BIG SPRING SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

	Page Number
INDEPENDENT AUDITOR'S REPORT	IAR - 1 to IAR - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	MDA - 1 to MDA - 13
BASIC FINANCIAL STATEMENTS	
District-wide financial statements	
Statement of net assets	FS - 1
Statement of activities	FS - 2
Fund financial statements	
Balance sheet – governmental funds	FS - 3
Reconciliation of the governmental funds balance sheet to the statement of net assets	FS - 4
Statement of revenues, expenditures, and changes in fund balances – governmental funds	FS - 5
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the statement of activities	FS - 6
Statement of net assets – proprietary funds	FS - 7
Statement of revenues, expenses, and changes in net assets – proprietary funds	FS - 8
Statement of cash flows – proprietary funds	FS - 9
Statement of net assets – fiduciary funds	FS - 10
NOTES TO FINANCIAL STATEMENTS	FS - 11 to FS - 31
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison information – general fund	ORSI - 1
Other post employment benefit plans	ORSI - 2

Greenawalt & Company, P.C.

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Big Spring School District
Newville, Pennsylvania

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's June 30, 2011 financial statements and, in our report dated November 4, 2011 we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary funds.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the fiduciary funds of Big Spring School District, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2012, 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* and should be considered in assessing the results of our audit.

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Board of School Directors
Big Spring School District

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.

Greenawalt & Company, P.C.

GREENAWALT & COMPANY, P.C.

October 25, 2012

Mechanicsburg, Pennsylvania

BIG SPRING SCHOOL DISTRICT

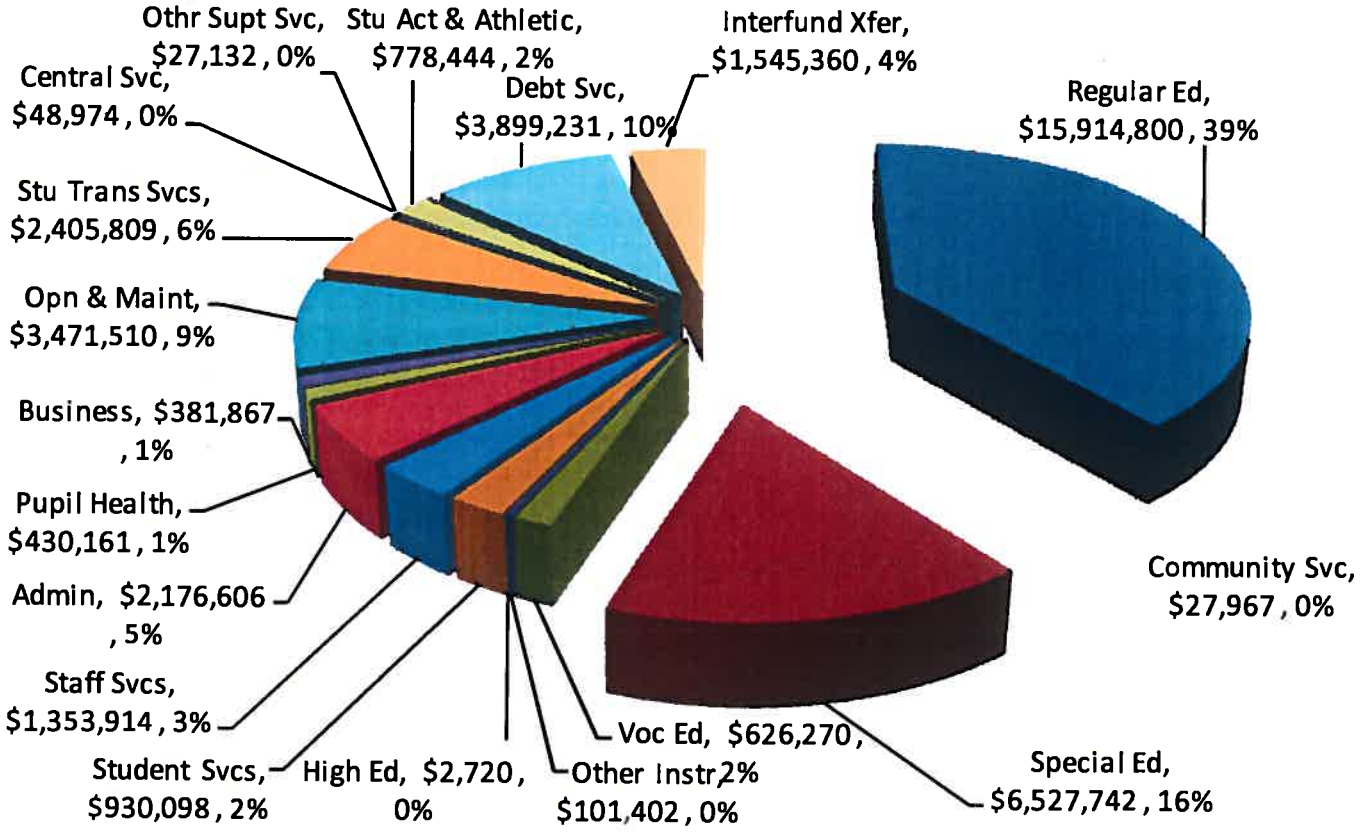
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

This discussion and analysis provides an overview of the District's financial performance for the year ended June 2012. 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 2012, 2011 and 2010. The MD&A also includes comparisons of current year financial activities to the previous year. The 2011 and 2010 amounts have come from our prior year MD&A, and are otherwise not a part of the June 2012 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

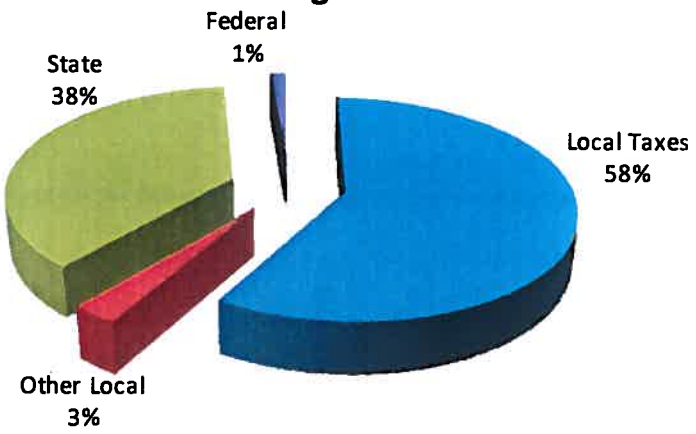
2011/12 Spending By Program ($40,650,007 total)



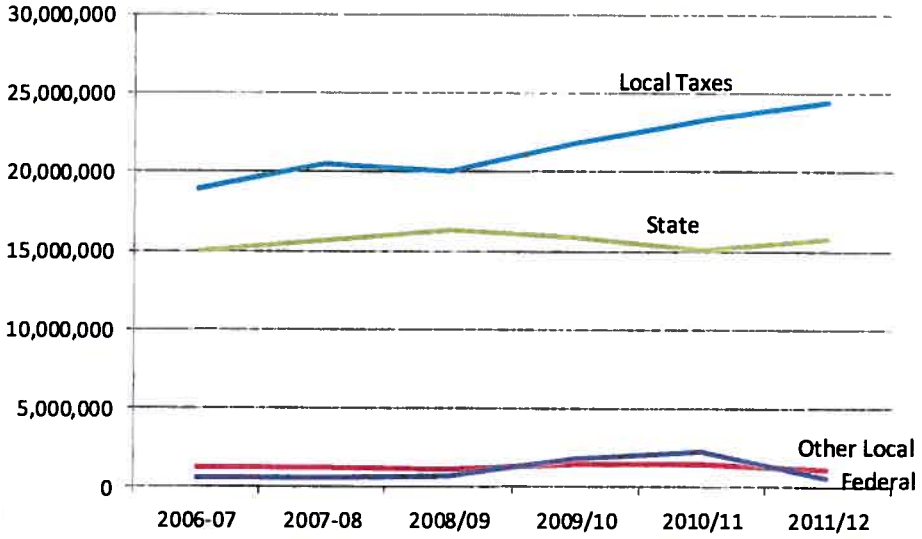
General Fund revenues for 2011-12 decreased less than 1% from $42,095,304 to $42,025,038 from 2010-11; expenditures and transfers-out increased from $40,546,512 in 2010-11 to $40,650,007 in 2011-12 or less than 1% from the prior year. The District added $1,375,031 to the fund balance for a total of $5,893,014 as of June 30, 2012. The Board expects to transfer $1,100,000 to the Capital Project Fund and assign an additional $275,000 to PSERS or other committed items. At that point the unassigned fund balance will be $2,564,014 or 6.5% of the 2012/13 Budget - within the 8% maximum required under state law.

The revenue graphs at right show 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 and 58% in 2011-12. 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 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. 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.

2012 Funding Sources



5-year History of Funding Sources



The economy's impact on the District remains uncertain. Investment earnings continue to be almost non-existent compared to 2008 levels. The District collected $4.26 million of EIT taxes in 2009-10, $4.61 million in 2010-11 and $4.79 million in 2011-12. Unfortunately, the District faces an uncertain future for EIT

revenue due to the implementation of Act 32. Initial estimates for 2011-12 were to expect a 10-25% reduction in EIT due to Act 32 implementation whereas the actual amount increased by 4% over 2010-11.

The Capital Reserve Fund ending balance was $2,325,263 for 2009-10 and $3,279,685 for 2010-11. The District added $1,432,564 for 2011-12 but also spent $251,274 on a kitchen expansion at Mt. Rock, various building repairs and technology infrastructure upgrades. The ending balance for 2011-12 was $4,460,975.

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 SCT decreased by $500,000 to a June 30, 2012 accrual of $250,000 to pay projected expense at June 30, 2012.

In December 2009 the Board approved bids for the expansion and renovation at Newville totaling $2,774,334 while it considered replacing Plainfield with a new building. In June 2010 the Board decided to stop the Plainfield planning process and add two more classrooms to the Newville project. It then directed the administration to develop an elementary school reconfiguration plan to support the closure of Plainfield. Plainfield closed in June 2011 and sat dormant for 2011-12. In June 2012 the Board arranged for Yellow Breeches, an alternative education provider, to lease Plainfield for the 2012/13 year.

In July 2011 the District sold $9,800,000 in bonds that refinanced the existing 2006 bonds with a one-time savings of $404,000 on debt service for the 2011-12 year. In April of 2012 the Administration began to work with financial advisors to restructure existing debt with two refinancings, a payoff of the ESCO debt for geothermal systems and extend debt service by one year through 2023 to help offset the cost of PSERS.

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 $770,065 in gaming funds for 2011-12 compared with $770,380 in 2010-11; these funds were distributed in an equal amount to each qualified taxpayer of $130.66 per homestead/farmstead.

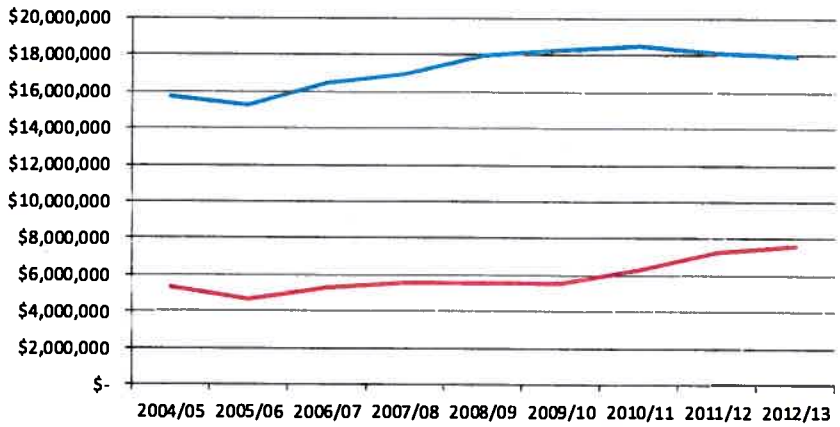
In November 2010 Act 120 reformed the PA State Employees Retirement System (PSERS) by implementing steep increases in employer contributions. In 2010 Cumberland County underwent reassessment increasing Big Spring's total assessed value from $1,171,821,730 to $1,617,543,400 and reducing the base millage to 11.655. In preparing the 2011-12 budget, the reassessment allowed the District to retain the same 3.8% index as the prior year raising the millage to 12.098 in order to help offset the first year of big PSERS increases. In June 2012, the Board raised millage the allowed 2.2% index to 12.364 to balance the budget.

The first 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.

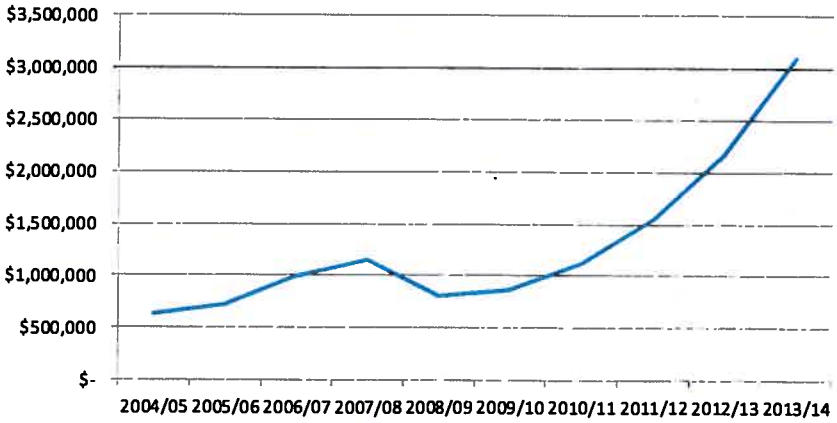
In the second chart, the steep rise in PSERS retirement contributions is unremarkable as increases of this magnitude will continue until 2016. With a corresponding increase in healthcare and continued pressure on wages, it is not apparent how the District, or other subsidy dependent School Districts 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. Since 2006/07 the cost of Regular Education Program has increased by 11% while the Special Program has gone up by 47%. It increased 10% from 2010-11 to 2011-12. 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.

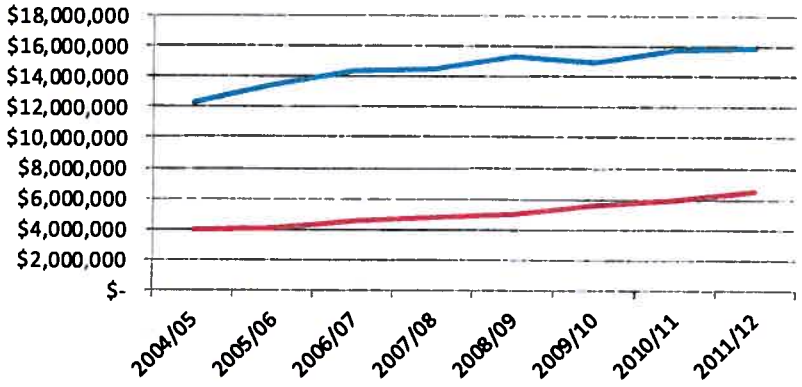
Wages v. Benefits



Retirement



Regular Program v. Special Program



USING THESE FINANCIAL STATEMENTS

This report contains a series of financial statements. The Statement of Net Assets 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 funds 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 assets of governmental activities. Page FS-6 reconciles the total net change in governmental fund balances to the change in net assets 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 Assets

Total net assets were $29,217,362 at June 30, 2012, $26,607,131 at June 30, 2011 and $23,616,384 at June 30, 2010. This is an increase of $2,610,231 from June 2011 and $2,990,747 from June 2010. The following summarizes the Statement of Net Assets (page FS-1).

	Governmental Activities			Business-type Activities			Totals		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Current and other assets	$17.0	$14.8	$10.0	$ 0.3	$ 0.3	$ 0.3	$17.4	$15.1	$10.3
Capital assets	52.6	53.8	52.5	0.5	0.5	0.6	53.1	54.3	53.1
Total assets	$69.6	$68.6	$62.5	$ 0.8	$ 0.8	$ 0.9	$70.5	$69.4	$63.4
Current and other liabilities	$ 4.1	$ 6.7	$ 7.2	$ -	$ -	$ 0.1	$ 4.1	$ 6.7	$ 7.3
Long-term liabilities	37.1	36.0	32.5	-	-	-	37.1	36.0	32.5
Total liabilities	41.2	42.8	39.7	-	-	0.1	41.2	42.8	39.8
Capital assets (net of related debt)	17.2	16.0	17.6	0.5	0.5	0.6	17.7	16.5	18.2
Restricted for capital projects	0.5	1.1	-	-	-	-	0.5	1.1	-
Unrestricted	10.6	8.7	5.2	0.3	0.3	0.2	10.9	9.0	5.4
Total net assets	28.4	25.8	22.8	0.8	0.8	0.8	29.2	26.6	23.6
Total liabilities and net assets	$69.6	$68.6	$62.5	$ 0.8	$ 0.8	$ 0.9	$70.4	$69.4	$63.4

Net assets are the difference between assets and liabilities, and represent resources that can be used to pay for future operations and capital improvements. The majority of our total 2012 net assets, $17,743,365 out of $29,217,362, 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 assets increased by $2,610,231 during 2012 and $2,990,747 during 2011.

	Governmental Activities			Business-type Activities			Totals		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Program revenues									
Charges for services	$ 0.5	$ 0.4	$ 0.4	$ 0.7	$ 0.8	$ 0.8	$ 1.2	$ 1.2	$ 1.2
Operating grants and contributions	6.6	8.8	8.3	0.5	0.5	0.6	7.1	9.4	8.9
Capital grants and contributions	0.9	0.8	1.5	-	-	-	0.9	0.8	1.5
General revenues									
Taxes	23.9	23.1	22.1	-	-	-	23.9	23.1	22.1
Earnings on investments	-	-	-	-	-	-	-	-	-
State general subsidies	9.6	8.7	8.9	-	-	-	9.6	8.7	8.9
Total revenues	41.4	41.8	41.2	1.2	1.3	1.4	42.7	43.2	42.6
Direct expenses	38.8	38.8	37.9	1.3	1.4	1.4	40.1	40.2	39.3
Excess revenues (expenses) before transfers	2.7	3.0	3.3	(0.1)	(0.1)	-	2.6	3.0	3.3
Transfers between activities	(0.1)	-	-	0.1	-	-	-	-	-
Change in net assets	$ 2.6	$ 3.0	$ 3.3	$ -	$ -	$ -	$ 2.6	$ 3.0	$ 3.3

The change in net assets 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		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Instruction	$ 24.8	$ 24.4	$ 23.2	$ 4.8	$ 7.1	$ 6.6	$ 20.1	$ 17.2	$ 16.6
Instructional student support	2.9	2.8	2.9	0.2	0.2	0.2	2.7	2.6	2.7
Admin and financial support	2.9	2.9	3.1	0.1	0.1	0.1	2.7	2.8	3.0
Opn and maintenance of plant	3.6	4.0	4.1	0.1	0.1	0.1	3.5	3.9	4.0
Pupil transportation	2.4	2.4	2.3	1.7	1.5	1.6	0.7	0.9	0.7
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	1.3	1.5	1.5	0.9	0.8	1.5	0.4	0.7	-
General Fund	$ 38.7	$ 38.8	$ 37.9	$ 7.9	$ 10.0	$ 10.2	30.8	28.8	27.7
Transfers to business-type activities							0.1	-	-
Total governmental activities							30.9	28.8	27.7
State general subsidies revenues							9.6	8.7	8.9
Total needs from taxes and other local sources							$ 21.4	$ 20.1	$ 18.8

	Business-type Activities								
	Direct Expenses			Program Revenues			Net Expense		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Food Service	$ 1.3	$ 1.4	$ 1.4	$ 1.2	$ 1.4	$ 1.4	$ 0.1	$ -	$ -
Transfers from governmental activities							(0.1)	-	-
							$ -	$ -	$ -

THE DISTRICT'S FUNDS

	Governmental Fund Balances				
	2012	2011	2010	2011-12 Change	2010-11 Change
General fund - nonspendable	$ -	$ 0.3	$ 0.3	$ (0.3)	$ -
General fund - committed	2.0	0.6	0.6	1.4	-
General fund - unassigned	3.9	3.7	2.1	0.2	1.6
Capital reserve fund - committed	4.5	3.2	2.3	1.3	0.9
Capital projects fund - restricted	0.5	1.1	(1.4)	(0.6)	2.5
Governmental fund balances	$ 10.9	$ 8.9	$ 3.9	$ 2.0	$ 5.0
Total restricted + nonspendable	0.5	1.4	(1.1)	(0.9)	$ 2.5
Total committed	6.5	3.8	2.9	2.7	$ 0.9
Total unassigned	3.9	3.7	2.1	0.2	1.6
Total governmental funds	$ 10.9	$ 8.9	$ 3.9	$ 2.0	$ 5.0

Governmental Funds – fund balances

Changes from 2011 to 2012

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 expects to assign an additional $1,375,031 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 (Previous Year)

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.

Changes from 2009 to 2010 (2 years ago)

The negative fund balance in the Capital Projects Fund as of June 30, 2010 was due to not borrowing funds until construction payments were due. The $3,500,000 draw-down non-revolving line-of-credit was accessed as needed until permanent financing was obtained in October 2010.

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		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Total revenues	$ 40.5	$ 41.0	$ 40.0	$ 42.0	$ 42.1	$ 40.9	$ 1.5	$ 1.1	$ 0.9
Total expenditures	39.7	39.6	37.5	39.1	39.2	37.3	0.6	0.4	0.2
Excess revenues (expenditures)	0.8	1.4	2.5	2.9	2.9	3.6	2.1	1.5	1.1
Other financing sources (uses)	(0.8)	(1.4)	(2.5)	(1.5)	(1.4)	(2.8)	(0.7)	-	(0.3)
Net change in fund balance	$ -	$ -	$ -	$ 1.4	$ 1.5	$ 0.8	$ 1.4	$ 1.5	$ 0.8

In 2012, actual revenues exceeded the final budgeted amount (including transfers) by $1,375,031. Actual expenditures were $377,412 under the original budgeted amount, and transfers to other funds were $898,716 over the original budgeted amount.

CAPITAL ASSETS

During 2012, the District spent $0.8 million on capital assets, which included almost $0.5 million for Oak Flat roofing project. The Newville Elementary roof project will be completed in August 2012 at a cost of $0.6 million split between the capital project fund and the capital reserve fund.

In December 2009 the Board approved a project adding a 2-story 6-classroom addition to Newville to relieve the overcrowding. It accepted bids in January and awarded those bids in February 2010 with an expected completion of November 2010. Because of the economy and falling enrollment, the Plainfield project was first reduced in scope and finally cancelled in June 2010. At that time, the Board decided to add two classrooms to the Newville project bringing the total cost to $3.8 million. The project was substantially complete by the end of November 2010 and was fully occupied at that time. Plainfield Elementary closed in June 2011.

	Capital assets (net of depreciation)				
	2012	2011	2010	2011-12 Change	2010-11 Change
Governmental activities					
Land	$ 1.0	$ 1.0	$ 0.5	$ -	$ 0.5
Construction in progress	-	-	1.3	-	(1.3)
Buildings and Improvemen	49.9	51.1	49.0	(1.2)	2.1
Furniture and equipment	1.0	1.0	1.2	-	(0.2)
Library books	0.2	0.2	0.2	-	-
Computer equipment	0.5	0.5	0.3	-	0.2
	$ 52.6	$ 53.8	$ 52.5	$ (1.2)	$ 1.3
Business-type activities					
Furniture and equipment	$ 0.5	$ 0.5	$ 0.6	$ -	$ (0.1)

Capital assets in the governmental activities were $52,597,119 and $53,822,917 at June 2012 and 2011, respectively. The District purchased capital assets totaling $814,931 and $3,276,624 for the years ended June 2012 and 2011, respectively. The District had depreciation expense of $2,040,729 and $1,970,574 for the years ended June 2012 and 2011, respectively.

LONG-TERM LIABILITIES

The following summarizes the long-term liabilities note to financial statements (starting at page FS-22). 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.

	2012	2011	2010	2011-12 Change	2010-11 Change
Governmental activities					
General obligation bonds and notes	$ 35.7	$ 38.3	$ 35.3	$ (2.6)	$ 3.0
Compensated absences	0.7	0.7	0.7	-	-
Other post employment benefits	0.5	0.4	0.3	0.1	0.1
Unamortized bond costs	(0.6)	(0.5)	(0.4)	(0.1)	(0.1)
Total liabilities	$ 36.3	$ 38.9	$ 35.9	$ (2.6)	$ 3.0

During 2010-11 the District borrowed $2,150,000 on its 2010 short-term note, and issued its 2010 bonds for $9,240,000. In July 2011 the District sold $9,800,000 in bonds that refinanced the existing 2006 bonds with a one-time savings of $404,000 on debt service for the 2011-12 year.

Each year the District pays interest on the debt and a portion of the outstanding bonds and notes, referred to as redemption. During 2010-11 the District made regularly scheduled redemptions of $2,712,720 and also repaid the 2010 short-term note of $2,839,811. During 2011-12 the District made regularly scheduled redemptions of $2,730,640.

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-24/27 of the notes.

NEXT YEAR'S BUDGET AND OTHER FACTORS

	Original Budget 2012-13	2011-12	Change
Total revenue	$ 41.2	$ 40.3	$ 0.9
Total expenditures and other uses	41.2	40.3	$ 0.9
Excess revenues (expenditures)	$ -	$ -	$ -

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 was forced to furlough eleven p ofessional staff plus an equal number of support staff, contract out cafeteria services and raise taxes by 2.2% in order to balance the budget against skyrocketing cost of retirement contributions and medical care. This year, the District approved a $41.2 million budget to cover the increasing cost of benefits. The Commonwealth is struggling with the cost of retirement contributions also and is not raising our subsidies as a result. 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. Despite the many challenges of a difficult economy, the district stands committed to ensuring the best opportunities for students. While the 2012-2013 budget protects essential programs and services, the District continues to look for reductions and efficiencies at every level.

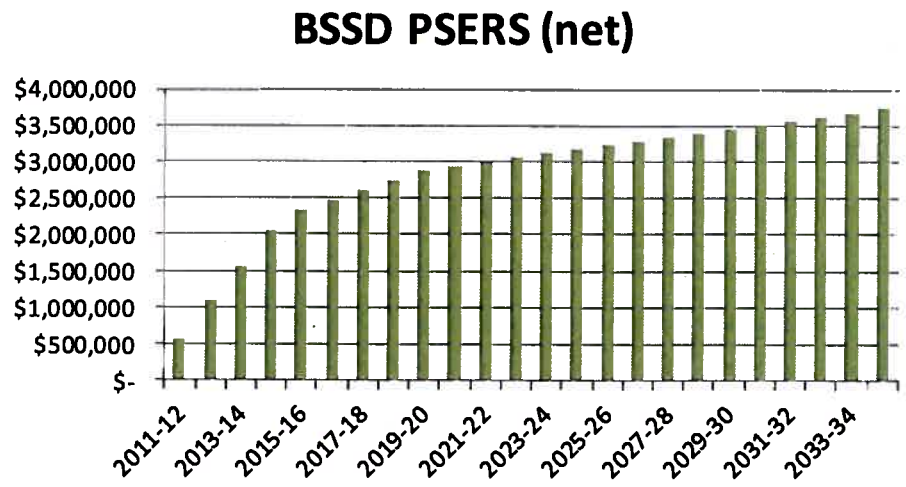
The revenue budget for 2012-13 of $41,238,893 represents a 2.4% increase over the 2011-12 budget of $40,288,703. The real estate millage increased from 12.098 to 12.364 or 2.2% as limited by the Act 1 index. The earned income tax rate remains at 1.65%.

The 2012-13 expenditure budget of $41,238,893 is a 2.4% increase over 2011-12 budget of $40,288,703. The major drivers of the 2012-13 budget are the 3% wage increase for CBA salaries, 2% for administrative and support staffs and the PSERS contribution rate increased from 8.65% to 12.36% of payroll or 43%.

In reviewing its capital needs during the spring of 2012, the District began to discuss the replacement of the Middle School windows. The Building and Property Committee recommended the project be approved for design specification and the Board approved on September 17, 2012 at an estimated cost of $1 million if the Board decides to fund the entire project.

August 2012 the District authorized the issuance of Bonds in the amount up to $18,455,000 in one or more series during the 2012 and 2013 calendar years. The purpose of the Bonds is to refund/restructure the District's outstanding 2003 Bonds and to finance debt for energy savings projects. Overall, the District will save on average $397,000 ($302,000 Net of State Reimbursement) annually over the next nine years. The District adds one more year of debt service in 2023.

Looking past the 2012-13 budget, PSERS contributions remain the single biggest challenge as shown below.



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 ASSETS

JUNE 30, 2012

(With Summarized Financial Information for June 30, 2011)

	Governmental Activities	Business-type Activities	Totals 2012	Totals 2011
Assets				
Cash and cash equivalents	$ 3,399,109	$ 389,309	$ 3,788,418	$ 8,024,564
Investments	8,205,000	-	8,205,000	-
Taxes receivable (net of allowance for uncollectibles)	2,085,000	-	2,085,000	2,575,000
Internal balances	95,498	(95,498)	-	-
Due from other governments	2,038,606	7,126	2,045,732	2,445,528
Other receivables	32,589	6,308	38,897	44,351
Inventories	-	14,581	14,581	29,886
Prepaid health insurance	-	-	-	250,000
Restricted cash, cash equivalents and investments for capital projects	609,268	-	609,268	1,201,610
Unamortized bond issuance costs	565,733	-	565,733	511,674
Capital assets not being depreciated	986,824	-	986,824	986,824
Capital assets being depreciated (net of accumulated depreciation)	51,610,295	499,101	52,109,396	53,338,186
Total assets	$ 69,627,922	$ 820,927	$ 70,448,849	$ 69,407,623
Liabilities				
Accounts payable	$ 689,066	$ 257	$ 689,323	$ 668,872
Contracts payable	67,526	-	67,526	78,685
Payroll and benefits payable	2,971,169	1,103	2,972,272	2,165,523
Deferred revenues	6,578	17,264	23,842	30,419
Accrued interest on bonds payable	333,800	-	333,800	390,000
Long-term liabilities				
Due within one year	3,540,736	1,246	3,541,982	3,332,640
Due in more than one year	33,347,423	-	33,347,423	36,066,917
Unamortized bond discounts and refunding costs	255,319	-	255,319	67,436
Total liabilities	41,211,617	19,870	41,231,487	42,800,492
Net assets				
Invested in capital assets (net of related debt)	17,244,264	499,101	17,743,365	16,521,339
Restricted for capital projects	541,742	-	541,742	1,127,475
Unrestricted	10,630,299	301,956	10,932,255	8,958,317
Total net assets	28,416,305	801,057	29,217,362	26,607,131
Total liabilities and net assets	$ 69,627,922	$ 820,927	$ 70,448,849	$ 69,407,623

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

BIG SPRING SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

(With Summarized Financial Information for the Year Ended June 30, 2011)

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	Net (Expense) Revenue and Changes In Net Assets: Totals: 2012	Net (Expense) Revenue and Changes In Net Assets: Totals: 2011
Governmental activities								
Instruction	$ 24,838,045	$ 382,330	$ 4,400,396	$ -	$ (20,055,319)	$ -	$ (20,055,319)	$ (17,205,145)
Instructional student support	2,907,894	-	242,828	-	(2,665,066)	-	(2,665,066)	(2,611,001)
Administrative and financial support	2,864,234	-	134,615	-	(2,729,619)	-	(2,729,619)	(2,812,261)
Operation and maintenance of plant	3,602,144	24,360	98,408	-	(3,479,376)	-	(3,479,376)	(3,876,151)
Pupil transportation	2,405,809	-	1,681,274	-	(724,535)	-	(724,535)	(826,636)
Student activities	838,388	75,555	37,026	-	(725,807)	-	(725,807)	(728,914)
Community services	27,967	-	933	-	(27,034)	-	(27,034)	(15,218)
Interest on long-term debt	1,284,744	-	-	869,330	(415,414)	-	(415,414)	(684,354)
Total governmental activities	38,769,225	482,245	6,595,480	869,330	(30,822,170)	-	(30,822,170)	(28,759,680)
Business-type activities								
Food service	1,341,534	727,113	515,515	-	-	(98,906)	(98,906)	(61,225)
Total school district	$ 40,110,759	$ 1,209,358	$ 7,110,995	$ 869,330	(30,822,170)	(98,906)	(30,921,076)	(28,820,905)
General revenues								
Taxes								
Real estate taxes					18,866,674	-	18,866,674	17,980,362
Earned income taxes					4,283,243	-	4,283,243	4,396,457
Personal taxes					172,592	-	172,592	180,159
Other taxes					625,749	-	625,749	511,550
Earnings on investments					32,775	47	32,822	31,375
State general subsidies					9,550,227	-	9,550,227	8,711,749
Transfers					(113,951)	113,951	-	-
Total general revenues and transfers					33,417,309	113,998	33,531,307	31,811,652
Changes in net assets					2,595,139	15,092	2,610,231	2,990,747
Net assets - beginning					25,821,166	785,965	26,607,131	23,616,384
Net assets - ending					$ 28,416,305	$ 801,057	$ 29,217,362	$ 26,607,131

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

BIG SPRING SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2012

(With Summarized Financial Information for June 30, 2011)

	General	Capital Projects	Capital Reserve	Totals 2012	Totals 2011
Assets					
Cash and cash equivalents	$ 1,641,999	$ 109,268	$ 1,757,110	$ 3,508,377	$ 8,921,398
Investments	6,980,000	500,000	1,225,000	8,705,000	-
Taxes receivable (net of allowance for uncollectibles)	2,085,000	-	-	2,085,000	2,575,000
Due from (to) other funds	(1,404,502)	-	1,500,000	95,498	4,750
Due from other governments	2,038,606	-	-	2,038,606	2,442,136
Other receivables	32,589	-	-	32,589	44,072
Prepaid health insurance	-	-	-	-	250,000
Total assets	$11,373,692	$ 609,268	$ 4,482,110	$ 16,465,070	$ 14,237,356
Liabilities and fund balances					
Accounts payable	$ 667,931	$ -	$ 21,135	$ 689,066	$ 665,982
Contracts payable	-	67,526	-	67,526	78,685
Payroll and benefits payable	2,971,169	-	-	2,971,169	2,163,319
Deferred revenues	1,841,578	-	-	1,841,578	2,404,227
Total liabilities	5,480,678	67,526	21,135	5,569,339	5,312,213
Nonspendable					
Prepaid health insurance	-	-	-	-	250,000
Restricted					
Capital projects	-	541,742	-	541,742	1,127,475
Committed					
Capital outlays	-	-	4,460,975	4,460,975	3,279,685
Other committed items	1,954,000	-	-	1,954,000	554,000
Unassigned	3,939,014	-	-	3,939,014	3,713,983
Total fund balances	5,893,014	541,742	4,460,975	10,895,731	8,925,143
Total liabilities and fund balances	$11,373,692	$ 609,268	$ 4,482,110	$ 16,465,070	$ 14,237,356

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 ASSETS
JUNE 30, 2012

Total fund balances - Governmental funds		$ 10,895,731
Amounts presented for governmental activities in the statement of net assets 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 $ 85,119,457 and the accumulated depreciation is $ 32,522,338.		52,597,119
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	$ (35,657,269)	
Compensated absences	(677,900)	
Other post employment benefit accruals	(552,990)	
Long-term liabilities	(36,888,159)	
Accrued interest on bonds payable	(333,800)	(37,221,959)
Costs related to the issuance of bonds are presented as expenditures in the governmental funds. At year end, the remaining unamortized bond related costs consist of:		
Bond issuance costs	565,733	
Bond discounts (premiums)	(255,319)	
Refunding costs	-	310,414
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	574,000	
Earned income taxes	1,250,000	
Personal taxes	11,000	1,835,000
Total net assets - Governmental activities		$ 28,416,305

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, 2012

(With Summarized Financial Information for the Year Ended June 30, 2011)

	General	Capital Projects	Capital Reserve	Debt Service	Totals 2012	Totals 2011
Revenues						
Local sources - taxes	$ 24,503,258	$ -	$ -	$ -	$ 24,503,258	$ 23,308,528
Local sources - other	1,171,742	1,243	7,034	-	1,180,019	1,436,022
State sources	15,786,209	-	-	-	15,786,209	15,030,780
Federal sources	563,829	-	-	-	563,829	2,322,074
Total revenues	42,025,038	1,243	7,034	-	42,033,315	42,097,404
Expenditures						
Instruction	23,172,934	-	-	-	23,172,934	22,604,752
Support services	11,226,071	142,900	191,804	155,531	11,716,306	11,938,901
Noninstructional services	806,411	-	-	-	806,411	797,749
Capital outlay	-	442,921	66,504	-	509,425	3,172,342
Debt service (principal and interest)	3,899,231	-	-	-	3,899,231	4,113,251
Refund of prior years revenues	-	-	-	-	-	11,784
Total expenditures	39,104,647	585,821	258,308	155,531	40,104,307	42,638,779
Excess (deficiency) of revenues over expenditures	2,920,391	(584,578)	(251,274)	(155,531)	1,929,008	(541,375)
Other financing sources (uses)						
Proceeds from bonds and notes	-	-	-	10,007,653	10,007,653	11,390,000
Debt service (refunded bonds and notes)	-	-	-	(9,852,122)	(9,852,122)	(5,796,411)
Transfers from other funds	-	-	1,500,000	-	1,500,000	1,300,000
Transfers to other funds	(1,545,360)	(1,155)	(67,436)	-	(1,613,951)	(1,347,775)
Net change in fund balances	1,375,031	(585,733)	1,181,290	-	1,970,588	5,004,439
Fund balances - beginning	4,517,983	1,127,475	3,279,685	-	8,925,143	3,920,704
Fund balances - ending	$ 5,893,014	$ 541,742	$ 4,460,975	$ -	$ 10,895,731	$ 8,925,143

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, 2012

Total net change in fund balances - Governmental funds		$ 1,970,588
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	$ 814,931	
Depreciation expense	(2,040,729)	(1,225,798)
Payments of bond and note principal are presented as expenditures in the governmental funds. The principal repayment reduces the liability for bonds and notes payable in the statement of net assets.		12,390,640
Bond and note proceeds are presented as other financing sources in the governmental funds. They are shown as liabilities in the statement of net assets. During the year, the 2011 Series of bonds were issued.		(9,800,000)
Bond issuance costs, bond discounts and premiums, and the difference between new bonds and any related refunded bonds are presented as expenditures in the governmental funds. During the year, costs incurred and amortization expense are as follows:		
Bond issuance costs incurred	155,531	
Bond premiums received	(207,653)	
Amortization expense	(81,702)	(133,824)
Because some taxes will not be collected until several months after the end of the fiscal year, they are not considered as available revenues in the governmental funds. Deferred tax revenues increased (decreased) during the year as follows:		
Real estate taxes	(44,000)	
Earned income taxes	(515,000)	
Personal taxes	4,000	(555,000)
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.		56,200
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.		(144,867)
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 decreased during the year.		37,200
Change in net assets - Governmental activities		$ 2,595,139

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

BIG SPRING SCHOOL DISTRICT

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2012

(With Summarized Financial Information for June 30, 2011)

	Food Service	
	2012	2011
Assets		
Cash and cash equivalents	$ 389,309	$ 304,776
Due from other governments	7,126	3,392
Other receivables	6,308	279
Inventories	14,581	29,886
Total current assets	417,324	338,333
Furniture and equipment (net of accumulated depreciation)	499,101	502,093
Total assets	$ 916,425	$ 840,426
Liabilities		
Accounts payable	$ 257	$ 2,890
Payroll and benefits payable	1,103	2,204
Due to other funds	95,498	4,750
Deferred revenues	17,264	16,192
Current portion of compensated absences	1,246	7,000
Total current liabilities	115,368	33,036
Long-term portion of compensated absences	-	21,425
Total liabilities	115,368	54,461
Net assets		
Invested in capital assets (net of related debt)	499,101	502,093
Unrestricted	301,956	283,872
Total net assets	801,057	785,965
Total liabilities and net assets	$ 916,425	$ 840,426

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

BIG SPRING SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012
(With Summarized Financial Information for the Year Ended June 30, 2011)

	Food Service	
	2012	2011
Operating revenues - Food service revenue	$ 727,113	$ 806,467
Operating expenses		
Salaries	458,276	487,986
Employee benefits	202,451	212,723
Purchased property service	62,000	66,000
Food and milk	518,903	558,073
Other expenses	28,321	8,730
Depreciation	71,583	71,497
Total operating expenses	1,341,534	1,405,009
Operating income (loss)	(614,421)	(598,542)
Nonoperating revenues		
Earnings on investments	47	142
State sources - social security and retirement subsidies	26,850	31,855
State sources - meal subsidies	39,372	42,239
Federal sources - meal subsidies	390,758	398,839
Federal sources - donated commodities	58,535	64,384
Total nonoperating revenues	515,562	537,459
Income (loss) before transfers	(98,859)	(61,083)
Transfers from other funds	113,951	47,775
Changes in net assets	15,092	(13,308)
Net assets - beginning	785,965	799,273
Net assets - ending	$ 801,057	$ 785,965

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, 2012

(With Summarized Financial Information for the Year Ended June 30, 2011)

	Food Service	
	2012	2011
Operating activities		
Cash received from users	$ 722,156	$ 805,394
Cash payments to employees for services	(689,007)	(708,788)
Cash payments to suppliers for goods and services	(538,017)	(549,533)
Net cash provided by (used for) operating activities	(504,868)	(452,927)
Non-capital financing activities		
State sources	65,952	74,285
Federal sources	387,294	400,704
General Fund advances (Due to other funds)	90,748	4,520
General Fund contributed services	45,360	47,775
Net cash provided by (used for) non-capital financing activities	589,354	527,284
Capital and related financing activities		
Capital Projects Fund for equipment	1,155	-
Capital Reserve Fund for equipment	67,436	-
Cash payments for equipment	(68,591)	-
Net cash provided by (used for) capital and related financing activities	-	-
Investing activities		
Earnings on investments	47	142
Net cash provided by (used for) investing activities	47	142
Net change in cash and cash equivalents	84,533	74,499
Cash and cash equivalents - beginning	304,776	230,277
Cash and cash equivalents - ending	$ 389,309	$ 304,776
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	$ (614,421)	$ (598,542)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	71,583	71,497
Donated commodities	58,535	64,384
Net change in other assets and other liabilities		
Other receivables	(6,029)	75
Inventories	15,305	15,996
Accounts payable	(2,633)	2,890
Payroll and benefits payable	(1,101)	321
Deferred revenues	1,072	(1,148)
Compensated absences	(27,179)	(8,400)
Total adjustments	109,553	145,615
Net cash provided by (used for) operating activities	$ (504,868)	$ (452,927)

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

BIG SPRING SCHOOL DISTRICT

STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

JUNE 30, 2012

(With Summarized Financial Information for June 30, 2011)

	Student Activities	
	2012	2011
Assets		
Cash and cash equivalents	$ 176,288	$ 179,035
Investments	10,000	-
Total assets	$ 186,288	$ 179,035
Liabilities		
Due to student groups	$ 186,288	$ 179,035
Total liabilities	186,288	179,035
Net assets	-	-
Total liabilities and net assets	$ 186,288	$ 179,035

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 assets 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 assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation and amortization are charged as an expense against current operations. Capital assets (net of accumulated depreciation) and bonds payable (net of unamortized costs) are presented in the statement of net assets.

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 deferred 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. During the year these programs increased both revenues and expenditures of the original budget by $ 171,093.

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 in the applicable governmental activities or proprietary fund statement of net assets. Refunding costs and bond discounts are amortized over the life of the bonds using the effective interest method. Bond issuance costs are presented as deferred charges and amortized over the term of the related debt.

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 assets

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

Invested in capital assets (net of related debt) - This category presents all capital assets into one component of net assets. 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 assets 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. 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.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Recent accounting standards

There are several GASB pronouncements that will become effective for future reporting periods. Of the pronouncements effective for the year ending June 2013, the District does not currently anticipate any significant impact on the District's financial statements.

GASB Statement No. 63, effective for the year ending June 2013, is to improve 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. This pronouncement will impact terminology and presentation of the Statement of Net Assets (page FS-1).

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 Assets (page FS-1), the Statement of Activities (page FS-2), and the Pension Plan disclosures in the Notes to Financial Statements. The District has not yet determined what effect GASB 68 will have on the District's financial statements.

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, 2011, 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 25, 2012, 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.

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

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, 2012, the District's deposits totaled $ 10,347,977 and the depository institution balances totaled $ 10,968,664. Of the depository institution balances, $ 9,256,446 was covered by federal deposit insurance and $ 1,712,218 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, 2012, District deposits in PSDLAF and PLGIT totaled $ 2,416,155 and $ 24,842, respectively.

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	$ 3,399,109	$ 8,205,000
Governmental activities - restricted for capital projects	109,268	500,000
Business-type activities	389,309	-
Fiduciary funds	176,288	10,000
	$ 4,073,974	$ 8,715,000

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)	Deferred Tax Revenue
Real estate taxes	$ 824,666	$ 666	$ 824,000	$ 574,000
Earned income taxes	1,250,000	-	1,250,000	1,250,000
Personal taxes	22,209	11,209	11,000	11,000
General Fund	2,096,875	11,875	2,085,000	1,835,000
Full accrual adjustment	-	-	-	(1,835,000)
Governmental activities	$ 2,096,875	$ 11,875	$ 2,085,000	$ -

DUE FROM/TO OTHER FUNDS AND INTERFUND TRANSFERS

Interfund balances are as follows:

	Assets	Liabilities	
Capital Reserve Fund	$ 1,500,000	$ 1,500,000	General Fund
General Fund	95,498	95,498	Food Service Fund

Interfund transfers were as follows:

	Other financing sources	Other financing uses	
Capital Reserve Fund	$ 1,500,000	$ 1,500,000	General Fund
Food Service Fund	45,360	45,360	General Fund
Food Service Fund	1,155	1,155	Capital Projects Fund
Food Service Fund	67,436	67,436	Capital Reserve Fund

DUE FROM OTHER GOVERNMENTS

Due from other governments are as follows:

	Governmental Activities	Business-type Activities
Local sources – earned income taxes	$ 692,086	$ -
Local sources – IDEA - B grants	303,830	-
Local sources – other districts	220,704	-
Local sources – other items	84,346	-
State sources	618,916	543
Federal sources	118,724	6,583
	$ 2,038,606	$ 7,126

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	73,055,382	567,742	-	73,623,124
Furniture and equipment	3,104,799	150,666	(31,262)	3,224,203
Library books	2,308,721	-	-	2,308,721
Technology equipment	4,880,062	96,523	-	4,976,585
	83,348,964	814,931	(31,262)	84,132,633
Accumulated depreciation				
Buildings and improvements	(21,984,308)	(1,764,990)	-	(23,749,298)
Furniture and equipment	(2,085,455)	(129,301)	31,262	(2,183,494)
Library books	(2,077,848)	-	-	(2,077,848)
Technology equipment	(4,365,260)	(146,438)	-	(4,511,698)
	(30,512,871)	(2,040,729)	31,262	(32,522,338)
Capital assets being depreciated, net	52,836,093	(1,225,798)	-	51,610,295
Governmental activities capital assets, net	$ 53,822,917	$ (1,225,798)	$ -	$ 52,597,119
Business-type activities				
Capital assets being depreciated				
Furniture and equipment	$ 1,568,486	$ 68,591	$ -	$ 1,637,077
Accumulated depreciation				
Furniture and equipment	(1,066,393)	(71,583)	-	(1,137,976)
Capital assets being depreciated, net	502,093	(2,992)	-	499,101
Business-type activities capital assets, net	$ 502,093	$ (2,992)	$ -	$ 499,101

CAPITAL ASSETS (Cont'd.)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
Instruction	$ 1,624,358
Instructional student support	178,283
Administrative and financial support	79,237
Operation and maintenance of plant	99,046
Student activities	59,805
	$ 2,040,729
Business-type activities - Food service	$ 71,583

DEFERRED REVENUES

Governmental funds present deferred revenue in connection with receivables for revenues that are not considered to be available to pay liabilities of the current period. Governmental funds also defer revenue recognition with resources that have been received, but not yet earned. Deferred revenues in the General Fund of $ 1,841,578 consists of $ 1,835,000 taxes receivable not received within 2 months of the end of the fiscal period, and $ 6,578 of deferred revenue on a local grant.

Deferred revenues in proprietary funds and district-wide financial statements represent resources that have been received but not yet earned.

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	$ 38,247,909	$ 9,800,000	$ (12,390,640)	$ 35,657,269	$ 3,140,736
Compensated absences	715,100	1,490	(38,690)	677,900	100,000
Other post employment benefits	408,123	474,948	(330,081)	552,990	300,000
	$ 39,371,132	$ 10,276,438	$ (12,759,411)	$ 36,888,159	$ 3,540,736
Business-type activities					
Compensated absences	$ 28,425	$ 4,753	$ (31,932)	$ 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 Refunding	Scheduled Redemptions	Ending Balance
1999 Series	$ 2,400,000	$ -	$ (300,000)	$ 2,100,000
2001 Series	625,000	-	(625,000)	-
2003 Series	12,455,000	-	(1,095,000)	11,360,000
2006 Series	9,660,000	(9,660,000)	-	-
2006 Notes (energy savings project)	4,242,909	-	(195,640)	4,047,269
2010 Series	8,865,000	-	(475,000)	8,390,000
2011 Series	-	9,800,000	(40,000)	9,760,000
	$ 38,247,909	$ 140,000	$ (2,730,640)	$ 35,657,269

In July 2011, the District issued its 2011 Series of bonds, which is summarized as follows:

Amount of 2011 Series of bonds	$ 9,800,000
Premiums received on 2011 Series	207,653
Payoff 2006 Series of bonds	(9,660,000)
Interest paid on the 2006 Series	(192,122)
Transaction costs incurred	(155,531)
Amount available to the District	$ -

	Interest Rates	Maturity Date	Callable Date	Due Within One Year
1999 Series	(1)	December 2017	45 days notice	$ 315,000
2003 Series	3.65% to 5.00%	April 2023	April 2013	1,150,000
2006 Notes	3.95%	December 2021	Annually, with fees	225,736
2010 Series	2.00% to 3.00%	June 2022	December 2015	490,000
2011 Series	2.00% to 4.00%	February 2021	August 2016	960,000
				$ 3,140,736

(1) The 1999 Series pays interest at a variable rate of 1.45% above the "weekly rate", not to exceed 25.00%. At June 2012 the "weekly rate" was 0.23%.

LONG-TERM LIABILITIES (Cont'd.)

Bonds and notes payable (Cont'd.)

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

Year Ending June	Principal	Interest	Total
2013	$ 3,140,736	$ 1,203,192	$ 4,343,928
2014	3,288,151	1,092,881	4,381,032
2015	3,433,030	988,276	4,421,306
2016	3,575,532	887,815	4,463,347
2017	3,505,823	760,319	4,266,142
2018-2022	17,913,997	1,989,563	19,903,560
2023	800,000	35,200	835,200
	$ 35,657,269	$ 6,957,246	$ 42,614,515

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, $ 14,950 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.

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 shall provide for continuance of health care insurance after retirement until age 65. The retiree will pay the monthly premiums, except that teachers who retire after 30 or more years with the District, shall have up to five years of health care insurance benefits provided on the basis of the District paying 50% of the cost of the single employee only coverage plan.

LONG-TERM LIABILITIES (Cont'd.)

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

Plan description (Cont'd.)

Retired administrators, and classified employees hired prior to July 2007, receive the same benefit as described above. Classified employees hired after June 2007 must pay the entire premium.

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 beneficiaries results in what is known as an "implicit rate subsidy," which creates an additional cost to the District.

Participant information	
Active participants	360
Vested former members	6
Retired participants	68
	434

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 employer. The ARC represents the amount needed to fund the cost of benefits attributed to the current year, plus an amortized portion of the unfunded actuarial accrued liability (UAAL). The District uses an amortization method which results in the UAAL being amortized over a remaining period of 26 years.

LONG-TERM LIABILITIES (Cont'd.)

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

Annual OPEB cost and net OPEB obligation (Cont'd.)

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

Employer normal cost	$ 252,524
Amortization of unfunded actuarial accrued liability	229,113
Annual required contribution	481,637
Interest on the net OPEB obligation	18,366
Adjustment to the ARC	(25,055)
Annual OPEB cost	474,948
Contributed to the plan	(330,081)
Increase in net OPEB obligation	144,867
Net OPEB obligation - beginning	408,123
Net OPEB obligation - end	$ 552,990

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 2012	$ 474,948	69.50%	$ 552,990

Funding status and funding progress

The actuarial accrued liability (AAL) for OPEBs as of July 2010 was $ 3,732,005. 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 2010	$ -	$ 3,732,005	$ 3,732,005	0.00%	$16,852,109	22.15%

LONG-TERM LIABILITIES (Cont'd.)

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

Actuarial assumptions and methods

Actuarial assumptions and methods used in the July 2010 actuarial valuation include the following:

Interest rate	4.50%
General inflation rate	3.00%
Health care cost trend rate	6.5% in 2012 decreasing by 0.5% per year to 5.5% in 2014. Rates gradually decrease from 5.3% in 2015 to 4.2% in 2019 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 (26 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 employer 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.

The required schedule of funding progress in the other required supplementary information (ORSI) immediately following the notes to financial statements, is to present 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. Additionally, because the June 2009 year was the implementation year of GASB 45, the OPEB disclosure standards were implemented prospectively; therefore, the ORSI does not reflect similar information for three consecutive valuations.

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 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 PO Box 125, Harrisburg, PA 17108-0125, 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 qualified 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 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%.

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 2012 the employer contribution rate was 8.65 percent of covered payroll, composed of 8.00 percent for pension benefits and 0.65 percent for healthcare insurance premium assistance. District contributions to the system for years ended June 2012, 2011 and 2010 were $ 1,610,064, $ 1,035,670, and $ 867,260, 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		$ 1,422,912
Payments from the District and its retirees		4,169,018
Benefit claims paid by the trust	$ (4,232,324)	
Administrative and other fees, net of interest earned	(218,285)	
Stop loss premiums	(79,165)	
		(4,529,774)
Cash balance in the trust - ending		1,062,156
District accrual for health insurance benefits		250,000
Amount available for benefit claims		$ 1,312,156

The amount available for benefit claims was as follows:

Accrual for benefit claims	$ 712,581
Accrual for administrative and other fees	49,575
Accrual for health insurance coverage on payroll payable	550,000
Amount available for benefit claims	$ 1,312,156

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.

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.

RISK MANAGEMENT (Cont'd.)

Other insurance (Cont'd.)

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 FUND BALANCE

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

Pension plan rate increases	$ 954,000
Health insurance	350,000
Technology	400,000
Special education	250,000
	$ 1,954,000

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.

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

In August 2012 the District authorized the issuance of Bonds in the amount up to $ 18,455,000. The Bonds may be issued in one or more series during the 2012 and 2013 calendar years. The purpose of the Bonds is to refund/restructure the District's outstanding 2003 Bonds and 2006 Notes, and take advantage of favorable interest rates.

As of the date of this report, the 2012 Series Bonds are scheduled to settle on October 31, 2012. These Bonds, rated AA-, have interest rates ranging from 0.35% up to 2.00% with a final maturity of April 1, 2023. The 2012 Bonds were successful in refunding/restructuring a portion of the 2003 Bonds and the 2006 Notes. Overall, the District will save on average $ 397,000 ($ 302,000 Net of State Reimbursement) annually over the next nine years. The 2023 debt service will increase by approximately $ 3,000,000. Overall, the net savings per the 2012 Bond structure was $ 656,817 ($ 330,376 Net of State Reimbursement).

BIG SPRING SCHOOL DISTRICT

BUDGETARY COMPARISON INFORMATION - GENERAL FUND

YEAR ENDED JUNE 30, 2012

	Budget Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Local sources - taxes	$ 23,281,367	$ 23,281,367	$ 24,503,258	$ 1,221,891
Local sources - other	1,167,000	1,167,000	1,171,742	4,742
State sources	15,247,026	15,418,119	15,786,209	368,090
Federal sources	593,310	593,310	563,829	(29,481)
Total revenues	40,288,703	40,459,796	42,025,038	1,565,242
Expenditures				
Regular programs	15,497,008	15,915,580	15,914,800	780
Special programs	6,052,939	6,542,239	6,527,742	14,497
Vocational programs	706,817	626,817	626,270	547
Other instructional programs	131,728	103,258	101,402	1,856
Higher education programs	-	2,720	2,720	-
Pupil personnel	820,329	931,879	930,098	1,781
Instructional staff	1,221,743	1,358,147	1,353,914	4,233
Administration	1,986,390	2,179,376	2,176,606	2,770
Pupil health	426,546	431,146	430,161	985
Business	449,736	404,486	381,867	22,619
Operation and maintenance of plant	4,077,266	3,741,167	3,471,510	269,657
Student transportation	2,419,452	2,412,852	2,405,809	7,043
Central services	123,200	58,884	48,974	9,910
Other support services	30,000	30,000	27,132	2,868
Student activities	826,105	805,674	778,444	27,230
Community services	32,000	28,823	27,967	856
Debt service (principal and interest)	4,640,800	4,103,446	3,899,231	204,215
Refund of prior years revenues	-	-	-	-
Total expenditures	39,442,059	39,676,494	39,104,647	571,847
Excess (deficiency) of revenues over expenditures	846,644	783,302	2,920,391	2,137,089
Other financing sources (uses)				
Transfers to other funds	(646,644)	(639,144)	(1,545,360)	(906,216)
Budgetary reserve	(200,000)	(144,158)	-	144,158
Net change in fund balance	-	-	1,375,031	1,375,031
Fund balance - beginning	2,969,191	2,969,191	4,517,983	1,548,792
Fund balance - ending	$ 2,969,191	$ 2,969,191	$ 5,893,014	$ 2,923,823

BIG SPRING SCHOOL DISTRICT

OTHER POST EMPLOYMENT BENEFIT PLANS

JUNE 30, 2012

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 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.

Because the June 2009 year was the implementation year for GASB 45, and the District chose to implement prospectively, the above illustration does not reflect similar information for three consecutive valuations.