while an estimate of only \$7,500 was included in the original budget. \$4,200 was received to support the Rifle Team. \$10,000 was received from Highmark for physical education purposes. Scholarships donations totaled \$3,500. The remaining amount was accepted for the Memorial Garden and other miscellaneous use.
 - Total General Fund expenditures were \$22,911 under budget after transfers.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Capital Assets and Debt Administration

Accumulated depreciation increased \$376,531 for the 2007-2008 school year. The District's only capital debt is the general obligation bonds, along with its portion of the Somerset County Technology Center renovation general obligation note, discussed in the notes to the financial statements.

Currently Known Facts, Decisions or Conditions

The District does not expect significant growth in the near future given the residential nature of the local economy and the instability of the national economy. The District has recognized a loss of \$16,000 in local real estate taxes due to the Flight 93 Memorial Park with properties that the National Park Service has acquired to date. There are still properties that have been identified as properties the National Park Service would like to own, but no push is being made to acquire these properties at this time.

With an updated park map and actual boundaries identified, we have been able to identify those properties that will be partially or completely removed from the tax rolls as the Families of Flight 93 continue to purchase the identified properties. These properties are then turned over to the National Park Service for federal ownership. The district is compensated partially through a federal reimbursement program, however, this reimbursement amount is far less than the real estate tax revenue that would be generated by these properties.

The Pennsylvania School Employees' Retirement System (PSERS) set the contribution rate for 2008-2009 to decrease from 7.13% to 4.78%, but a jump to over 25% is expected in less than 5 years. The 2009-2010 rate was very close to 2008-2009. The expected increase for 2010-2011 was to be 8.00%, but that was reduced to 5.64% as part of the Commonwealth's budget for the year. The spike in employer contributions is expected within 2 years unless the state legislature takes formal action in reforming or refinancing PSERS.

With the nation's current economic status, interest rates have become very low. Interest revenue will continue to not be a major contributor to local revenues unless the economy begins to recover.

Our medical/dental/vision costs continue to increase as others continue to do so nationwide. We had a good year in our local health consortium. This allowed our increase for 2008-2009, 2009-2010 and 2010-2011 to be far less than that national average.

As part of the 2009-2010 budget, the District chose to reinvest into the building. Approximately \$57,000 was used out of the capital reserve fund for building improvements including security camera upgrades in the buildings and on the buses, repairs to the windows that have lost their weatherization capabilities, and more current light fixtures have been installed in the gymnasium.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Long-term planning for unforeseen and large expenses will be needed in order to stabilize their effects on a budget that is very limited in its flexibility due to the restrictions of Act 1. Actions have been taken to ensure the financial stability of the school district.

Act 1- Taxpayer Relief Act

Act 1 is a complex piece of legislation setting rules for slot money distribution, requiring front-end voter referenda on tax shifting, mandating new budget practices, and requiring back-end voter referenda on future real estate tax increases above an "index" and on building projects. Act 1 is mandatory and provides school boards very few options. The Act will have many collateral consequences for school districts, including adversely effecting educational programs, possible bond downgrade and related borrowing expense, substantial implementation expense, and many diverse required actions.

School districts must also provide an installment payment option for eligible properties' property taxes, beginning in the fiscal year 2007-08. This will have an impact on collections and the administrative costs to account for the installment payments. Based on the first year's participation, the overall impact of the installment payment option has been minimal on the District.

The amount of gambling revenues by Governor Ed Rendell for the 2008-2009, 2009-2010 and 2010-2011 school years have been consistent. Expectations are that this amount was made higher than actual figures since 2008-2009 will be the first year for actual property tax reduction through gambling revenues for properties that qualify for a homestead exemption or the combination of a homestead and farmstead exemptions. However, since similar amounts have been used in the following two tax years, the homestead/farmstead exclusion amounts have proven beneficial for qualifying taxpayers. Even with tax increases in 2008-2009 and 2009-2010 school years, qualifying homestead/farmstead properties are paying less in property taxes than they were in 2007-2008.

Homestead exemptions can be granted to properties that are the owner's primary residence. It is recommended that all eligible taxpayers apply for this exemption in order to qualify for any property relief that may come in the future.

Contacting the District's Financial Management

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

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
STATEMENT OF NET ASSETS: DISTRICT-WIDE
JUNE 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,984,496	\$ 58,116	\$ 3,042,612
Investments	195,000	-	195,000
Taxes Receivable (Net)	179,642	-	179,642
Internal Balances	2,538	(2,538)	-
Due from Other Governments	167,465	-	167,465
Other Receivables	2,310	-	2,310
Inventories	15,253	3,895	19,148
Total Current Assets	<u>3,546,704</u>	<u>59,473</u>	<u>3,606,177</u>
Noncurrent Assets:			
Land	24,792	-	24,792
Site Improvements (Net of Accumulated Depreciation)	227,770	-	227,770
Buildings and Building Improvements (Net of Accumulated Depreciation)	6,031,833	-	6,031,833
Furniture and Equipment (Net of Accumulated Depreciation)	276,916	68,824	345,740
Total Noncurrent Assets	<u>6,561,311</u>	<u>68,824</u>	<u>6,630,135</u>
TOTAL ASSETS	<u>\$ 10,108,015</u>	<u>\$ 128,297</u>	<u>\$ 10,236,312</u>
LIABILITIES			
Current Liabilities:			
Due to Other Governments	\$ 38,025	\$ -	\$ 38,025
Accounts Payable	56,267	-	56,267
Current Portion of Long-Term Debt	519,307	-	519,307
Accrued Interest	82,826	-	82,826
Accrued Salaries and Benefits	367,515	-	367,515
Payroll Deductions and Withholdings	14,167	-	14,167
Deferred Revenues	12,411	1,617	14,028
Other Current Liabilities	5,856	3,400	9,256
Total Current Liabilities	<u>1,096,374</u>	<u>5,017</u>	<u>1,101,391</u>
Noncurrent Liabilities:			
Bonds Payable	6,539,877	-	6,539,877
Extended Term Financing Agreements Payable	652,233	-	652,233
Long-Term Portion of Compensated Absences	57,496	-	57,496
Total Noncurrent Liabilities	<u>7,249,606</u>	<u>-</u>	<u>7,249,606</u>
TOTAL LIABILITIES	<u>8,345,980</u>	<u>5,017</u>	<u>8,350,997</u>
NET ASSETS			
Invested in Capital Assets Net of Related Debt	(1,215,229)	68,824	(1,146,405)
Restricted For:			
Retirement of Long-Term Debt	6,139	-	6,139
Other Restrictions	19,903	-	19,903
Unrestricted, Designated	166,159	-	166,159
Unrestricted, Undesignated	2,785,063	54,456	2,839,519
TOTAL NET ASSETS	<u>1,762,035</u>	<u>123,280</u>	<u>1,885,315</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,108,015</u>	<u>\$ 128,297</u>	<u>\$ 10,236,312</u>

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

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
STATEMENT OF ACTIVITIES: DISTRICT-WIDE
FOR THE YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues			Net (Expense) Revenue 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	\$ 3,280,202	\$ 2,400	\$ 897,702	\$ -	\$ (2,380,100)	\$ -	\$ (2,380,100)
Instructional Student Support	322,674	-	11,854	-	(310,820)	-	(310,820)
Administrative and Financial Support Services	705,363	-	37,118	-	(668,245)	-	(668,245)
Operation and Maintenance of Plant Services	484,066	-	9,610	-	(474,456)	-	(474,456)
Pupil Transportation	306,021	-	145,055	-	(160,966)	-	(160,966)
Student Activities	105,163	8,927	1,645	-	(94,591)	-	(94,591)
Community Services	4,044	-	-	-	(4,044)	-	(4,044)
Scholarships	2,000	-	2,000	-	-	-	-
Interest on Long-Term Debt	298,628	-	-	115,396	(183,232)	-	(183,232)
Depreciation - Unallocated	75,306	-	-	-	(75,306)	-	(75,306)
Total Governmental Activities	5,583,467	11,327	1,104,984	115,396	(4,351,760)	-	(4,351,760)
Business-Type Activities							
Food Service	267,879	114,642	84,499	-	-	(68,738)	(68,738)
TOTAL	\$ 5,851,346	\$ 125,969	\$ 1,189,483	\$ 115,396	(4,351,760)	(68,738)	(4,420,498)
General Revenues							
Taxes:							
Property and Other Taxes, Levied for General Purposes, Net					3,083,812	-	3,083,812
Grants, Subsidies, and Contributions, Not Restricted					1,421,275	-	1,421,275
Investment Earnings					166,542	1,726	168,268
Miscellaneous Income					5,841	-	5,841
Total General Revenues					4,677,470	1,726	4,679,196
Change in Net Assets Before Transfers					325,710	(67,012)	258,698
Transfers Between Governmental and Business-Type Activities					(64,818)	64,818	-
Special Item-SCTC Debt Reduction from Maximum					6,651	-	6,651
Change in Net Assets					267,543	(2,194)	265,349
Net Assets, Beginning of Year					1,494,492	125,474	1,619,966
Net Assets, End of Year					\$ 1,762,035	\$ 123,280	\$ 1,885,315

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

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
BALANCE SHEET: GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Capital Reserve	Debt Service	Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 2,808,101	\$ 163,819	\$ 6,139	\$ 6,437	\$ 2,984,496
Investments	195,000	-	-	-	195,000
Taxes Receivable, Net	182,886	-	-	-	182,886
Due From Other Funds	4,362	-	-	-	4,362
Due From Other Governments	167,465	-	-	-	167,465
Other Receivables	2,310	-	-	-	2,310
Inventories	15,253	-	-	-	15,253
Total Assets	<u>\$ 3,375,377</u>	<u>\$ 163,819</u>	<u>\$ 6,139</u>	<u>\$ 6,437</u>	<u>\$ 3,551,772</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to Other Funds	\$ -	\$ -	\$ -	\$ 1,824	\$ 1,824
Due to Other Governments	38,025	-	-	-	38,025
Accounts Payable	56,267	-	-	-	56,267
Accrued Salaries and Benefits	367,515	-	-	-	367,515
Payroll Deductions and Withholdings	14,167	-	-	-	14,167
Deferred Revenues	174,610	-	-	-	174,610
Other Current Liabilities	5,856	-	-	-	5,856
Total Liabilities	<u>656,440</u>	<u>-</u>	<u>-</u>	<u>1,824</u>	<u>658,264</u>
Fund Balances					
Reserve for Inventories	15,253	-	-	-	15,253
Reserve for Retirement of Long-Term Debt	-	-	6,139	-	6,139
Other Reserve	19,903	-	-	-	19,903
Unreserved-Designated	2,340	163,819	-	-	166,159
Unreserved-Undesignated	2,681,441	-	-	4,613	2,686,054
Total Fund Balances	<u>2,718,937</u>	<u>163,819</u>	<u>6,139</u>	<u>4,613</u>	<u>2,893,508</u>
Total Liabilities and Fund Balances	<u>\$ 3,375,377</u>	<u>\$ 163,819</u>	<u>\$ 6,139</u>	<u>\$ 6,437</u>	<u>\$ 3,551,772</u>

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

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE DISTRICT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Fund Balances - Governmental Funds	\$ 2,893,508
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Amounts reported for governmental activities in the district-wide statement of net assets are different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$10,605,730 and the accumulated depreciation is \$4,044,419	6,561,311
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Property taxes receivable not available to pay for current period's expenditures and, therefore, are deferred in the funds	162,199
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Allowance for doubtful accounts - property taxes receivable	(3,244)
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Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds Payable	(7,095,000)	
Unamortized Bond Discount/issuance Costs	65,123	
Extended Term Financing Agreement Payable	(681,540)	
Accrued Interest Payable	(82,826)	
Compensated Absences	(57,496)	
		(7,851,739)

Total Net Assets - Governmental Activities	\$ 1,762,035
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The accompanying notes are an integral part of these financial statements.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Reserve	Debt Service	Nonmajor Funds	Total Governmental Funds
REVENUES					
Local Sources	\$ 3,363,607	\$ 8,216	\$ 339	\$ 9,254	\$ 3,381,416
State Sources	2,364,973	-	-	-	2,364,973
Federal Sources	148,729	-	-	-	148,729
Total Revenues	<u>5,877,309</u>	<u>8,216</u>	<u>339</u>	<u>9,254</u>	<u>5,895,118</u>
EXPENDITURES					
Instruction	3,249,743	-	-	-	3,249,743
Support Services	1,775,091	-	-	-	1,775,091
Noninstructional Services	98,764	-	-	12,443	111,207
Capital Outlay	-	-	-	-	-
Debt Service	40,350	-	765,472	-	805,822
Refund of Prior Year Receipt	-	-	-	-	-
Total Expenditures	<u>5,163,948</u>	<u>-</u>	<u>765,472</u>	<u>12,443</u>	<u>5,941,863</u>
Excess (Deficiency) Of Revenues Over Expenditures	713,361	8,216	(765,133)	(3,189)	(46,745)
OTHER FINANCING SOURCES (USES)					
Proceeds From Bonds	-	-	-	-	-
Interfund Transfers From Other Funds	-	-	765,472	-	765,472
Sale of Fixed Assets	-	-	-	-	-
Refunded Bonds	-	-	-	-	-
Transfers Out	(830,290)	-	-	-	(830,290)
Total Other Financing Sources (Uses)	<u>(830,290)</u>	<u>-</u>	<u>765,472</u>	<u>-</u>	<u>(64,818)</u>
NET CHANGE IN FUND BALANCES	(116,929)	8,216	339	(3,189)	(111,563)
FUND BALANCES, BEGINNING OF YEAR	2,835,866	155,603	5,800	7,802	3,005,071
FUND BALANCES, END OF YEAR	<u>\$ 2,718,937</u>	<u>\$ 163,819</u>	<u>\$ 6,139</u>	<u>\$ 4,613</u>	<u>\$ 2,893,508</u>

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

SHANKSVILLE STONYCREEK SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES
JUNE 30, 2008

Total Net Change In Fund Balance - Governmental Funds \$ (111,563)

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

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

Capital Outlays	\$	230,196	
Less: Depreciation Expense		(376,531)	(146,335)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds, but deferred revenues. Deferred tax revenues increased by this amount this year

14,059

Issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, but issuing debt increases liabilities in the statement of net assets. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces liabilities in the statement of net assets. Neither transaction has any effect on the statement of activities. The effect of these transactions in the statement of activities is shown below:

Repayment of Principal	\$	502,032	
Amortization of Bond Discount/Issuance Costs		(6,708)	495,324

Reduction in SCTC debt-difference between actual principal paid and maximum liability recorded in district-wide financial statements

6,651

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest decreased by this amount this year

5,162

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds

Change in Long-Term Compensated Absences			4,245
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Change in Net Assets - Governmental Activities	\$	267,543	
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The accompanying notes are an integral part of these financial statements.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	<u>Food Service</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 58,116
Inventories	3,895
Intergovernmental Receivable	-
Total Current Assets	<u>62,011</u>
Noncurrent Assets	
Furniture and Equipment, Net of Accumulated Depreciation	<u>68,824</u>
TOTAL ASSETS	<u><u>\$ 130,835</u></u>
 LIABILITIES	
Current Liabilities	
Due to Other Funds	\$ 2,538
Deferred Revenues	1,617
Other Current Liabilities	3,400
Total Current Liabilities	<u>7,555</u>
TOTAL LIABILITIES	<u>7,555</u>
 NET ASSETS	
Investment in Capital Assets	68,824
Unrestricted	54,456
Total Net Assets	<u>123,280</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 130,835</u></u>

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

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Food Service
OPERATING REVENUES	
Food Service Revenues	\$ 114,642
Total Operating Revenues	<u>114,642</u>
OPERATING EXPENSES	
Salaries	63,247
Employee Benefits	74,192
Purchased Property Services	4,359
Supplies	105,396
Depreciation	20,685
Total Operating Expenses	<u>267,879</u>
OPERATING INCOME (LOSS)	<u>(153,237)</u>
NONOPERATING REVENUES (EXPENSES)	
Earnings on Investments	1,726
State Sources	15,091
Federal Sources	69,408
Total Nonoperating Revenues (Expenses)	<u>86,225</u>
Net Income (Loss) Before Transfers	(67,012)
Operating Transfers In	64,818
Net Income	<u>(2,194)</u>
NET ASSETS, BEGINNING OF YEAR	<u>125,474</u>
NET ASSETS, END OF YEAR	<u>\$ 123,280</u>

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

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Users	\$ 114,919
Cash Payments to Employees for Services	(137,450)
Cash Payments to Suppliers for Goods and Services	(96,189)
Net Cash Provided By (Used For) Operating Activities	<u>(118,720)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State Sources	16,250
Federal Sources	62,819
Operating Transfers In	64,818
Net Cash Provided By Non-Capital Financing Activities	<u>143,887</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	1,726
Net Cash Provided By Investing Activities	<u>1,726</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,893
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>31,223</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 58,116</u>
Operating Income (Loss)	<u>\$ (153,237)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For)	
Operating Activities:	
Depreciation	20,685
USDA Donated Commodities	13,311
(Increase) Decrease in Inventories	3,030
Increase (Decrease) in Amounts Due to Other Funds	(11)
Increase (Decrease) in Deferred Revenues	(2,775)
Increase (Decrease) in Other Current Liabilities	277
Total Adjustments	<u>34,517</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ (118,720)</u>

Supplemental Disclosure of Non-Cash Investing and Financing Activities:
Revenue and expense from USDA Donated Commodities in the amount of \$13,311 has been included in the June 30, 2008 financial statements.

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

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

	Private Purpose Trust Fund	Student Activity Fund
ASSETS		
Cash and Cash Equivalents	\$ 926	\$ 21,564
Total Assets	<u>\$ 926</u>	<u>\$ 21,564</u>
LIABILITIES		
Due to Student Organizations	\$ -	\$ 21,564
Total Liabilities	<u>-</u>	<u>\$ 21,564</u>
NET ASSETS		
Held in Trust	926	
	<u>\$ 926</u>	

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

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Private Purpose Trust <u>Fund</u>
ADDITIONS	
Earnings on Investments	\$ 36
	<u> 36</u>
DEDUCTIONS	
Donations to private individuals	-
	<u> 36</u>
CHANGE IN NET ASSETS	36
NET ASSETS, BEGINNING OF YEAR	<u>890</u>
NET ASSETS, END OF YEAR	<u><u>\$ 926</u></u>

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

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Shanksville-Stonycreek School District is a third-class school district serving Shanksville Borough, Indian Lake Borough, and Stonycreek Township located in Somerset County, Pennsylvania with an approximate enrollment of 450 students. The School District is governed by nine board members elected by the public.

The Shanksville-Stonycreek School District participates in the Somerset County Technology Center (formerly named the Somerset County Area Vocational-Technical School) as a joint venture with the following seven other Somerset County schools: Berlin-Brothersvalley School District, Meyersdale Area School District, North Star School District, Rockwood Area School District, Shade-Central City School District, Somerset Area School District and Turkeyfoot Valley Area School District. The Technology Center provides training in vocational areas not otherwise offered by the School District. The Somerset County Technology Center is governed by a nine member joint operating committee comprised of one appointee from seven of the participating districts and two appointees from the largest participating school, Somerset Area School District. The secondary school operational expenditures of the Technology Center are shared proportionately by the member districts according to student enrollment. Major capital expenditures of the Technology Center are distributed among the participating school districts on the basis of the percentage which the market value of taxable real property of each participating school district, as published by the State Tax Equalization Board, bears to the total market value of taxable real property of all participating districts. During the year ended June 30, 2008, Shanksville-Stonycreek School District paid \$268,510 to the Somerset County Technology Center for its share of 2007-08 operational expenditures. In addition, during 2003-04 the member districts entered into extended term financing agreements for major renovations to the Technology Center facility (see Note 7). Audited financial statements of the Somerset County Technology Center may be obtained directly from its administrative office located at 281 Technology Drive, Somerset, PA 15501.

A review of other agencies was performed in order to determine if they met the criteria specified in Governmental Accounting Standards Board (GASB) Statement No. 14 for inclusion in the Shanksville-Stonycreek School District's financial statements as component units. GASB Statement No. 14 states that the primary basis of determining whether the outside agency should be considered a component unit is financial accountability. Financial accountability is defined as when the primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on the component unit or there is potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Shanksville-Stonycreek School District has no component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities,

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period (generally sixty days after year end). Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The accrual method of accounting is used for the Proprietary Fund. Under this method of accounting, revenues are recorded when earned and expenses are recorded when incurred. The Proprietary Fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

Governmental Fund Types

The School District reports the following major government funds:

General Fund

The General Fund is the general operating fund of the School District. It is used to account for all financial activities of the School District except those required to be accounted for in other funds. General Fund activities are funded primarily by subsidies and taxes. Major functions financed from the General Fund include school instruction, support services and operation and maintenance of equipment and facilities.

Capital Reserve Fund

The Capital Reserve Fund was created pursuant to Section 2932 of the Pennsylvania Municipal Code, 53 P.S. 1432 as a Special Revenue Fund for capital outlays.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on the general obligation bonds of the School District. Payments are remitted to an independent fiscal agent to cover principal, interest and fees.

The Shanksville-Stonycreek School District's nonmajor governmental fund types include its Athletic Special Revenue Fund and a Public Purpose Expendable Trust Fund.

Proprietary Fund Type

Food Service Fund

A Proprietary Fund accounts for activities that are financed and operated in a manner similar to private business enterprises or for which periodic determination of revenues, expenses and net income is considered desirable. The School District's Proprietary Fund is its Food Service Fund which is used to account for the operations of the School District's cafeteria.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fiduciary Fund Types

Fiduciary Funds are used to account for resources held for the benefit of parties outside the governmental entity. The District's Fiduciary Funds are not reflected in the district-wide financial statements because the resources are not available to support the District's own programs.

Student Activity Fund

Fiduciary Fund Types include Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Student Activity Fund is considered to be an Agency Fund.

Private Purpose Trust Fund

The School District also has a private-purpose Trust Fund which accounts for funds donated specifically to benefit individuals or private organizations.

Budget

The General Fund is the only Fund for which a budget is required by the Pennsylvania Public School Code and for which taxes may be levied. Prior to the beginning of each fiscal year, the School Board approves an annual General Fund budget on the modified accrual basis of accounting. Appropriations lapse at fiscal year end (June 30). All revisions to the budget require approval of the School Board; however, no budgetary transfers were made for the year ended June 30, 2008. A comparison to the original and the final revised General Fund budget is presented as required supplementary information in these financial statements.

Interfund Transactions

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Any balances outstanding at year-end are referred to as "due to/from other funds" in the fund financial statements. Any balances outstanding between the governmental activities and business-type activities are reported in the district-wide financial statements as "internal balances".

Compensated Absences Payable

Pursuant to the various employment agreements and contracts, unused accumulated sick leave will be paid to employees meeting certain criteria upon retirement at a fixed, per day amount. In accordance with GASB Statement No. 16, the liability for compensated absences as of June 30, 2008, in the amount of \$57,496 has been recorded as a governmental activities long-term liability in the district-wide financial statements. The amount expected to be paid from current resources is insignificant.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventories

In the district-wide financial statements, all inventories are presented at the lower of cost or estimated fair market value on a first-in, first-out basis, and are expensed when used.

General Fund inventory of consumable materials and supplies is recorded in the fund financial statements under the purchases method whereby expenditures are recognized when the inventory is acquired; and, at year-end, inventory is recorded along with a corresponding fund balance reserve. The Food Service Fund Inventory is presented in the fund financial statements at cost using the first-in, first-out valuation method, and expensed when used.

Estimates

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

Comparative Data

Comparative data is not included in the School District's financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

The Shanksville-Stonycreek School District is required to deposit funds in accordance with Pennsylvania state law. Pennsylvania statutes provide for deposit of governmental funds into certain authorized investment types including U. S. Treasury Bills, other short-term U. S. and Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. Act 72 of the Commonwealth of Pennsylvania allows pooling of governmental funds for collateralization purposes.

Cash and Cash Equivalents

Shanksville-Stonycreek School District considers all short-term investments with an original maturity of three months or less to be cash equivalents. As of June 30, 2008, cash and cash equivalents were comprised of the following:

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS (Cont'd)

Governmental Funds

General Fund

Petty cash funds	\$ 200
First National Bank of Pennsylvania, interest bearing checking account, variable interest rate	71,942
First National Bank of Pennsylvania, interest bearing checking account, variable interest rate	312,724
First National Bank of Pennsylvania, interest bearing checking account, variable interest rate	525
First National Bank of Pennsylvania, interest bearing checking account, variable interest rate	617,662
Pennsylvania Local Government Investment Trust, variable interest rate	285,180
Pennsylvania Local Government Investment Trust, variable interest rate	50,785
Pennsylvania Local Government Investment Trust, I Class, variable interest rate	304,777
Pennsylvania School District Liquid Asset Fund MAX, variable interest rate	<u>1,164,306</u>
Total General Fund	<u>2,808,101</u>

Capital Reserve Fund

Pennsylvania School District Liquid Asset Fund MAX, variable interest rate	<u>163,819</u>
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Debt Service Fund

Somerset Trust Co., trust account, variable interest rate	127
Somerset Trust Co., trust account, variable interest rate	168
Somerset Trust Co., trust account, variable interest rate	<u>5,844</u>
Total Debt Service Fund	<u>6,139</u>

Nonmajor Funds

Special Revenue Fund

Athletic - First National Bank of Pennsylvania, interest bearing checking account, variable interest rate	4,747
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Public Purpose Expendable Trust Fund

First National Bank of Pennsylvania, interest bearing checking account, variable interest rate	<u>1,690</u>
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Total Nonmajor Funds	<u>6,437</u>
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Total Governmental Funds	<u>\$ 2,984,496</u>
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SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS (Cont'd)

Proprietary Fund

Food Service Fund

First National Bank of Pennsylvania, interest bearing checking account, variable interest rate	\$ <u>58,116</u>
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Fiduciary Funds

Student Activity

First National Bank of Pennsylvania, interest bearing checking account, variable interest rate	\$ <u>21,564</u>
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Private Purpose Trust Fund

First National Bank of Pennsylvania, interest bearing checking account, variable interest rate	\$ <u>926</u>
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Investments

Investments at June 30, 2008 were comprised of the following:

Governmental Funds

General Fund

Pennsylvania Local Government Investment Trust, CDs, interest rates ranging 3.32% to 3.55%, due September 30, 2008	\$ <u>165,000</u>
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These CDs are held in the name of the School District and FDIC insured.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS (Cont'd)

Deposit and Investment Risk

Under GASB Statement No. 40, governmental entities are required to disclose the following risks with respect to investments:

- ◆ Interest rate risk – risk that changes in market interest rates will adversely affect the fair value of an investment.
- ◆ Credit risk – risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.
- ◆ Custodial credit risk – risk that, in the event of failure of the counterparty to a transaction, the governmental entity will not be able to recover the value of its investments that are in the possession of another party.
- ◆ Concentration of credit risk – an increased risk of loss occurs as more investments are acquired from one issuer.

The School District has adopted a deposit and investment policy which limits the types of investments of the School District; however, this policy does not specifically address the other above risk factors.

At June 30, 2008, the carrying amount of the School District's financial institution demand deposit accounts and time deposits (excluding the Student Activity Fund) was \$1,263,332 and the bank balance was \$984,846. Of the bank balance, \$295,000 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$689,846 was secured by the financial institution with pooled funds in accordance with Act 72.

The above amounts in the trust accounts at Somerset Trust Co. are invested in cash equivalents and as of June 30, 2008, were secured by U. S. Government securities held by the trust department of the financial institution in the School District's name.

The Pennsylvania School District Liquid Asset Fund and Pennsylvania Local Government Investment Trust cash equivalents accounts contain investments in accordance with Pennsylvania state law. The School District owns a pro-rata share of each investment or deposit which is held in the name of the fund. These funds have the characteristics of mutual funds. At June 30, 2008, the Pennsylvania Local Government Investment Trust and the Pennsylvania School District Liquid Asset Fund were rated AAA by a nationally recognized statistical rating organization.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 3 – DUE FROM OTHER GOVERNMENTS

This account reflects the following amounts receivable from other governmental units as of June 30, 2008:

Governmental Funds

General Fund

Due from U.S. Department of Education Rural Education Achievement Program	\$ 30,728
Due from PA Department of Education Federal Programs Title IIA	11,001
State Subsidies/Programs Retirement Reimbursement	29,189
Social Security Reimbursement	12,496
Due from Appalachia Intermediate Unit 08 IDEA Grant	<u>84,051</u>
Total Governmental Funds	<u>\$ 167,465</u>

NOTE 4 – CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

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 \$1,500. 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.

All reported capital assets except land and construction in progress are depreciated.

For governmental activities, depreciation is computed using the straight-line method over the following useful lives:

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 4 – CAPITAL ASSETS (Cont'd)

<u>Description</u>	<u>Estimated Lives</u>
Site Improvements	15-30 years
Buildings and Improvements	20-40 years
Furniture and Equipment	3-20 years

In accordance with the regulations of the Commonwealth of Pennsylvania Department of Education, food service fund (business-type activity) equipment is depreciated on the straight-line basis over an estimated useful life of 12 years. Food service equipment over 12 years old is considered fully depreciated and therefore, the cost of this equipment is not reflected in these financial statements.

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
<u>Capital Assets</u>				
Land	\$ 24,792	\$ -	\$ -	\$ 24,792
Site Improvements	840,029	-	-	840,029
Buildings and Improvements	8,925,943	-	-	8,925,943
Furniture and Equipment	584,770	230,196	-	814,966
	<u>10,375,534</u>	<u>230,196</u>	<u>-</u>	<u>10,605,730</u>
<u>Accumulated Depreciation</u>				
Site Improvements	571,123	41,136	-	612,259
Buildings and Improvements	2,628,155	265,955	-	2,894,110
Furniture and Equipment	468,610	69,440	-	538,050
	<u>3,667,888</u>	<u>376,531</u>	<u>-</u>	<u>4,044,419</u>
Net Capital Assets	<u>\$ 6,707,646</u>	<u>\$ (146,335)</u>	<u>\$ -</u>	<u>\$ 6,561,311</u>
<u>Business-Type Activities</u>				
<u>Capital Assets</u>				
Furniture and Equipment	\$ 229,833	\$ -	\$ -	\$ 229,833
<u>Accumulated Depreciation</u>				
Furniture and Equipment	<u>140,324</u>	<u>20,685</u>	<u>-</u>	<u>161,009</u>
Net Capital Assets	<u>\$ 89,509</u>	<u>\$ (20,685)</u>	<u>\$ -</u>	<u>\$ 68,824</u>

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 4 – CAPITAL ASSETS (Cont'd)

Depreciation expense for the year ended June 30, 2008 was charged as follows:

Governmental Activities

Instructional Services	\$ 225,919
Support Services	75,306
Depreciation-Unallocated	<u>75,306</u>

\$ 376,531

Business-Type Activities

Food Service	<u>\$ 20,685</u>
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NOTE 5 – LONG-TERM DEBT

In the district-wide financial statements, long-term debt is reported as a liability in the governmental activities statement of net assets. Bond discounts and issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize the face amount of the debt issued, net of bond discounts, as other financing sources and the issuance costs as an expenditure in the year issued.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 5 – LONG-TERM DEBT (Cont'd)

During the fiscal year ended June 30, 2008, the School District's long-term debt changed as follows:

	Debt Outstanding <u>6/30/07</u>	<u>Additions</u>	Retirements and <u>Repayments</u>	Debt Outstanding <u>6/30/08</u>	Due Within One <u>Year</u>
General Obligation Bonds	\$ 7,575,000	\$ -	\$ 480,000	\$ 7,095,000	\$ 490,000
Extended Term Financing Agreements	710,223	-	28,683	681,540	29,307
Liability for Compensated Absences	<u>61,741</u>	<u>-</u>	<u>4,245</u>	<u>57,496</u>	<u>-</u>
	8,346,964	-	512,928	7,834,036	519,307
Unamortized Issue Costs	<u>(71,831)</u>	<u>-</u>	<u>6,708</u>	<u>(65,123)</u>	<u>N/A</u>
	<u>\$ 8,275,133</u>	<u>\$ -</u>	<u>\$ 506,220</u>	<u>\$ 7,768,913</u>	<u>\$ 519,307</u>

As of June 30, 2008, the scheduled combined aggregate maturities and total interest payments of general obligation bonds and extended term financing agreements (at the maximum payment amounts) for the years ended June 30 were as follows:

Year Ended <u>June 30</u>	<u>General Obligation Bonds</u>		<u>Extended Term Financing Agreement</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2009	\$ 490,000	\$ 269,144	\$ 29,307	\$ 40,013	\$ 828,464
2010	495,000	253,061	29,930	38,236	816,227
2011	515,000	236,019	31,178	36,403	818,600
2012	530,000	217,923	31,801	34,513	814,237
2013	550,000	198,819	33,048	32,568	814,435
2014-2018	3,090,000	660,141	186,441	130,852	4,067,434
2019-2023	1,425,000	71,094	231,337	68,447	1,795,878
2024-2026	<u>-</u>	<u>-</u>	<u>108,498</u>	<u>6,585</u>	<u>115,083</u>
Total	<u>\$ 7,095,000</u>	<u>\$ 1,906,201</u>	<u>\$ 681,540</u>	<u>\$ 387,617</u>	<u>\$ 10,070,358</u>

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 6 – BONDS PAYABLE

General Obligation Bonds, Series of 2001

On August 23, 2001, the School District issued \$4,440,000 General Obligation Bonds, Series of 2001 to advance refund the District's General Obligation Bonds, Series of 1999 and to pay the cost of issuance of the bonds. The General Obligation Bonds, Series of 2001 were issued at a discount of \$47,725 and issuance costs amounted to \$39,389. United States government securities were purchased with \$4,350,885 of the proceeds and deposited into an irrevocable escrow fund. This amount was determined by the School District's underwriters to be sufficient, with interest earnings thereon, to provide for the redemption of the District's outstanding Series of 1999 Bonds. The remaining bond issue proceeds of \$2,001 were deposited into the General Fund.

The General Obligation Bonds, Series of 2001 are in fully registered form, in the denominations of \$5,000 principal amount or any integral multiple thereof, bearing annual interest rates of 2.75% to 5.00%, with a final maturity date of September 15, 2019.

The Bonds stated to mature on September 15, 2007 through September 15, 2017 are subject to redemption prior to maturity, at the option of the School District, as a whole or in part, on September 15, 2006, or on any date thereafter, upon payment of the principal amount thereof, together with accrued interest to the date fixed for redemption. The Bonds stated to mature on September 15, 2019 are subject to redemption prior to maturity, at the option of the School District, as a whole or in part, on September 15, 2011, or any date thereafter, upon payment of the principal amount thereof, together with accrued interest to the date fixed for redemption. If less than all Bonds of any maturity are to be redeemed, the Bonds of such maturity to be redeemed shall be drawn by lot by the Paying Agent.

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.

The maturity schedule of the remaining General Obligation Bonds, Series of 2001, is set forth below:

<u>September 15</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2018	5.00%	\$ 280,000
2019	5.00%	<u>735,000</u>
		<u>\$ 1,015,000</u>

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 6 – BONDS PAYABLE (Cont'd)

General Obligation Bonds, Series of 2002

In September 2002, the Shanksville-Stonycreek School District issued \$4,595,000 General Obligation Bonds, Series of 2002 to advance refund the General Obligation Bonds, Series B of 1998. The General Obligation Bonds, Series of 2002 were issued at a bond discount of \$45,950 and net original issue discount of \$40,890. After paying issuance costs of \$45,708, the net proceeds were \$4,462,452. Of the net proceeds, \$3,184 was transferred to General Fund and \$4,459,268 was used to purchase U. S. government securities. The securities were deposited in an irrevocable escrow fund. This amount was determined by the School District's underwriters to be sufficient, with interest earnings thereon, to provide for the remaining required debt service payments of the General Obligation Bonds, Series B of 1998, through redemption on September 1, 2003.

The General Obligation Bonds, Series of 2002 are in registered form, each in the principal sum of \$5,000 or integral multiples thereof, bearing annual interest rates of 2.00% to 4.375%, with a final maturity date of September 15, 2018.

The maturity schedule of the General Obligation Bonds, Series of 2002 is set forth below:

<u>September 15</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2008	3.000%	\$ 285,000
2009	3.200%	295,000
2010	3.375%	305,000
2011	3.500%	315,000
2012	3.625%	325,000
2013	3.750%	340,000
2014	3.900%	350,000
2015	4.000%	365,000
2016	4.200%	380,000
2017	4.300%	395,000
2018	4.375%	<u>410,000</u>
		<u>\$ 3,765,000</u>

The bonds maturing on and after September 1, 2008, are subject to redemption at the option of the School District, prior to their stated maturity dates, as a whole or in part on and after September 1, 2007, at the redemption price of 100% of principal amount with interest accrued thereon to the date fixed for said optional redemption.

As described in Note 17, the School District refunded the Series of 2002 Bonds in February 2009 through the issuance of General Obligation Bonds, Series of 2009.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 6 – BONDS PAYABLE (Cont'd)

General Obligation Bonds, Series of 2006

In December 2006, the Shanksville-Stonycreek School District issued \$2,505,000 General Obligation Bonds, Series of 2006, to refund a portion of the General Obligation Bonds, Series of 2001. The Series of 2006 Bonds were issued at a bond discount of \$25,050 and an original issue discount of \$8,404. Issuance costs amounted to \$42,011.

The Bonds are in fully registered form, without coupons, registered initially in the name of Cede & Co., the nominee of the Depositary Trust Company (DTC) as registered owner, in book-entry only form, in denominations of \$5,000 principal amount or integral multiples thereof, bearing annual interest rates of 3.50% to 3.75%, with a final maturity date of September 15, 2017.

The maturity schedule of the 2006 Bonds is set forth below:

<u>September 15</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2008	3.50%	\$ 205,000
2009	3.50%	200,000
2010	3.50%	210,000
2011	3.50%	215,000
2012	3.50%	225,000
2013	3.55%	230,000
2014	3.63%	245,000
2015	3.70%	250,000
2016	3.75%	260,000
2017	3.75%	<u>275,000</u>
		<u>\$ 2,315,000</u>

The Bonds maturing on or after March 15, 2012, may be redeemed prior to maturity, at the option of the School District, on March 15, 2012, or on any date thereafter, at the redemption price of 100% of the principal amount, together with interest accrued thereon to the date fixed for said optional redemption.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 7 - EXTENDED TERM FINANCING AGREEMENT PAYABLE

General Obligation Note, Series A of 2004

During the fiscal year ended June 30, 2004, the member school districts of the Somerset County Technology Center (see Note 1) each entered into financing agreements to provide funds for major building and site renovations to the Technology Center facility. The Shanksville-Stonycreek School District entered into General Obligation Note, Series A of 2004 for this project. The total principal amount of the debt of all member districts for this project is \$6,140,000. As provided in the financial agreement, each school district's proportionate share of this total debt is calculated by a formula determined annually based on the percentage which the market value of taxable real property of each school district bears to the total market value of taxable real property in all of the member districts. However, the agreement also provides for a maximum amount of each school district's share of the debt. The School District's total maximum amount of this debt is capped at \$765,719. Since the School District's proportionate share of this debt can vary from year to year, the remaining maximum amount of the District's obligation is included as a liability in the district-wide financial statements. During the year ended June 30, 2008, the School District paid \$22,032 on the principal amount of this debt. The difference between this amount actually paid and the maximum scheduled debt service principal payment of \$28,683 is reflected in these financial statements as a special item in the district-wide statement of activities.

The following is a schedule of the Shanksville-Stonycreek School District's maximum principal amounts at the maximum interest rate of 6%:

<u>November 15</u>	<u>Principal Amount</u>
2008	\$ 29,307
2009	29,930
2010	31,178
2011	31,801
2012	33,048
2013	34,295
2014	35,542
2015	37,413
2016	38,660
2017	40,531
2018	42,401
2019	44,272
2020	46,143
2021	48,013
2022	50,508
2023	53,002
2024	55,496
	<u>\$ 681,540</u>

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 8 – DUE TO OTHER GOVERNMENTS

This account reflects the following amounts due to other governmental units as of June 30, 2008:

Governmental Funds

General Fund

Tuition and Educational Services	
Appalachia Intermediate Unit 08	\$ 34,032
Other LEAs	<u>3,993</u>
	<u>\$ 38,025</u>

NOTE 9 – REAL ESTATE TAXES

In the district-wide financial statements, all taxes, net of an estimated allowance for uncollectible amounts, are recognized in the period for which levied, regardless of when collected. In the fund financial statements, the taxes receivable which were received soon enough after the end of the fiscal year to pay current liabilities (generally within sixty days) were recognized as revenue, with the balance reported as deferred revenues.

Shanksville-Stonycreek School District uses elected tax collectors for current real estate tax collection. Real estate taxes are assessed on a fiscal year beginning July 1. These taxes may be paid at discount through September 30, at face through November 30 and with a penalty from December 1 through the delinquency date. Real estate taxes become delinquent after January 15 and are submitted to Somerset County for collection.

The following is a schedule setting forth the 2007 real estate tax information for the Shanksville-Stonycreek School District:

Assessed valuation or taxables	\$ 89,488,730
Millage	<u>30.7 mills</u>
Total tax	2,747,307
Discounts/Credits	(42,155)
Penalties	7,838
Submitted to County for collection	(150,203)
Tax collected by County from January through June, 2008	<u>33,754</u>
Total tax collected by June 30, 2008	<u>\$ 2,596,541</u>

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 10 – DEFERRED REVENUES

In the fund financial statements, deferred revenues include the taxes receivable as of June 30, 2008, which were not received soon enough after the end of the fiscal year to pay current liabilities. Deferred revenues also include amounts received during the current year to be expended during the 2008-2009 school year. Deferred revenues at June 30, 2008, were comprised of the following:

Governmental Funds

General Fund

Deferred revenues from taxes	\$ 162,199
Deferred revenues from federal program	
Title I	<u>12,411</u>
	<u>\$ 174,610</u>

Proprietary Fund

Food Service Fund

Deferred revenues from federal program	
USDA Commodities	<u>\$ 1,617</u>

NOTE 11 – RETIREMENT PLAN

School districts in the Commonwealth participate in the Pennsylvania Public School Employees' Retirement System (PSERS), a state administered pension program established under legislative authority.

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan.

The System provides for retirement and disability benefits, legislatively mandated *ad hoc* cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants.

The employer and employee obligations to contribute are established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535).

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 11 – RETIREMENT PLAN (Cont'd)

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class TC) or at 6.50% (Membership Class TD) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class TC) or at 7.50% (Membership Class TD) of the member's qualifying compensation.

Members who joined the System after June 30, 2001, contribute at 7.50% (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2008, the rate of employer contribution was 7.13% of covered payroll. The 7.13% rate is composed of a pension contribution rate of 6.44% for pension benefits and .69% for health care insurance premium assistance.

In accordance with Act 29 of 1994, the Commonwealth of Pennsylvania will continue to contribute one-half of the employer contributions for non-school entities and will pay school entities for contributions made to PSERS based on the formula provided in Act 29 of 1994, but not less than one-half of the school entities' contributions.

Shanksville-Stonycreek School District's employer contributions required by State statute were as follows:

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
June 30, 2008	\$ 180,153	100%
June 30, 2007	\$ 147,252	100%
June 30, 2006	\$ 104,872	100%

Annual Financial Report

PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. The report is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index.htm.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 12 – POSTEMPLOYMENT BENEFITS

The Shanksville-Stonycreek School District offers retiring professional employees who meet certain criteria medical insurance coverage up to a specified amount. The cost of former employees' health care benefits is recognized as an expenditure as premiums are paid. For the year ended June 30, 2008, the costs of postemployment health care benefits for the eight former General Fund employees totalled \$38,500.

NOTE 13 – LEASES

The School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the School District's account groups.

The following is a schedule by years of future minimum rental payments required under operating leases for equipment that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008:

Year Ending <u>June 30</u>	
2009	\$ 5,970
2010	<u>3,980</u>
Total minimum payments required	<u>\$ 9,950</u>

Total rental expenditures for the year ended June 30, 2008, for all operating leases, except those with terms of a month or less that were not renewed, amounted to \$5,970 in minimum rental payments.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 14 – SPECIFIC FUND BALANCE RESERVES

The June 30, 2008, fund balance of the Shanksville-Stonycreek School District is specifically reserved in accordance with donor instructions as follows:

General Fund

Scholarships	\$ 11,862
Student Technology Expenditures	2,483
Athletics/Physical Education	545
Drama Club	500
Senior Class	504
Memorial Garden	2,511
Child Health	148
Library Books	50
Promotion of Reading	<u>1,300</u>
	<u>\$ 19,903</u>

NOTE 15 – RISK MANAGEMENT

The School District has purchased commercial insurance policies for various risks of loss related to torts; theft, damage to or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Insurance settlements have not exceeded insurance coverage in the past three years. There were no significant reductions in coverage compared to the prior year.

The Shanksville-Stonycreek School District, along with fifteen other local area education institutions, is a member of the Bedford-Somerset Schools Health Insurance Consortium, a public entity risk pool formed to provide health and medical care benefits to employees. This is a self-funded program governed by the Bedford-Somerset Schools Health Insurance Consortium Cooperative Committee that is comprised of one delegate from each participating school. The Cooperative Committee determines the monthly rates charged to the participating schools for sufficient funding of the medical and health care benefits, stop loss insurance, and administrative expenses. The Consortium currently retains The Reschini Agency as its broker to assist in the administration of the program. The Consortium is required by its by-laws to purchase stop loss insurance coverage to limit the aggregate exposure to a maximum of 125% of actual claims and to limit the individual claim exposure to \$150,000. Participants may withdraw from the Consortium under terms as specified in the by-laws. Withdrawing participants are entitled to or are responsible for a proportionate share of the Consortium fund balance or deficit, as adjusted for any settlement of claims made on behalf of the withdrawing school for the following two years. The withdrawing participant's proportionate share is equal to the same percentage that the withdrawing participant's total premiums paid into the Consortium bears to the total premiums paid by all participants of the Consortium.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 16 – COMMITMENTS

As of June 30, 2008, the Shanksville-Stonycreek School District had commitments outstanding, in the form of purchase orders, of approximately \$28,014 for supplies for the 2008-09 fiscal year.

NOTE 17 – SUBSEQUENT EVENTS

In February 2009, the School District approved the issuance of \$3,565,000 General Obligation Bonds, Series of 2009, for the purposes of providing for the current refunding of the School District's General Obligation Bonds, Series of 2002, and the payment of the costs and expenses of the bond issue.

The future real estate tax base of the School District will be negatively affected by the federal government's acquisition of property within the District for the Flight 93 Memorial Park. As of the date these financial statements were issued, property with approximately \$500,000 of assessed value had been acquired by the National Park Service. The federal government has also expressed interest in the future acquisition of additional surrounding properties. The School District, however, anticipates real estate tax revenue to be generated from a recently erected wind farm.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources	\$ 3,166,000	\$ 3,166,000	\$ 3,363,607	\$ 197,607
State Sources	2,198,431	2,198,431	2,364,973	166,542
Federal Sources	162,126	162,126	148,729	(13,397)
Total Revenues	5,526,557	5,526,557	5,877,309	350,752
EXPENDITURES				
Instruction				
Regular Programs	2,172,381	2,172,381	2,443,130	(270,749)
Special Programs	507,270	507,270	517,560	(10,290)
Vocational Programs	270,000	270,000	268,510	1,490
Other Instructional Programs	176,591	176,591	8,658	167,933
Community/Jr College Programs	11,242	11,242	11,885	(643)
Total Instruction	3,137,484	3,137,484	3,249,743	(112,259)
Support Services				
Pupil Personnel Services	130,425	130,425	106,115	24,310
Instructional Staff Services	225,140	225,140	219,919	5,221
Administrative Services	505,000	505,000	510,896	(5,896)
Pupil Health	72,650	72,650	70,971	1,679
Business Services	104,600	104,600	107,193	(2,593)
Operation & Maintenance of Plant Services	466,750	466,750	463,954	2,796
Student Transportation Services	283,200	283,200	293,306	(10,106)
Other Support Services	5,000	5,000	2,737	2,263
Total Support Services	1,792,765	1,792,765	1,775,091	17,674
Noninstructional Services				
Student Activities	88,600	88,600	92,720	(4,120)
Community Services	5,200	5,200	4,044	1,156
Scholarships and Awards	-	-	2,000	(2,000)
Total Noninstructional Services	93,800	93,800	98,764	(4,964)
Capital Outlay	23,000	23,000	-	23,000
Debt Service	39,100	39,100	40,350	(1,250)
Refund of Prior Year Receipts	-	-	-	-
Total Expenditures	5,086,149	5,086,149	5,163,948	(77,799)
Excess (Deficiency) of Revenues Over Expenditures	440,408	440,408	713,361	272,953
OTHER FINANCING SOURCES (USES)				
Sale of Fixed Assets	-	-	-	-
Transfers Out	(861,000)	(861,000)	(830,290)	30,710
Budgetary Reserve	(70,000)	(70,000)	-	70,000
Total Other Financing Sources (Uses)	(931,000)	(931,000)	(830,290)	100,710
Net Change In Fund Balance	(490,592)	(490,592)	(116,929)	373,663
FUND BALANCE, BEGINNING OF YEAR	490,592	490,592	2,835,866	2,345,274
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ 2,718,937	\$ 2,718,937

The School District did not make any budgetary transfers for the year ended June 30, 2008.

See the accompanying notes to the basic financial statements.

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

To the Members of the
Shanksville-Stonycreek School Board
Shanksville, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Shanksville-Stonycreek School District as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated August 16, 2010. 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 the Shanksville-Stonycreek School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Shanksville-Stonycreek School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Shanksville-Stonycreek School 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we believe to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Shanksville-Stonycreek School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement

of the Shanksville-Stonycreek School District's financial statements that is more than inconsequential will not be prevented or detected by the Shanksville-Stonycreek School District's internal control. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Recommendations as items 2008-1, 2008-2, and 2008-3 to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Shanksville-Stonycreek School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies noted above, we consider item 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Shanksville-Stonycreek School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Audit Findings and Recommendations as 2008-4 and 2008-5.

The District's responses to the findings identified in our audit are described in its Schedule of Responses to Audit Findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

We also noted certain matters that we reported to the management of the Shanksville-Stonycreek School District in a separate letter dated August 16, 2010.

This report is intended solely for the information and use of the School Board, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Bulow, Hottle & Co.

Somerset, Pennsylvania

August 16, 2010

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2008

Financial Statement Findings

2008-1

Criteria: Bank accounts should be reconciled monthly.

Condition: The General Fund bank accounts were not reconciled in a timely manner throughout the year. Discrepancies occurred and were not timely detected.

Cause: The School District had no procedures in place as to the responsibility for bank reconciliations, so this was apparently overlooked with the turnover in accounting personnel.

Effect: The failure to properly reconcile bank accounts and investigate discrepancies on a timely basis can cause the cash accounts in the computer system to be over or understated.

Recommendation: All bank accounts should be timely reconciled.

2008-2

Criteria: Specific policies and procedures for authorization and posting of journal entries are necessary for proper internal control.

Condition: An excessive number of journal entries were entered into the School District's computer software system without adequate supporting documentation of the reasons for the entries or any indication of who initiated, authorized, or approved the entries.

Cause: The School District has no formal procedures in place regarding journal entries.

Effect: Due to the excessive number of journal entries, account analysis proved very difficult and the audit trail for some transactions became close to impossible to follow and trace.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2008

2008-2 (Cont'd)

Recommendation: We recommend that journal entries be segregated into the following types:

- Standard
- Non-Standard
- Year-end closing

Standard entries would be for recurring items and a standard journal entry form could be used for each entry. Non-standard entries would be for non-recurring items. The number of non-standard entries should be relatively low. These should require supervisory approval, so that supervisory personnel are aware of the extent of non-standard entries. Year-end closing entries would be for end of year adjustments. These should also require supervisory approval. Each entry should contain sufficient description as to the reason for the entry and have supporting documentation attached, if applicable. A binder/file should be maintained for each entry type with information in sequential order by entry number.

2008-3

Criteria: GASB Statement No. 34 requires that General Fixed Assets be reported at historical cost with related accumulated depreciation.

Condition: In the initial year of GASB Statement No. 34 implementation, the School District relied upon an independent appraisal company for determining the estimated historical cost and related accumulated depreciation of its governmental fixed assets. The School District's business manager realized that there were errors in the asset details provided by the appraisal company and prepared a spreadsheet to correct the cost and depreciation for the erroneous asset amounts. Each subsequent year, this spreadsheet has been updated for any asset additions/deletions. This process, however, does not take into consideration the assets that the appraisal company had correctly reported in the implementation year that may have reached full accumulated depreciation between then and the current year.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2008

2008-3 (Cont'd)

- Cause: As indicated above, the School District relied on an independent appraisal company for its initial GASB Statement No. 34 valuation. Although School District personnel maintain yearly additions and deletions, they have overlooked the possibility of excess depreciation being taken.
- Effect: The failure to maintain a detailed depreciation schedule of all general fixed assets can cause the assets to be over-depreciated.
- Recommendation: We recommend that the School District maintain a complete General Fixed Assets depreciation schedule.

2008-4

- Criteria: School Districts in Pennsylvania are required to participate in the Pennsylvania Public Employees' Retirement System (PSERS) and remit employee withholding and employer contributions to PSERS by certain deadlines.
- Condition: 2007-08 employee withholding and employer contributions were not timely remitted to PSERS.
- Cause: The School District had no procedures in place as to the responsibility for PSERS remittances, so this was apparently overlooked with the turnover in accounting personnel.
- Effect: The Commonwealth withheld the School District's State Retirement Subsidy and sent it directly to PSERS. PSERS could have charged the School District interest/penalty for late contributions, but did not make any additional assessments.
- Recommendation: All PSERS remittances should be made timely.

SHANKSVILLE-STONYCREEK SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2008

2008-5

Criteria:	Employers are required to timely remit payroll taxes by certain deadlines.
Condition:	During our audit, we noted over \$7,000 of penalties/interest paid due to late remittances of Form 941 payroll taxes.
Cause:	The School District had no procedures in place as to the responsibility for making payroll tax deposits, so this was, apparently, overlooked with the turnover in accounting personnel.
Effect:	The School District unnecessarily expended these monies on penalties/interest.
Recommendation:	All payroll withholdings and related employer contributions should be timely remitted.