BIG SPRING SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

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Greenawalt & Company, P.C.

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Big Spring School District
Newville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary funds of Big Spring School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the District's June 30, 2012 financial statements and, in our report dated October 25, 2012 we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary funds.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 fiduciary funds of Big Spring School District, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages MDA-1 through MDA-13 and other required supplementary information on pages ORSI-1 and ORSI-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of Big Spring 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* in considering Big Spring School District's internal control over financial reporting and compliance.

Greenawalt & Company, P.C.

GREENAWALT & COMPANY, P.C.

October 31, 2013

Mechanicsburg, Pennsylvania

BIG SPRING SCHOOL DISTRICT

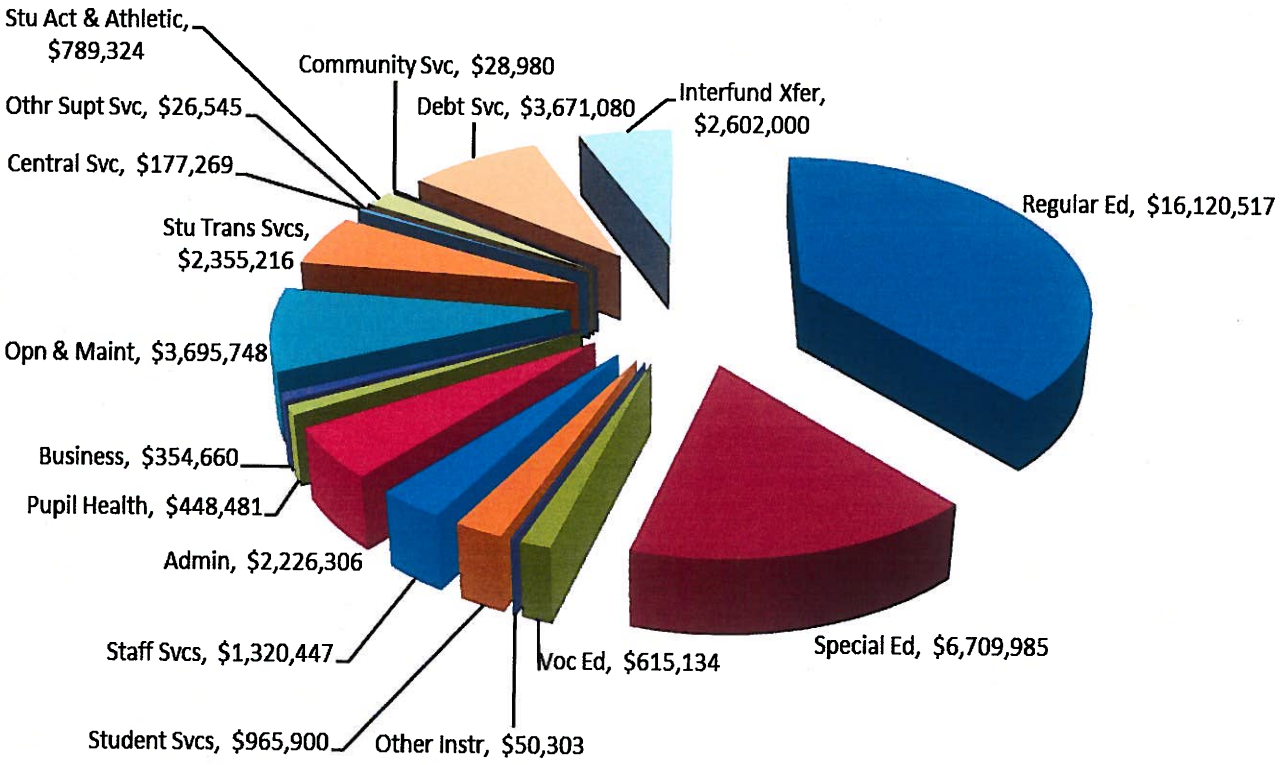
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

This discussion and analysis provides an overview of the District's financial performance for the year ending June 2013. The report format is in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Management's Discussion and Analysis (MD&A) includes comparisons of financial position at June 30 2013, 2012 and 2011. The MD&A also includes comparisons of current year financial activities to the previous year. The 2012 and 2011 amounts have come from our prior year MD&A, and are otherwise not a part of the June 2013 financial statements. Please read our discussion and analysis in conjunction with the District's financial statements, which begin on page FS-1. To preserve readability, dollar amounts in comparative tables derived from the financial statements are presented in millions.

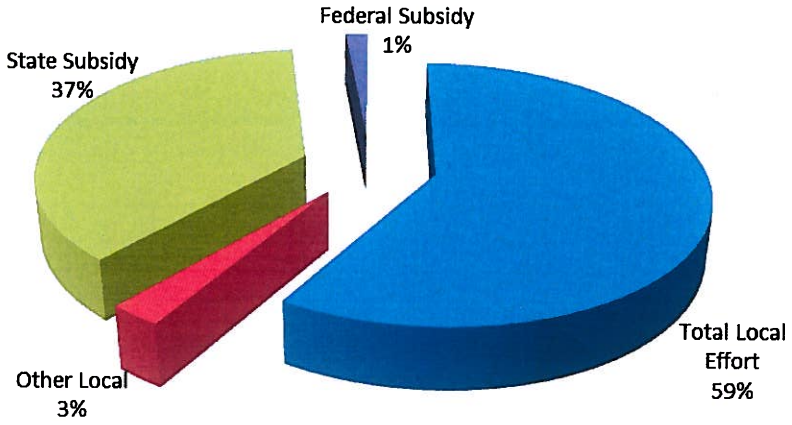
FINANCIAL HIGHLIGHTS

2012/13 Spending By Program ($42,157,895 total)



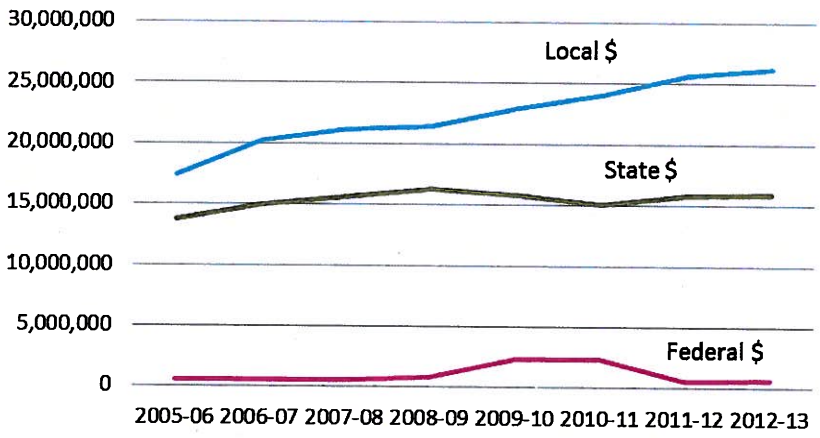
General Fund revenues for 2012-13 increased less than 2% from $42,025,038 in 2011-12 to $42,770,642 in 2012-13; expenditures and transfers-out increased from $40,650,007 in 2011-12 to $42,157,895 in 2012-13 or 3.7% from the prior year. The District added $612,747 to the fund balance for a total of $6,505,761 as of June 30, 2013. Of that total, $554,000 is *committed* for PSERS expense and $1,900,000 is assigned for various uses, including PSERS, healthcare, special education and technology, leaving an *unassigned* balance of $4,051,761. The Administration expects to *assign* $600,000 in support of technology device purchases leaving an *unassigned* balance of $3,451,761 or 7.9% of the estimated 2014-15 Budget - within the 8% maximum required under state law.

2013 Funding Sources



The funding source graph at right shows the story of increasing dependence on local taxes and decreasing subsidy support from the Federal Dept. of Education. Local effort continues to assume more of the revenue pie; in 2006-07 it was 53% of revenues as it was in 2009-10, 55% in 2010-11, 58% in 2011-12 and 59% in 2012-13. In 2010-11 the Federal portion of total revenue was 6% due to American Recovery and Reinvestment Act (ARRA) funding. In 2011-12, Federal revenue dipped to only 1% of total revenues as ARRA funding disappeared. Reversing recent trends, the Commonwealth's share increased from 36% in 2010-11 to 38% in 2011-12 principally due to the Commonwealth's contributions to the cost of PSERS retirement. The Commonwealth share slipped to 37% in 2012-13 despite the increase in PSERS subsidy. Going forward, this creates a challenge for the district as the Commonwealth is indicating level funding of both Regular and Special Programs for the foreseeable future as they struggle to meet their obligation for their 50% share of the PSERS contributions.

Funding Source History



The economy's impact on the District remains uncertain. Investment earnings continue to be almost non-existent compared to 2008 levels. Unfortunately, the District faces an uncertain future for EIT revenue due to the economy and implementation of Act 32. The District collected $4.39 million of EIT taxes in 2010-11

and $4.28 million in 2011-12 and $4.56 million in 2012-13. Initial estimates for 2012-13 were to expect a reduction in EIT due to Act 32 transition whereas the actual amount increased by 6.3% over 2011-12.

The Capital Reserve Fund ending balance was $3,279,685 for 2010-11, $4,460,975 for 2011-12 and $6,193,028 as of June 30 2013. The District added $2,540,000 to the capital reserve during 2012-13 but also spent $822,698. The District had three major projects scheduled for completion during the summer of 2013; a $775,029 project to replace the windows in the Middle School, a $224,382 project to replace two hot water heaters at the High School along with one at Oak Flat, and an $82,390 project to remove/replace pipe insulation in the Middle School projects.

The District self-funds its healthcare using the South Central Trust (SCT). This year, as well as last, was a relatively expensive year with several high dollar claims that hit the stop loss limit. Due to the high claims experience, the District balance in SCT decreased by $250,000 to a June 30, 2013 accrual of $500,000 to pay projected expense at June 30, 2013.

Due to declining enrollment in the District, in 2010 the Board directed the administration to develop an elementary school reconfiguration plan to support the closure of Plainfield. Plainfield closed in June 2011. In June 2012 the Board arranged for Yellow Breeches, an alternative education provider, to lease Plainfield for the 2012-13 year. At June 30, 2013 the District was negotiating a purchase contract with Yellow Breeches for Plainfield and in October, 2013 the proposal was under judicial review as required by PA School Code.

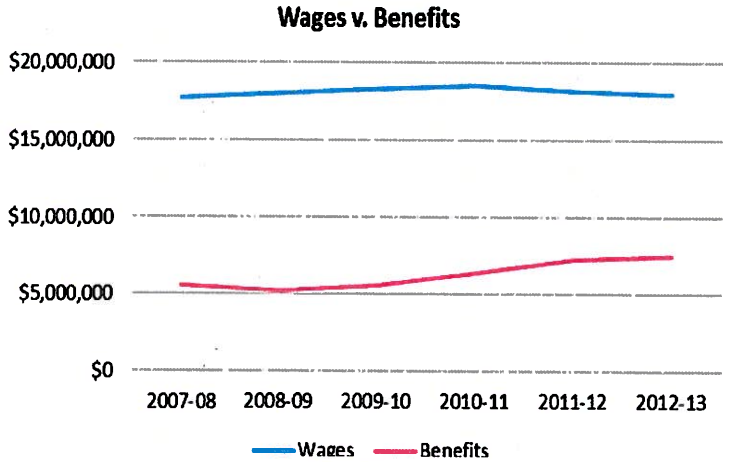
In October 2012 the District sold $10,000,000 in bonds that partially refinanced existing 2003 bonds and bought out a $4.2 million municipal lease for geothermal equipment. In February 2013 the Board completed refunding of the 2003 bonds with a $5,890,000 bond issue resulting in an average annual reduction of $442,212 from 2014 through 2021. This transaction completed restructuring of all District debt in order to level payments and take advantage of current rates to help offset rising PSERS expense. District debt is scheduled to be paid off in 2023.

The District continues under the restrictions of Act 1 of the Special Session of 2006 which limits future increases in the District's real estate taxes and displaces a selected amount of local real estate taxes with gaming funds. The District was allotted $770,036 in gaming funds for 2012-13 compared with $770,065 in 2011-12; these funds were distributed in an equal amount to each qualified taxpayer of $130.57 per homestead/farmstead.

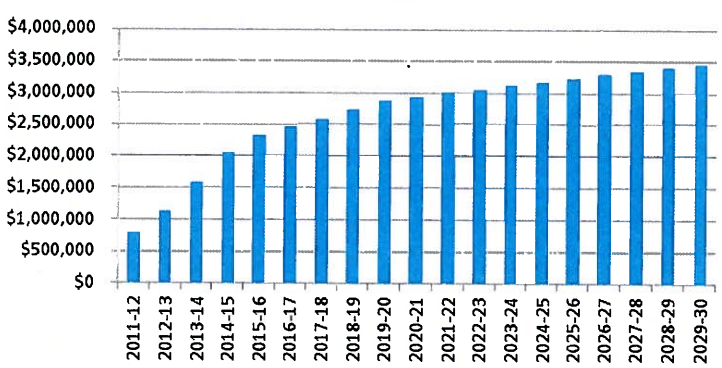
In November 2010 Act 120 reformed the PA State Employees Retirement System (PSERS) by implementing steep increases in employer contributions. As shown on the next page, BSSD PSERS payment went from $1,543,501 in 2011-12 to $2,181,156 in 2012-13 and an estimated $3,139,814 for 2013-14. Healthcare premiums went from $3,304,205 in 2011-12 to $3,409,069 in 2012-13 and an estimated $4,206,000 in 2013-14. To meet the rising cost of benefits, the Board raised millage to the allowed index amount of 2.2%

in both 2012-13 and 2013-14 to balance the budget. The current millage of 12.6360 was enacted in June 2013.

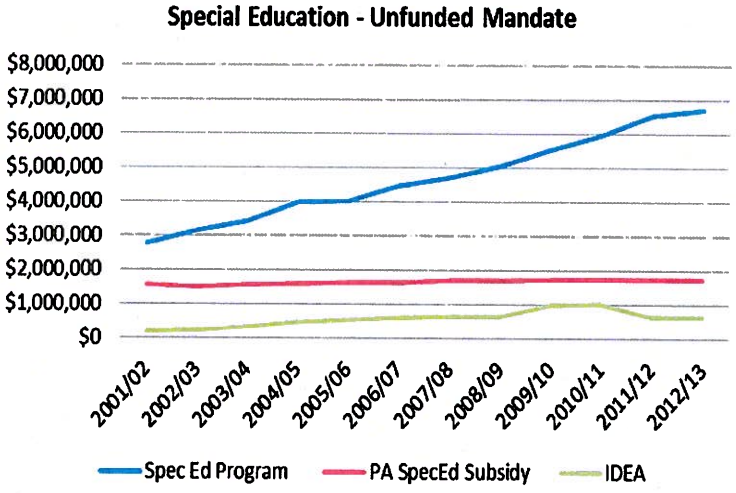
The chart at right shows the competition between wages and benefits for the budget dollar. Due to the quickly rising cost of retirement contributions and healthcare, over the past two years the District furloughed people in both the professional and support staffs in order to contain budget expenses for personnel.



In the second chart, the steep rise in PSERS retirement contributions is unremarkable as increases of this magnitude will continue until 2016. With a corresponding increase in healthcare and continued pressure on wages, it is not apparent how the District, or other subsidy dependent School Districts in Pennsylvania, will survive when paying more than 26% of payroll into PSERS at least through 2035.



This District is also squeezed by the continuously increasing cost of Special Education services. Over the last ten years, special education has increased at an average of 7.9% per year. The decline in overall District enrollment helped keep the increase for 2012-13 at 2.8%. The District struggles with increasing demands from parents, widening mandates from both the state and federal level that contrasts with flat funding from the Commonwealth and declining support from the Federal IDEA program.



USING THESE FINANCIAL STATEMENTS

This report contains a series of financial statements. The Statement of Net Position and the Statement of Activities are on pages FS-1 and FS-2. These statements provide information about the District as a whole, and present a longer-term view of District finances than fund financial statements. Fund financial statements are on pages FS-3, FS-5 and FS-7 through FS-10. For governmental funds, the statements show how District services have been financed in the short term, as well as the amount remaining for future spending. Proprietary fund statements provide information about non-governmental operations, in this case food service. The fiduciary funds statement reports amounts held in trust by the District for student activities.

Page FS-4 reconciles total governmental fund balances to total net position of governmental activities. Page FS-6 reconciles the total net change in governmental fund balances to the change in net position of governmental activities.

District–wide Financial Statements

District-wide statements present financial activities and the results of those activities in two categories, governmental and business-type. Capital assets (land, buildings, improvements, furniture and equipment) are included with all other assets. Long-term debt is included with all other liabilities. This is distinctly different from the fund statements in which assets and liabilities are separated into various funds such as General and Capital Reserve.

In the district-wide statements, the approach to measurement of revenues and expenses is similar to that used in the private sector and is referred to as the accrual basis of accounting. This is disclosed further in the notes to financial statements.

Fund Financial Statements

Fund statements provide financial information about the District's funds rather than the District as a whole. There are three types of funds, Governmental, Proprietary and Fiduciary. The use of each type of fund is disclosed in the notes to financial statements. Unlike district-wide statements that report revenues on the accrual basis, the fund statements report revenues only to the extent cash has been received, or is expected to be received in the near future.

THE DISTRICT AS A WHOLE

Statement of Net Position

Total net position was $31,496,737 at June 30, 2013, $28,651,629 at June 30, 2012 and $26,095,457 at June 30, 2011. This is an increase of $2,845,108 from June 2012 and $2,556,172 from June 2011. The following summarizes the Statement of Net Position (page FS-1).

	Governmental Activities			Business-type Activities			Totals		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Current and other assets	$18.1	$16.5	$14.2	$ 0.4	$ 0.3	$ 0.3	$18.5	$16.8	$14.6
Capital assets	52.1	52.6	53.8	0.4	0.5	0.5	52.5	53.1	54.3
Total assets	70.2	69.1	68.1	0.8	0.8	0.8	71.0	69.9	68.9
Current and other liabilities	4.3	4.1	6.7	-	-	-	4.3	4.1	6.7
Long-term liabilities	35.1	37.1	36.0	-	-	-	35.1	37.1	36.0
Total liabilities	39.4	41.2	42.8	-	-	-	39.4	41.2	42.8
Capital assets (net of related debt)	18.3	16.7	15.5	0.4	0.5	0.5	18.8	17.2	16.0
Restricted for capital projects	-	0.5	1.1	-	-	-	-	0.5	1.1
Unrestricted	12.4	10.6	8.7	0.3	0.3	0.3	12.7	10.9	9.0
Total net position	$30.7	$27.8	$25.3	$ 0.8	$ 0.8	$ 0.8	$31.5	$28.6	$26.1

Net position is the difference between assets and liabilities, and represents resources that can be used to pay for future operations and capital improvements. The majority of our total 2013 net position, $18,755,670 out of $31,496,737, are invested in capital assets (net of related debt).

Statement of Activities

The following summarizes the Statement of Activities (page FS-2). It shows that total net position increased by $2,845,108 during 2013 and $2,556,172 during 2012.

	Governmental Activities			Business-type Activities			Totals		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Program revenues									
Charges for services	$ 0.5	$ 0.5	$ 0.4	$ 0.7	$ 0.7	$ 0.8	$ 1.2	$ 1.2	$ 1.2
Operating grants and contributions	6.9	6.6	8.8	0.5	0.5	0.5	7.3	7.1	9.4
Capital grants and contributions	0.8	0.9	0.8	-	-	-	0.8	0.9	0.8
General revenues									
Taxes	24.5	23.9	23.1	-	-	-	24.5	23.9	23.1
Earnings on investments	-	-	-	-	-	-	-	-	-
State general subsidies	9.5	9.6	8.7	-	-	-	9.5	9.6	8.7
Total revenues	42.2	41.4	41.8	1.1	1.2	1.3	43.3	42.7	43.2
Direct expenses	39.2	38.8	38.8	1.3	1.3	1.4	40.5	40.1	40.2
Excess revenues (expenses) before transfers	2.9	2.7	3.0	(0.1)	(0.1)	(0.1)	2.9	2.6	3.0
Transfers between activities	(0.1)	(0.1)	-	0.1	0.1	-	-	-	-
Change in net position	$ 2.9	$ 2.6	$ 3.0	$ -	$ -	$ -	$ 2.9	$ 2.6	$ 3.0

The change in net position is the difference between revenues and expenses using the accrual basis of accounting.

The following summarizes expense information from the Statement of Activities (page FS-2). Direct expenses represents the actual cost of providing the services while the net expense represents the amount of cost that is not recovered through program revenues, meaning user charges, grants and contributions. The net expense must be recovered through general revenues, primarily taxes and state general subsidies. Amounts not recovered reduce funds available for future years.

	Governmental Activities								
	Direct Expenses			Program Revenues			Net Expense		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Instruction	$ 25.1	$ 24.8	$ 24.4	$ 5.1	$ 4.8	$ 7.1	$ 20.0	$ 20.1	$ 17.3
Instructional student support	2.9	2.9	2.8	0.3	0.2	0.2	2.6	2.7	2.6
Admin and financial support	3.2	2.9	2.9	0.2	0.1	0.1	3.0	2.7	2.8
Opn and maintenance of plant	3.8	3.6	4.0	0.1	0.1	0.1	3.7	3.5	3.9
Pupil transportation	2.4	2.4	2.4	1.6	1.7	1.5	0.7	0.7	0.9
Student activities	0.8	0.8	0.8	0.1	0.1	0.1	0.7	0.7	0.7
Community services	-	-	-	-	-	-	-	-	-
Interest on long-term debt	1.1	1.3	1.5	0.8	0.9	0.8	0.3	0.4	0.7
General Fund	$ 39.2	$ 38.7	$ 38.8	$ 8.1	$ 7.9	$ 10.0	31.1	30.8	28.8
Transfers to business-type activities							0.1	0.1	-
Total governmental activities							31.1	30.9	28.8
State general subsidies revenues							9.5	9.6	8.7
Total needs from taxes and other local sources							$ 21.6	$ 21.3	$ 20.1

	Business-type Activities								
	Direct Expenses			Program Revenues			Net Expense		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Food Service	$ 1.3	$ 1.3	$ 1.4	$ 1.1	$ 1.2	$ 1.4	$ 0.2	$ 0.1	$ -
Transfers from governmental activities							(0.1)	(0.1)	-
							$ 0.1	$ -	$ -

THE DISTRICT'S FUNDS

Governmental Funds – fund balances

	2013	2012	2011	2012-13 Change	2011-12 Change
General fund - nonspendable	$ -	$ -	$ 0.3	$ -	$ (0.3)
General fund - committed	0.6	0.6	0.6	-	-
General fund - assigned	1.9	1.4	-	0.5	1.4
General fund - unassigned	4.1	3.9	3.7	0.1	0.2
Capital reserve fund - committed	6.2	4.5	3.2	1.7	1.3
Capital projects fund - restricted	-	0.5	1.1	(0.5)	(0.6)
Governmental fund balances	$ 12.7	$ 10.9	$ 8.9	$ 1.8	$ 2.0
Total restricted + nonspendable	$ -	$ 0.5	$ 1.4	$ (0.5)	$ (0.9)
Total committed	6.7	5.1	3.8	1.6	1.3
Total assigned	1.9	1.4	-	0.5	1.4
Total unassigned	4.1	3.9	3.7	0.2	0.2
Total governmental funds	$ 12.7	$ 10.9	$ 8.9	$ 1.8	$ 2.0

Changes from 2012 to 2013

As of June 30, 2013 the District's reserve accounts again increased with the general fund balance going from $5,893,014 in 2012 to $6,505,761 in 2013. During the year, the district assigned $300,000 to technology and $200,000 to student information system and financial software. The capital reserve fund had a net increase of $1,732,053 to end at $6,193,028. The capital projects fund – restricted was completed during 2013.

Changes from 2011 to 2012 (Previous year)

As of June 30, 2012 the District's reserve accounts again increased with the general fund balance going from $4,517,983 in 2011 to $5,893,014 in 2012. The District assigned an additional $1,400,000 of the general fund balance to fund healthcare and capital projects. The capital reserve fund had a net increase of $1,181,290 to end at $4,460,975. The District self-funds its health insurance plans through the South Central Trust and ended the year with $1,062,156 in the trust prior to audit. Due to some high experience claims, the Trust went from $250,000 in prepaid expense in 2011 to an accrual of $250,000 to pay projected expenses at June 30, 2012.

Changes from 2010 to 2011 (Two years ago)

At June 30, 2011 the District's reserve accounts increased with the general fund balance going from $2,969,191 to $4,517,983 with $554,000 committed to PSERS and an additional $1,400,000 assigned after June 30, 2011 to support technology, special education and PSERS. The capital reserve fund increased from $2,325,263 on June 30, 2010 to $3,279,685 as of June 30, 2011.

General Fund Budget

The following summarizes the budgetary comparison information presented on page ORSI-1, along with comparisons to the previous year.

	Final Budget			Actual Amount			Variance		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Total revenues	$ 41.2	$ 40.5	$ 41.0	$ 42.8	$ 42.0	$ 42.1	$ 1.5	$ 1.5	$ 1.1
Total expenditures	39.6	39.7	39.6	39.6	39.1	39.2	-	0.6	0.4
Excess revenues (expenditures)	1.7	0.8	1.4	3.2	2.9	2.9	1.5	2.1	1.5
Other financing sources (uses)	(1.7)	(0.8)	(1.4)	(2.6)	(1.5)	(1.4)	(0.9)	(0.7)	-
Net change in fund balance	$ -	$ -	$ -	$ 0.6	$ 1.4	$ 1.5	$ 0.6	$ 1.4	$ 1.5

In 2013, actual revenues exceeded the actual expenditures (including transfers) by $612,747. Actual expenditures were $5,429 under the final budgeted amount, and transfers to other funds were $924,431 over the final budgeted amount.

CAPITAL ASSETS

During 2013, the District spent $1.5 million on capital assets, which included almost $0.77 million to replace the middle school and district office windows. The windows project began with the district office in the middle of May, and both buildings were finished by the end of August. The Newville Elementary roof project was completed in August 2012 at a cost of $0.6 million split between the capital project fund and the capital reserve fund.

Capital Assets (net of depreciation)

	2013	2012	2011	2012-13 Change	2011-12 Change
Governmental activities					
Land	$ 1.0	$ 1.0	$ 1.0	$ -	$ -
Buildings and Improvements	49.2	49.9	51.1	(0.7)	2.1
Furniture and equipment	1.0	1.0	1.0	-	(0.2)
Library books	0.2	0.2	0.2	-	-
Computer equipment	0.7	0.5	0.5	0.2	0.2
	$ 52.1	$ 52.6	$ 53.8	$ (0.5)	$ 2.1
Business-type activities					
Furniture and equipment	$ 0.4	$ 0.5	$ 0.5	$ (0.1)	$ -

Capital assets in the governmental activities were $52,062,392 and $52,597,119 at June 2013 and 2012, respectively. The District purchased capital assets totaling $1,532,211 and $814,931 for the years ended June 2013 and 2012, respectively. The District had depreciation expense of $2,066,938 and $2,040,729 for the years ended June 2013 and 2012, respectively.

LONG-TERM LIABILITIES

The following summarizes the long-term liabilities note to financial statements (starting at page FS-23). Most of the debt is general obligation bonds issued to pay for capital improvements. The District's ability to raise future funds through the issuance of debt depends on how existing bonds are rated by the investment community. In October 2012 Standard & Poor upgraded the District's bond rating from A+ with stable outlook to AA- with stable outlook for the 2012 series of general obligation bonds.

	2013	2012	2011	2012-13 Change	2011-12 Change
Governmental activities					
General obligation bonds and notes	$ 33.4	$ 35.7	$ 38.3	$ (2.3)	$ (2.6)
Compensated absences	0.8	0.7	0.7	0.1	(0.0)
Other post employment benefits	0.5	0.5	0.4	-	0.1
Unamortized bond premiums	0.4	0.2	-	0.2	0.2
Total liabilities	$ 35.1	$ 37.1	$ 39.4	$ (2.0)	$ (2.3)

In October 2012 the District sold $10,000,000 in bonds that refinanced the existing 2006 energy savings project note and $5,510,000 of the existing 2003 bonds. Also, in February 2013 the District sold $5,890,000 in bonds that refinanced the remainder of the existing 2003 bonds. The refinancing of both bonds will show an average savings of $442,212 per year for the years 2014 through 2021.

Each year the District pays interest on the debt and a portion of the outstanding bonds and notes, referred to as redemption. During 2011-12 the District made regularly scheduled redemptions of $2,730,640. During 2012-13 the District made regularly scheduled payments of $2,785,000.

Beginning in 2009 is the inclusion of other post employment benefits (OPEB) in our reporting process. This primarily has to do with purchasing discounted health insurance after retirement through the District. The District's July 2008 actuarial accrued liability of $3,995,512 is being amortized over a period of 30 years. Additional OPEB detail is available starting at page FS-26 of the notes.

NEXT YEAR'S BUDGET AND OTHER FACTORS

	Original Budget 2013-14	2012-13	Change
Total revenue	$ 43.2	$ 41.2	$ 0.9
Total expenditures and other uses	43.6	41.2	0.9
Excess revenues (expenditures)	$ (0.4)	$ -	$ -

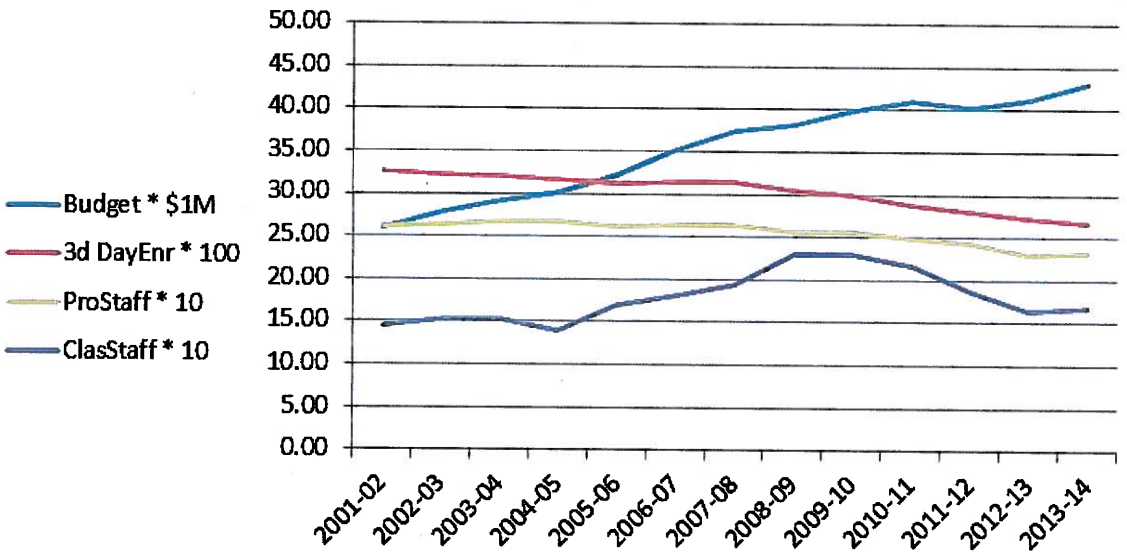
The Big Spring School District is committed to maintaining a strong educational program for students while minimizing the burden on taxpayers. For 2012-13, the District furloughed eleven professional staff plus an equal number of support staff, contracted out cafeteria services and raised taxes by 2.2% in order to balance the budget against skyrocketing cost of retirement contributions and medical care. In 2013-14 the District approved a $43.6 million budget to cover the increasing cost of benefits (retirement and healthcare). The Commonwealth is struggling with the cost of retirement contributions also and any increase in subsidy to the District is mostly a reflection of the 50% subsidy paid on the dramatic increases in PSERS payments. The American Recovery and Reinvestment Act funding is gone and federal support is now declining year-to-year. In addition, the District continues to expand services for special needs students without additional state or federal funding. For 2013-14 the District absorbed a 23.6% increase in healthcare premiums. Looking forward to the 2014-15 full implantation of PPACA, the District forecasts another 20%+ increase in healthcare.

The revenue budget for 2013-14 of $43,154,724 represents a 4.6% increase over the 2012-13 budget of $41,238,893. The real estate millage increased from 12.364 to 12.636 or 2.2%, as limited by the Act 1 index. The earned income tax rate remains at 1.65%.

The 2013-14 expenditure budget of $43,563,440 is a 5.6% increase over 2012-13 budget of $41,238,893. The major drivers of the 2013-14 budget are the 3% wage increase for CBA salaries, 2.2% for administrative and support staffs and the PSERS contribution rate increased from 12.36% to 16.93% of payroll -- a 37% year over year increase. The projected rate for 2014-15 is 21.5% or a 27% annual increase.

In reviewing its capital needs during the spring of 2013, the District began to discuss the renovation of the Oak Flat Elementary HVAC system. The Board approved a vendor to begin design development In August 2013 on a project estimated at $2.5 million. At the same time, the Board began the investigation into use of a guaranteed energy savings contract for the project and issued an RFP. On September 16, 2013 the Board approved a vendor to begin development of a guaranteed energy savings performance contract around the Oak Flat HVAC project.

The challenge for the District is captured in the graph below. The District continues to see a slow, but steady, decline in student enrollment. This caused reduction in staffing over the past several years. Even with the cuts, the budget continues to grow, largely as a result of the increasing cost of benefits due to healthcare and pension payments.



Despite the many challenges of declining enrollment, PSERS, healthcare and a difficult economy, the district stands committed to ensuring the best opportunities for students. The 2013-14 budget protects essential programs and services while the District continues to look for reductions and efficiencies at every level.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

The District's financial report is intended to provide the readers with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the district office of Big Spring School District, 45 Mount Rock Road, Newville, PA 17241, (717) 776-2000.

BIG SPRING SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2013

(With Summarized Financial Information for June 30, 2012)

	Governmental Activities	Business-type Activities	Totals 2013	Totals 2012
Assets				
Cash and cash equivalents	$ 4,649,926	$ 270,443	$ 4,920,369	$ 3,788,418
Investments	9,695,000	-	9,695,000	8,205,000
Taxes receivable (net of allowance for uncollectibles)	1,505,000	-	1,505,000	2,085,000
Internal balances	689	(689)	-	-
Due from other governments	2,208,524	64,204	2,272,728	2,045,732
Other receivables	42,488	131	42,619	38,897
Inventories	-	28,627	28,627	14,581
Restricted cash, cash equivalents and investments for capital projects	-	-	-	609,268
Capital assets not being depreciated	986,824	-	986,824	986,824
Capital assets being depreciated, net	51,075,568	428,011	51,503,579	52,109,396
Total assets	70,164,019	790,727	70,954,746	69,883,116
Liabilities				
Accounts payable	703,407	20,822	724,229	689,323
Contracts payable	198,952	-	198,952	67,526
Payroll and benefits payable	3,243,352	-	3,243,352	2,972,272
Unearned revenues	2,127	18,397	20,524	23,842
Accrued interest on bonds payable	199,600	-	199,600	333,800
Long-term liabilities				
Due within one year	3,505,000	-	3,505,000	3,541,982
Due in more than one year	31,186,619	-	31,186,619	33,347,423
Unamortized bond premiums and refunding costs	379,733	-	379,733	255,319
Total liabilities	39,418,790	39,219	39,458,009	41,231,487
Net position				
Invested in capital assets (net of related debt)	18,327,659	428,011	18,755,670	17,183,632
Restricted for capital projects	-	-	-	541,742
Unrestricted	12,417,570	323,497	12,741,067	10,926,255
Total net position	$ 30,745,229	$ 751,508	$ 31,496,737	$ 28,651,629

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

BIG SPRING SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

(With Summarized Financial Information for the Year Ended June 30, 2012)

Functions/Programs	Direct Expenses	Program Revenues: Charges for Services	Program Revenues: Grants and Contributions: Operating	Program Revenues: Grants and Contributions: Capital	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Totals: 2013	Totals: 2012
Governmental activities								
Instruction	$ 25,060,241	$ 391,317	$ 4,660,004	$ -	$ (20,008,920)	$ -	$ (20,008,920)	$ (20,055,319)
Instructional student support	2,851,922	-	260,627	-	(2,591,295)	-	(2,591,295)	(2,665,066)
Administrative and financial support	3,191,243	-	162,251	-	(3,028,992)	-	(3,028,992)	(2,783,678)
Operation and maintenance of plant	3,841,133	30,853	112,462	-	(3,697,818)	-	(3,697,818)	(3,479,376)
Pupil transportation	2,355,216	-	1,622,033	-	(733,183)	-	(733,183)	(724,535)
Student activities	840,090	69,138	43,667	-	(727,285)	-	(727,285)	(725,807)
Community services	24,980	-	1,097	-	(23,883)	-	(23,883)	(27,034)
Interest on long-term debt	1,083,702	-	-	790,846	(292,856)	-	(292,856)	(415,414)
Total governmental activities	39,248,527	491,308	6,862,141	790,846	(31,104,232)	-	(31,104,232)	(30,876,229)
Business-type activities								
Food service	1,254,430	666,120	476,730	-	-	(111,580)	(111,580)	(98,906)
Total school district	$ 40,502,957	$ 1,157,428	$ 7,338,871	$ 790,846	(31,104,232)	(111,580)	(31,215,812)	(30,975,135)
General revenues								
Taxes								
Real estate taxes					19,418,561	-	19,418,561	18,866,674
Earned income taxes					4,556,366	-	4,556,366	4,283,243
Personal taxes					186,094	-	186,094	172,592
Other taxes					306,588	-	306,588	625,749
Earnings on investments					43,791	31	43,822	32,822
State general subsidies					9,549,489	-	9,549,489	9,550,227
Transfers					(62,000)	62,000	-	-
Total general revenues and transfers					33,998,889	62,031	34,060,920	33,531,307
Change in net position					2,894,657	(49,549)	2,845,108	2,556,172
Net position (restated) - beginning					27,850,572	801,057	28,651,629	26,095,457
Net position - ending					$ 30,745,229	$ 751,508	$ 31,496,737	$ 28,651,629

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

BIG SPRING SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

(With Summarized Financial Information for June 30, 2012)

	General	Capital Reserve	Totals 2013	Totals 2012
Assets				
Cash and cash equivalents	$ 1,582,946	$ 3,066,980	$ 4,649,926	$ 3,508,377
Investments	8,470,000	1,225,000	9,695,000	8,705,000
Taxes receivable (net of allowance for uncollectibles)	1,505,000	-	1,505,000	2,085,000
Due from other funds	689	2,100,000	2,100,689	1,595,498
Due from other governments	2,208,524	-	2,208,524	2,038,606
Other receivables	42,488	-	42,488	32,589
Total assets	$ 13,809,647	$ 6,391,980	$ 20,201,627	$ 17,965,070
Liabilities and fund balances				
Accounts payable	$ 703,407	$ -	$ 703,407	$ 689,066
Contracts payable	-	198,952	198,952	67,526
Payroll and benefits payable	3,243,352	-	3,243,352	2,971,169
Due to other funds	2,100,000	-	2,100,000	1,500,000
Unearned taxes	1,255,000	-	1,255,000	1,835,000
Unearned revenues	2,127	-	2,127	6,578
Total liabilities	7,303,886	198,952	7,502,838	7,069,339
Fund balances				
Restricted - capital projects	-	-	-	541,742
Committed				
Capital outlays	-	6,193,028	6,193,028	4,460,975
Pension plan rate increases	554,000	-	554,000	554,000
Assigned - various items	1,900,000	-	1,900,000	1,400,000
Unassigned	4,051,761	-	4,051,761	3,939,014
Total fund balances	6,505,761	6,193,028	12,698,789	10,895,731
Total liabilities and fund balances	$ 13,809,647	$ 6,391,980	$ 20,201,627	$ 17,965,070

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

BIG SPRING SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances - Governmental funds		$ 12,698,789
Amounts presented for governmental activities in the statement of net position are different because:		
Capital assets are not financial resources and therefore are not presented as assets in the governmental funds. At year end, the cost of capital assets is $ 86,651,668 and the accumulated depreciation is $ 34,589,276.		52,062,392
Certain liabilities are not due and payable in the current year, and therefore are not presented as liabilities in the governmental funds. At year end, these liabilities consist of:		
Bonds and notes payable	$ (33,355,000)	
Compensated absences	(782,000)	
Other post employment benefit accruals	(554,619)	
Long-term liabilities	(34,691,619)	
Accrued interest on bonds payable	(199,600)	(34,891,219)
Bond discounts (premiums) and refunding costs are presented as expenditures in the governmental funds. At year end, the remaining unamortized bond related costs consist of:		
Bond discounts (premiums)	(447,933)	
Refunding costs	68,200	(379,733)
Taxes receivable will be collected, but are not available soon enough to pay for current year expenditures, and therefore are deferred in the governmental funds. At year end, these taxes receivable consist of:		
Real estate taxes	693,000	
Earned income taxes	550,000	
Personal taxes	12,000	1,255,000
Net position - Governmental activities		$ 30,745,229

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

BIG SPRING SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013

(With Summarized Financial Information for the Year Ended June 30, 2012)

	General	Capital Projects	Capital Reserve	Debt Service	Totals 2013	Totals 2012
Revenues						
Local sources - taxes	$ 25,047,609	$ -	$ -	$ -	$ 25,047,609	$ 24,503,258
Local sources - other	1,174,290	148	14,751	-	1,189,189	1,180,019
State sources	15,898,152	-	-	-	15,898,152	15,786,209
Federal sources	650,591	-	-	-	650,591	563,829
Total revenues	42,770,642	148	14,751	-	42,785,541	42,033,315
Expenditures						
Instruction	23,495,939	-	-	-	23,495,939	23,172,934
Support services	11,570,572	541,890	822,698	274,966	13,210,126	11,716,306
Noninstructional services	818,304	-	-	-	818,304	806,411
Capital outlay	-	-	-	-	-	509,425
Debt service (principal and interest)	3,670,723	-	-	-	3,670,723	3,899,231
Refund of prior years revenues	357	-	-	-	357	-
Total expenditures	39,555,895	541,890	822,698	274,966	41,195,449	40,104,307
Excess (deficiency) of revenues over expenditures	3,214,747	(541,742)	(807,947)	(274,966)	1,590,092	1,929,008
Other financing sources (uses)						
Proceeds from bonds and notes	-	-	-	16,165,194	16,165,194	10,007,653
Debt service (refunded bonds and notes)	-	-	-	(15,890,228)	(15,890,228)	(9,852,122)
Transfers from other funds	-	-	2,540,000	-	2,540,000	1,500,000
Transfers to other funds	(2,602,000)	-	-	-	(2,602,000)	(1,613,951)
Net change in fund balances	612,747	(541,742)	1,732,053	-	1,803,058	1,970,588
Fund balances - beginning	5,893,014	541,742	4,460,975	-	10,895,731	8,925,143
Fund balances - ending	$ 6,505,761	$ -	$ 6,193,028	$ -	$ 12,698,789	$ 10,895,731

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

BIG SPRING SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Total net change in fund balances - Governmental funds		$ 1,803,058
Amounts presented for governmental activities in the statement of activities are different because:		
Capital outlays are presented as expenditures in the governmental funds. In the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. During the year capital outlays and depreciation expense are as follows:		
Capital outlays	$ 1,532,211	
Depreciation expense	(2,066,938)	(534,727)
Bond and note proceeds and principal repayments are presented as other financing sources and expenditures (other financing uses if refunded bonds) in the governmental funds. In the statement of activities, proceeds and repayments do not effect net position. During the year, proceeds and principal repayments are as follows:		
Proceeds from the 2012 and 2013 series of bonds	(15,890,000)	
Principal repayments	18,192,269	2,302,269
Payments of compensated absences are presented as expenditures in the governmental funds. In the statement of activities, the expense is measured by the amount earned by employees during the year. The liability for compensated absences increased during the year.		(104,100)
Payments of other post employment benefits are presented as expenditures in the governmental funds. In the statement of activities, the expense includes actuarial estimates, primarily for amortization of prior costs. The liability for other post employment benefit accruals increased during the year.		(1,629)
Payments of interest are presented as expenditures in the governmental funds when the payment is due. In the statement of activities, the expense is measured by the amount accrued during the year. The liability for accrued interest on bonds payable decreased during the year.		134,200
Bond discounts (premiums) and refunding costs (any difference between the carrying amount of refunded debt and its payoff amount) are presented as expenditures in the governmental funds. In the statement of activities, these amounts are allocated over the life of the debt as amortization expense. During the year, costs incurred and amortization expense are as follows:		
Bond discounts (premiums) and refunding costs on new bonds	(198,765)	
Amortization expense	74,351	(124,414)
Because some taxes will not be collected until more than two months after the end of the fiscal year, they are not considered as available revenues in the governmental funds. Unearned taxes increased (decreased) during the year as follows:		
Real estate taxes	119,000	
Earned income taxes	(700,000)	
Personal taxes	1,000	(580,000)
Change in net position - Governmental activities		$ 2,894,657

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

BIG SPRING SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2013

(With Summarized Financial Information for June 30, 2012)

	Food Service	
	2013	2012
Assets		
Cash and cash equivalents	$ 270,443	$ 389,309
Due from other governments	64,204	7,126
Other receivables	131	6,308
Inventories	28,627	14,581
Total current assets	363,405	417,324
Capital assets being depreciated, net	428,011	499,101
Total assets	791,416	916,425
Liabilities		
Accounts payable	20,822	257
Payroll and benefits payable	-	1,103
Due to other funds	689	95,498
Unearned revenues	18,397	17,264
Compensated absences	-	1,246
Total current liabilities	39,908	115,368
Net position		
Invested in capital assets (net of related debt)	428,011	499,101
Unrestricted	323,497	301,956
Total net position	$ 751,508	$ 801,057

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

BIG SPRING SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2013

(With Summarized Financial Information for the Year Ended June 30, 2012)

	Food Service	
	2013	2012
Operating revenues - Food service revenue	$ 666,120	$ 727,113
Operating expenses		
Salaries	5,223	458,276
Employee benefits	31,665	202,451
Purchased property service	62,000	62,000
Other purchased service	620,860	-
Food and milk	439,395	518,903
Other expenses	20,720	28,321
Depreciation	74,567	71,583
Total operating expenses	1,254,430	1,341,534
Operating income (loss)	(588,310)	(614,421)
Nonoperating revenues		
Earnings on investments	31	47
State sources - social security and retirement subsidies	-	26,850
State sources - meal subsidies	30,739	39,372
Federal sources - meal subsidies	396,087	390,758
Federal sources - donated commodities	49,904	58,535
Total nonoperating revenues	476,761	515,562
Income (loss) before transfers	(111,549)	(98,859)
Transfers from other funds	62,000	113,951
Change in net position	(49,549)	15,092
Net position - beginning	801,057	785,965
Net position - ending	$ 751,508	$ 801,057

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

BIG SPRING SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2013

(With Summarized Financial Information for the Year Ended June 30, 2012)

	Food Service	
	2013	2012
Operating activities		
Cash received from users	$ 673,430	$ 722,156
Cash payments to employees for services	(39,237)	(689,007)
Cash payments to suppliers for goods and services	(1,086,552)	(538,017)
Net cash provided by (used for) operating activities	(452,359)	(504,868)
Non-capital financing activities		
State sources	26,693	65,952
Federal sources	343,055	387,294
General Fund advances (Due to other funds)	(94,809)	90,748
General Fund contributed services	62,000	45,360
Net cash provided by (used for) non-capital financing activities	336,939	589,354
Capital and related financing activities		
Capital Projects Fund for equipment	-	1,155
Capital Reserve Fund for equipment	-	67,436
Cash payments for equipment	(3,477)	(68,591)
Net cash provided by (used for) capital and related financing activities	(3,477)	-
Investing activities		
Earnings on investments	31	47
Net cash provided by (used for) investing activities	31	47
Net change in cash and cash equivalents	(118,866)	84,533
Cash and cash equivalents - beginning	389,309	304,776
Cash and cash equivalents - ending	$ 270,443	$ 389,309
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	$ (588,310)	$ (614,421)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	74,567	71,583
Donated commodities	49,904	58,535
Net change in other assets and other liabilities		
Other receivables	6,177	(6,029)
Inventories	(14,046)	15,305
Accounts payable	20,565	(2,633)
Payroll and benefits payable	(1,103)	(1,101)
Unearned revenues	1,133	1,072
Compensated absences	(1,246)	(27,179)
Total adjustments	135,951	109,553
Net cash provided by (used for) operating activities	$ (452,359)	$ (504,868)

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

BIG SPRING SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS

JUNE 30, 2013

(With Summarized Financial Information for June 30, 2012)

	Student Activities	
	2013	2012
Assets		
Cash and cash equivalents	$ 130,316	$ 176,288
Investments	60,305	10,000
Total assets	190,621	186,288
Liabilities		
Due to student groups	190,621	186,288
Total liabilities	190,621	186,288
Net position	$ -	$ -

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Big Spring School District is the level of government which has oversight responsibility and control over activities related to public school education. The report includes services provided by the District to residents within its boundaries: the Cumberland County Townships of Cooke, Lower Frankford, Upper Frankford, Lower Mifflin, Upper Mifflin, North Newton, South Newton, Penn and West Pennsboro and the Borough of Newville. Services provided include a comprehensive curriculum for primary and secondary education as well as special education and vocational education programs. The District receives revenue from local, state and federal sources and must comply with the requirements of these funding sources.

The financial statements of Big Spring School District have been prepared in accordance with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. Accounting guidance is also provided through the Comptroller's office for Pennsylvania's Department of Education. The more significant of these accounting policies are as follows:

Reporting entity

GASB establishes criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the established criteria. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are:

The economic resources received or held by the separate organization are entirely for the direct benefit of the District or its constituents.

The District is entitled to (or has the ability to) access a majority of the economic resources received or held by the separate organization.

The economic resources received or held by the separate organization that the District is entitled to (or has the ability to) access is significant to the District.

There are no component units that meet all of the above criteria for inclusion in this reporting entity.

Jointly-governed organizations

The District is a participant in three jointly-governed organizations, each of which is a separate legal entity that offers services to the District and its residents. Each entity serves several school districts and/or municipalities, and therefore are not included in this reporting entity. These entities do not have taxing power, but are required to adopt an annual budget, which is funded primarily by its member Districts or others that use its services. Complete financial statements for these entities can be obtained from their administrative offices.

Capital Area Intermediate Unit provides special education services and programs.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Jointly-governed organizations (Cont'd.)

Cumberland Perry Area Vocational Technical School provides vocational and technical education services and programs.

Cumberland County Tax Bureau provides earned income tax collection services.

Basis of presentation - District-wide financial statements

District-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present information on all of the nonfiduciary activities of the District. As a general rule the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are presented separately from business-type activities which rely to a significant extent, on fees and charges for support.

District-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Real estate and personal taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets less total liabilities) is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation and amortization are charged as an expense against current operations. Capital assets (net of accumulated depreciation) and bonds payable (net of unamortized discounts) are presented in the statement of net position.

The statement of activities demonstrates the degree to which the direct expenses of given functions or programs are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are presented as general revenues.

Basis of presentation - Fund financial statements

Fund financial statements are also provided for all governmental funds, proprietary funds, and fiduciary funds of the District. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Nonmajor funds, if any, are aggregated and presented in a single column. Fiduciary funds are reported by fund.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements (Cont'd.)

Governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are received within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if received within 2 months of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recognized as unearned revenues until earned. Expenditures generally are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recognized only when payment is due.

Proprietary funds generally follow standards for accounting and financial presentation for private business enterprises to the extent that those standards do not conflict with or contradict guidance of the GASB. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for the District's proprietary fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

When both restricted and unrestricted resources are available, the District's general policy is to use the restricted (primarily operating grants) resources first, then unrestricted resources as needed.

The District has the following types of funds:

Governmental Funds – These funds account for activities through which most of the District's operations are provided.

Proprietary Funds – These funds account for operations of the District that are financed and operated in a manner similar to private business enterprises.

Fiduciary Funds – These funds account for assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are therefore not available to support the District's own programs.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements (Cont'd.)

Fund accounting (Cont'd.)

The District presents the following major governmental funds:

The General Fund is the primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

An operating budget is adopted prior to the beginning of each year on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

The Pennsylvania School Code dictates specific procedures relative to budget adoption and financial statement presentation. The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year. This process includes the publishing of notices by advertisement, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District, and that public hearings are held on the proposed operating budget which are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may approve transfers of funds appropriated to any particular item of expenditure in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval, provided it is not at a higher level than the Board adopted budget.

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recognized. Unused encumbrances expire at the end of each year.

Included in the budget are program budgets as prescribed by the federal and state agencies funding the program. These budgets are approved on a program by program basis by the federal and state funding agencies.

The Capital Projects Fund can consist of more than one project, to separately account for each project, if required. Each issuance of new debt (primarily bonds) is a project to account for the debt proceeds and the expenditure of those proceeds. The District also maintains a capital reserve account for funds transferred from the General Fund and the expenditure of those funds for capital outlays.

The Debt Service Fund, when applicable, accounts for the refinancing of existing debt.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements (Cont'd.)

Fund accounting (Cont'd.)

The District presents the following proprietary fund:

The Food Service Fund accounts for the operations of the cafeterias.

The District presents the following fiduciary fund:

The Student Activities Fund accounts for programs operated and sponsored by various clubs and organizations within the schools.

Cash and cash equivalents and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits (including pooled investments), and short-term investments with original maturities of three months or less from the date of acquisition.

Types of authorized investments are limited by State regulations. Pooled investment funds are required to be operated in accordance with State regulations.

Investments, including pooled investments, are reported at fair value.

Taxes and taxes receivable

Real estate and personal taxes are levied as of July 1 with a legal, enforceable claim against the property and/or taxpayer. Amounts not collected within six months (December 31) are considered delinquent and submitted to outside agencies/entities for collection actions.

Receivables and payables between funds

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/to other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the district-wide financial statements as "internal balances". Any balances between funds are short term items pending periodic repayments.

Inventories and prepaid items

Inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when consumed. Donated commodities are recognized as revenue and are inventoried at an estimated cost value.

Certain payments, if any, to vendors reflect expenses applicable to future periods and are presented as prepaid items in both district-wide and fund financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are presented in the applicable governmental or business-type activities columns in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $ 1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous groups with individual costs of less than $ 1,500 as capital assets for financial presentation purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are presented at historical cost or estimated historical cost if purchased or constructed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method, allowing for reasonable salvage values on equipment, over the following estimated useful lives:

Assets	Governmental Activities	Business-type Activities
Buildings	40	-
Site improvements	20	-
Furniture	15	15
Machinery and equipment	10 to 15	15
Library books	7	-
Audio visual equipment	6	-
Technology equipment	5	5

Long-term liabilities

In district-wide financial statements, and proprietary fund types in fund financial statements, bonds and notes payable and other long-term obligations are presented as liabilities. Bond discounts (premiums) and any refunding costs are amortized over the life of the bonds using the effective interest method.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Net position

Net position represents the difference between assets and liabilities. In district-wide financial statements and proprietary fund financial statements, categories of net position are:

Invested in capital assets (net of related debt) - This category presents all capital assets into one component of net position. Accumulated depreciation and outstanding debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted - This category presents funds restricted for a specific purpose as per: External parties, contributors or enabling legislation.

Unrestricted - This category presents the net position of the District, which are not restricted for any project or other purpose. However, these funds may be committed or assigned for specific projects or purposes in the fund financial statements.

Governmental fund balances

GASB has established criteria for classifying fund balances into specifically defined classifications based on a hierarchy that reflects the extent to which the District is bound to honor constraints on how those funds can be spent. The District's general policy is to first use restricted funds, if any, prior to using unassigned funds. Classifications of fund balances are:

Nonspendable - Amounts that cannot be spent because they are either in a (a) non-spendable form (i.e. inventories) or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

Restricted - Amounts constrained to be used for a specific purpose as per: External parties, contributors or enabling legislation.

Committed - Amounts constrained to be used for a specific purpose as per: The District's highest level of decision making authority which is the Board of School Directors.

Assigned - Amounts intended to be used for a specific purpose as per: Committee or individual authorized by the Board of School Directors (for example a budget or finance committee).

Unassigned - Amounts available for any purpose (amounts that are not Nonspendable, Restricted, Committed or Assigned) in the General Fund.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Estimates

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

Recent accounting standards

GASB Statement No. 63 improves financial reporting by standardizing the presentation of deferred outflows of resources, deferred inflows of resources, and their effects on the District's net position, rather than net assets. The District has implemented this pronouncement. This pronouncement does not impact any amounts, but does impact terminology and presentation.

GASB Statement No. 65 impacts certain items that were previously reported as assets and liabilities in the district-wide financial statements. The District has implemented this pronouncement. Prior to this pronouncement, bond issuance costs were required to be amortized over the life on the bonds. GASB 65 determined that bond issuance costs do not meet the definition of an asset, and should be expensed during the year in which those costs are incurred.

Implementation required restating financial statements for all periods presented, which is summarized as follows:

	Original Amount	Change	Restated Amount
Net position of governmental activities as of June 30, 2011	$ 25,821,166	$ (511,674)	$ 25,309,492
Change in net position for the year ended June 30, 2012	2,595,139	(54,059)	2,541,080
Net position of governmental activities as of June 30, 2012	$ 28,416,305	$ (565,733)	$ 27,850,572

There are several GASB pronouncements that will become effective for future reporting periods. Other than the impact of GASB 68, the District does not currently anticipate any significant impact on the District's financial statements.

GASB Statement No. 68, effective for the year ending June 2015, is to improve accounting and financial reporting for pensions. This pronouncement will impact the Statement of Net Position (page FS-1), the Statement of Activities (page FS-2), and the Pension Plan disclosures in the Notes to Financial Statements. The District currently expects GASB 68 will have a very large negative impact to the district-wide financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Comparative information

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with current year's presentation. However, presentations of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Subsequent events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 31, 2013, the date the financial statements were available to be issued.

CASH AND CASH EQUIVALENTS AND INVESTMENTS

Pennsylvania statutes provide for investment of District funds into 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. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of funds for investment purposes.

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a formal investment policy for custodial credit risk. However, the District requires all deposits in excess of federal deposit insurance coverage to be collateralized by the depository institution with approved collateral as provided by law.

As of June 30, 2013, the District's deposits totaled $ 11,701,940 and the depository institution balances totaled $ 12,684,604. Of the depository institution balances, $ 11,579,040 was covered by federal deposit insurance and $ 1,105,564 was collateralized. The pledged collateral is held by the Federal Reserve Bank, but is not titled in the District's name.

The District also has cash equivalents and investments with Pennsylvania School District Liquid Asset Fund (PSDLAF) and Pennsylvania Local Government Investment Trust (PLGIT). PSDLAF and PLGIT operate as common law trusts established pursuant to the Intergovernmental Cooperation Act and related statues for the purpose of pooling investments. Each organization's fundamental policy is to maintain a net asset value of $ 1 per share, but there can be no assurance that the net asset value will not vary from $ 1 per share. They may only purchase securities which are permitted under PA law. As of June 30, 2013, District deposits in PSDLAF and PLGIT totaled $ 3,103,983 and $ 67, respectively.

CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont'd.)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy for interest rate risk. The weighted average maturity of securities held by PSDLAF and PLGIT is generally less than 90 days.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal investment policy for credit risk. The District's deposits in PSDLAF and PLGIT were rated "AAAm" by Standard & Poor's.

Cash and cash equivalents and investments are as follows:

	Cash and Cash Equivalents	Investments
Governmental activities	$ 4,649,926	$ 9,695,000
Business-type activities	270,443	-
Fiduciary funds	130,316	60,305
	$ 5,050,685	$ 9,755,305

Investments consist of certificates of deposit with original maturities of more than three months from the date of acquisition.

TAXES RECEIVABLE

Taxes receivable are as follows:

	Taxes Receivable (Gross)	Allowance for Uncollectibles	Taxes Receivable (Net)	Unearned Taxes
Real estate taxes	$ 943,592	$ 592	$ 943,000	$ 693,000
Earned income taxes	550,000	-	550,000	550,000
Personal taxes	25,850	13,850	12,000	12,000
General Fund	1,519,442	14,442	1,505,000	1,255,000
Full accrual adjustment	-	-	-	(1,255,000)
Governmental activities	$ 1,519,442	$ 14,442	$ 1,505,000	$ -

DUE FROM/TO OTHER FUNDS AND INTERFUND TRANSFERS

Interfund balances are as follows:

Assets		Liabilities	
Capital Reserve Fund	$ 2,100,000	$ 2,100,000	General Fund
General Fund	689	689	Food Service Fund

Interfund transfers were as follows:

Other financing sources		Other financing uses	
Capital Reserve Fund	$ 2,540,000	$ 2,540,000	General Fund
Food Service Fund	62,000	62,000	General Fund

DUE FROM OTHER GOVERNMENTS

Due from other governments are as follows:

	Governmental Activities	Business-type Activities
Local sources – earned income taxes	$ 1,134,406	$ -
Local sources – other districts	229,468	-
Local sources – other items	53,131	-
State sources	626,485	4,589
Federal sources	165,034	59,615
	$ 2,208,524	$ 64,204

CAPITAL ASSETS

Changes in capital assets were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 986,824	$ -	$ -	$ 986,824
Capital assets being depreciated				
Buildings and improvements	73,623,124	1,108,294	-	74,731,418
Furniture and equipment	3,224,203	108,161	-	3,332,364
Library books	2,308,721	-	-	2,308,721
Technology equipment	4,976,585	315,756	-	5,292,341
	84,132,633	1,532,211	-	85,664,844
Accumulated depreciation				
Buildings and improvements	(23,749,298)	(1,776,596)	-	(25,525,894)
Furniture and equipment	(2,183,494)	(166,734)	-	(2,350,228)
Library books	(2,077,848)	-	-	(2,077,848)
Technology equipment	(4,511,698)	(123,608)	-	(4,635,306)
	(32,522,338)	(2,066,938)	-	(34,589,276)
Capital assets being depreciated, net	51,610,295	(534,727)	-	51,075,568
Governmental activities capital assets, net	$ 52,597,119	$ (534,727)	$ -	$ 52,062,392
Business-type activities				
Capital assets being depreciated				
Furniture and equipment	$ 1,637,077	$ 3,477	$ -	$ 1,640,554
Accumulated depreciation				
Furniture and equipment	(1,137,976)	(74,567)	-	(1,212,543)
Capital assets being depreciated, net	499,101	(71,090)	-	428,011
Business-type activities capital assets, net	$ 499,101	$ (71,090)	$ -	$ 428,011

CAPITAL ASSETS (Cont'd.)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
Instruction	$ 1,603,020
Instructional student support	120,226
Administrative and financial support	80,151
Operation and maintenance of plant	200,377
Student activities	63,164
	$ 2,066,938
Business-type activities - Food service	$ 74,567

LONG-TERM LIABILITIES

Changes in all long-term liabilities were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds and notes payable	$ 35,657,269	$ 15,890,000	$ (18,192,269)	$ 33,355,000	$ 3,105,000
Compensated absences	677,900	148,900	(44,800)	782,000	100,000
Other post employment benefits	552,990	353,153	(351,524)	554,619	300,000
	$ 36,888,159	$ 16,392,053	$ (18,588,593)	$ 34,691,619	$ 3,505,000
Business-type activities					
Compensated absences	$ 1,246	$ -	$ (1,246)	$ -	$ -

LONG-TERM LIABILITIES (Cont'd.)

Bonds and notes payable

Changes in bonds and notes payable were as follows:

	Beginning Balance	Current Refundings	Scheduled Redemptions	Ending Balance
1999 Series	$ 2,100,000	$ -	$ (315,000)	$ 1,785,000
2003 Series	11,360,000	(11,360,000)	-	-
2006 Notes (energy savings project)	4,047,269	(4,047,269)	-	-
2010 Series	8,390,000	-	(490,000)	7,900,000
2011 Series	9,760,000	-	(960,000)	8,800,000
2012 Series	-	10,000,000	(5,000)	9,995,000
2013 Series	-	5,890,000	(1,015,000)	4,875,000
	$ 35,657,269	$ 482,731	$ (2,785,000)	$ 33,355,000

During the year, the District issued two Series of bonds summarized as follows:

	2012 Series	2013 Series	Total
Bonds issued	$ 10,000,000	$ 5,890,000	$ 15,890,000
Premiums on bonds issued (net)	76,180	199,014	275,194
Payoff 2003 Series	(5,510,000)	(5,850,000)	(11,360,000)
Payoff 2006 Notes	(4,047,269)	-	(4,047,269)
Interest paid	(281,393)	(125,136)	(406,529)
Refunding costs (prepayment fee on notes)	(76,430)	-	(76,430)
Bond issuance costs	(161,088)	(113,878)	(274,966)
Amount available to the District	$ -	$ -	$ -

These two refunding were to take advantage of favorable interest rates, and to restructure future debt service requirements. Combined debt service requirements for the eight years ended June 2014 through 2021 were reduced by $ 3,537,695, for an average reduction of $ 442,212. Debt service requirements were increased by $ 304,852 for year 2022, and $ 2,994,900 for year 2023.

LONG-TERM LIABILITIES (Cont'd.)

Bonds and notes payable (Cont'd.)

	Interest Rates	Maturity Date	Callable Date	Due Within One Year
1999 Series	(1)	December 2017	45 days notice	$ 330,000
2010 Series	2.15% to 3.00%	June 2022	December 2015	505,000
2011 Series	2.00% to 4.00%	February 2021	August 2016	985,000
2012 Series	.50% to 2.00%	April 2023	April 2018	5,000
2013 Series	1.50% to 3.00%	April 2018	Not Callable	1,280,000
				$ 3,105,000

(1) 1.45% above the "weekly rate" (.35% at June 2013), not to exceed 25.00%.

Scheduled debt service requirements, payable by the General Fund, are as follows:

Year Ending June	Principal	Interest	Total
2014	$ 3,105,000	$ 832,249	$ 3,937,249
2015	3,195,000	755,984	3,950,984
2016	3,155,000	687,531	3,842,531
2017	3,250,000	602,991	3,852,991
2018	3,350,000	511,858	3,861,858
2019-2023	17,300,000	1,287,031	18,587,031
	$ 33,355,000	$ 4,677,644	$ 38,032,644

Compensated absences

Compensated absences (those for which employees are compensated) are presented using the termination payment method. A liability is computed using estimates which apply historical data to current factors. The District maintains records of unused leave and applies the contracted rate for employees eligible for the severance allowance. The District allows only restricted sabbatical leave and therefore does not present any liability in advance of the sabbatical. Payments for compensated absences are made in the year the absence is taken or the employee retires.

At retirement or death, while in District service, employees or their beneficiaries shall choose one of the available options (subject to a maximum of $ 18,000 for administrators, $ 15,400 for teaching staff and $ 9,884 for classified staff). The severance allowance is paid as a District contribution into the employee's 403(b) tax sheltered annuity account.

LONG-TERM LIABILITIES (Cont'd.)

Other post employment benefits (OPEBs)

OPEBs are presented in accordance with GASB Statement No. 45 (GASB 45), which requires their recognition as part of the compensation package of active employees for services rendered. The cost and obligation for OPEBs are measured by an actuarial valuation.

Plan description

Under the negotiations agreement with Big Spring Education Association, the District provides for continuance of health care insurance coverage after retirement.

If the eligible member retired after June 2011, and had 30 years with the District, the District will pay 50% of the medical and prescription drug premiums for the member only, subject to a maximum annual District contribution of $ 4,000. The coverage will cease upon the earlier of 5 years or member Medicare age. The member may elect dental and vision coverage by paying the full premiums. Dependents may elect available coverage by paying the full premiums. If the 5 years are exhausted and the member has not reached Medicare age, the member and dependents may continue coverage by paying the full premiums.

If the eligible member retired before July 2011, the District will pay 50% of the medical and prescription drug premiums for the member and dependents. The coverage will cease upon the earlier of 5 years or member Medicare age. The member and dependents may elect dental and vision coverage by paying the full premiums. If the 5 years are exhausted and the member has not reached Medicare age, the member and dependents may continue coverage by paying the full premiums.

If the retired member did not qualify for the District subsidized benefit, but has retired through PSERS, the member and dependents may elect available coverage by paying the full premiums.

Retired administrators are eligible for health care insurance coverage similar to the above.

Retired classified employees, hired before July 2007, are eligible for health care insurance coverage similar to the above. If hired after June 2007, the retiree and dependents may elect available coverage by paying the full premiums.

Retiree's premiums are less than the District's actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the cost of covering retired members and their dependents results in what is known as an "implicit rate subsidy," which creates an additional cost to the District.

Participant information	
Active participants	300
Vested former members	6
Retired participants	66
	372

LONG-TERM LIABILITIES (Cont'd.)

Other post employment benefits (OPEBs) (Cont'd.)

Funding policy

The District funds Plan liabilities on a "pay-as-you-go" basis, and has not established an OPEB trust fund to accumulate assets to fund Plan obligations. The District has no statutory or contractual obligation to fund the Plan and would only do so at the District's discretion.

Annual OPEB cost and net OPEB obligation

The annual OPEB cost (expense) is calculated based on the actuarially determined annual required contribution (ARC) of the District. The ARC represents a funding level that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liability (UAAL) over 30 years (25 years remaining).

Components of the annual OPEB cost, the amount contributed to the Plan, and changes in the net OPEB obligation are as follows:

District normal cost	$ 162,616
Amortization of unfunded actuarial accrued liability	199,601
Annual required contribution	362,217
Interest on the net OPEB obligation	24,885
Adjustment to the ARC	(33,949)
Annual OPEB cost	353,153
Contributions made to the plan	(351,524)
Increase in net OPEB obligation	1,629
Net OPEB obligation - beginning	552,990
Net OPEB obligation - ending	$ 554,619

The percentage of annual OPEB cost contributed was as follows:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 2013	$ 353,153	99.54%	$ 554,619

LONG-TERM LIABILITIES (Cont'd.)

Other post employment benefits (OPEBs) (Cont'd.)

Funding status and funding progress

The actuarial accrued liability (AAL) for OPEBs as of July 2012 was $ 3,251,275. There are no Plan assets, thus, the entire amount is unfunded. The District does not have any current plans to fund the AAL.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 2012	$ -	$ 3,251,275	$ 3,251,275	0.00%	$15,274,804	21.29%

Actuarial assumptions and methods

Actuarial assumptions and methods used in the July 2012 actuarial valuation include the following:

Interest rate	4.50%
General inflation rate	3.00%
Health care cost trend rate	7.5% in 2012 decreasing by 0.5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later
Actuarial cost method	Benefits are allocated on a level basis over the earnings of an individual from date of hire to assumed retirement age
Amortization period	30 years (25 years remaining)

Actuarial evaluations on an ongoing basis involve estimates of the reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Projections of benefits are based on the types of benefits provided under the plan at the time of each valuation and on the pattern of sharing of benefit costs between the District and plan members to that point in time.

Actuarial calculations reflect a long-term perspective, and consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities.

LONG-TERM LIABILITIES (Cont'd.)

Other post employment benefits (OPEBs) (Cont'd.)

Actuarial assumptions and methods (Cont'd.)

The required schedule of funding progress in the other required supplementary information (ORSI) immediately following the notes to financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the District maintains no Plan assets, information relative to Plan asset disclosures is not applicable.

PENSION PLAN

Substantially all full-time and part-time employees of the District participate in the plan. The District recognizes expenditures or expenses equal to its contractually-required contributions, subject to the modified accrual basis of accounting in governmental funds.

The District contributes to Public School Employees' Retirement System (the System), a governmental cost sharing multiple-employer 401(a) defined benefit plan. The plan is under the authority of The Public School Employees' Retirement Code (the Code), as amended. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The System 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 the System at 5 N 5th Street, Harrisburg, PA 17101-1905, or on the System's website.

The contribution policy is established in the Code and requires contributions by active members, employers and the Commonwealth. Contribution rates for active members are set by law and are dependent upon members' class. In most cases, the member contribution rates based on qualifying compensation are as follows:

Membership Class T-C	Active members hired before July 22, 1983	5.25%
Membership Class T-C	Members hired on or after July 22, 1983 and who were active or inactive as of July 1, 2001	6.25%
Membership Class T-D	Active members hired before July 22, 1983	6.50%
Membership Class T-D	Members hired on or after July 22, 1983 and who were active or inactive as of July 1, 2001	7.50%
Membership Class T-D	Members hired from July 1, 2001 thru June 30, 2011	7.50%

Members hired after June 30, 2011 are automatically Membership Class T-E and have a member contribution rate of 7.50% (base rate). Members hired after June 30, 2011 who elect Membership Class T-F have a member contribution rate of 10.30% (base rate). Membership Class T-E and T-F are affected by a 'shared risk' provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

PENSION PLAN (Cont'd.)

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 2013 the employer contribution rate was 12.36 percent of covered payroll, composed of 11.50 percent for pension benefits and .86 percent for healthcare insurance premium assistance. District contributions to the System for years ended June 2013, 2012 and 2011 were $ 2,181,156, $ 1,610,064 and $ 1,035,670, respectively. Those amounts are equal to the required contributions for each year.

RISK MANAGEMENT

Health insurance

The District's health insurance plan through South Central Trust allows each participant to choose one of the three available coverage options. South Central Trust is not a risk sharing pool. The Trust was established for processing claims and obtaining reinsurance through commercial insurance carriers. The Trust has reinsurance for claims in excess of $ 100,000 specific (per person) and 125% aggregate (estimated District annual cost). Financial statements of the trust are provided to the member districts. District transactions within the Trust were as follows:

Cash balance in the trust - beginning		$ 1,062,156
Payments from the District and its retirees		3,816,901
Benefit claims paid by the trust	$ (3,834,281)	
Administrative and other fees, net of interest earned	(211,604)	
Stop loss premiums	(74,502)	
		(4,120,387)
Cash balance in the trust - ending		758,670
District accrual for health insurance benefits		500,000
Amount available for benefit claims		$ 1,258,670

The amount available for benefit claims was as follows:

Accrual for benefit claims	$ 642,458
Accrual for administrative and other fees	47,509
Accrual for health insurance coverage on payroll payable	568,703
Amount available for benefit claims	$ 1,258,670

There are various methodologies for estimating a reasonable accrual for benefit claims. District management has selected the methodology of approximately '60 days of paid claims'. District management believes this methodology provides an adequate amount for accrued costs.

RISK MANAGEMENT (Cont'd.)

Other insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

For State unemployment compensation laws, the District is self-insured, which is a common practice for local governmental units. Any unemployment claims are paid by the District on a quarterly basis as incurred.

For workers' compensation insurance, approximately 80 Districts participate in a public entity risk sharing pool (School Districts Insurance Consortium) for processing claims and obtaining reinsurance through commercial insurance carriers. Under this plan, the District's annual cost should not exceed standard commercial insurance rates.

COMMITTED AND ASSIGNED FUND BALANCE

Committed and assigned amounts of fund balance of the General Fund are as follows:

	Committed	Assigned
Pension plan rate increases	$ 554,000	$ 400,000
Health care	-	350,000
Special education	-	250,000
Technology	-	700,000
Software	-	200,000
	$ 554,000	$ 1,900,000

COMMITMENTS AND CONTINGENCIES

The District's contract with its teaching staff expires in June 2014.

In the normal course of business, the District is subject to legal disputes and claims. The District does not anticipate any material losses from any pending or threatened litigation.

In the normal course of preparing for the subsequent school year, the District has awarded bids for various supplies, fuel contracts, etc. No major commitments in excess of routine requirements have been made by the District.

COMMITMENTS AND CONTINGENCIES (Cont'd.)

The District participates in state and federal grant programs which are governed by various rules and regulations. Expenditures charged to these grant programs are subject to program compliance audits and reviews by the grantor agencies. The District is potentially liable for any expenditure which may be disallowed by the rules of these grant programs. The District does not anticipate any material disallowance of program expenditures.

SUBSEQUENT EVENTS

The District is in the process of selling two former elementary schools. These sales of its Plainfield and Frankford properties are expected to occur prior to December 31, 2013.

BIG SPRING SCHOOL DISTRICT

BUDGETARY COMPARISON INFORMATION - GENERAL FUND

YEAR ENDED JUNE 30, 2013

	Budget Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Local sources - taxes	$ 23,554,240	$ 23,554,240	$ 25,047,609	$ 1,493,369
Local sources - other	1,142,000	1,142,000	1,174,290	32,290
State sources	15,959,793	15,959,793	15,898,152	(61,641)
Federal sources	582,860	582,860	650,591	67,731
Total revenues	41,238,893	41,238,893	42,770,642	1,531,749
Expenditures				
Regular programs	15,885,517	16,121,026	16,120,517	509
Special programs	6,540,241	6,710,024	6,709,985	39
Vocational programs	699,457	615,842	615,134	708
Other instructional programs	35,195	50,810	50,303	507
Higher education programs	5,130	-	-	-
Pupil personnel	899,066	966,516	965,900	616
Instructional staff	1,376,267	1,320,874	1,320,447	427
Administration	2,173,209	2,226,339	2,226,306	33
Pupil health	426,591	448,591	448,481	110
Business	368,928	355,232	354,660	572
Operation and maintenance of plant	4,129,339	3,696,339	3,695,748	591
Student transportation	2,476,484	2,355,884	2,355,216	668
Central services	183,323	177,323	177,269	54
Other support services	35,000	26,600	26,545	55
Student activities	868,256	789,682	789,324	358
Community services	40,163	29,162	28,980	182
Debt service (principal and interest)	4,416,727	3,670,723	3,670,723	-
Refund of prior years revenues	-	357	357	-
Total expenditures	40,558,893	39,561,324	39,555,895	5,429
Excess (deficiency) of revenues over expenditures	680,000	1,677,569	3,214,747	1,537,178
Other financing sources (uses)				
Transfers to other funds	(480,000)	(1,677,569)	(2,602,000)	(924,431)
Budgetary reserve	(200,000)	-	-	-
Net change in fund balance	-	-	612,747	612,747
Fund balance - beginning	4,661,983	4,661,983	5,893,014	1,231,031
Fund balance - ending	$ 4,661,983	$ 4,661,983	$ 6,505,761	$ 1,843,778

BIG SPRING SCHOOL DISTRICT

OTHER POST EMPLOYMENT BENEFIT PLANS

JUNE 30, 2013

HEALTH CARE BENEFITS

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 2012	$ -	$ 3,251,275	$ 3,251,275	0.00%	$ 15,274,804	21.29%
July 2010	-	3,732,005	3,732,005	0.00%	16,852,109	22.15%
July 2008	-	3,995,512	3,995,512	0.00%	15,104,065	26.45%

The District is required to have an actuarial valuation at least biennially (every 2 years). If the plan experiences significant changes, a new actuarial valuation should be performed rather than waiting for the next scheduled valuation date.