

Single Audit or Program-Specific Audit Reporting Package Checklist

Subrecipient Name:	SHAMOKIN AREA SCHOOL DISTRICT	
Fiscal Year End:	06/30/2013	Format: MM/DD/YYYY
Address:	2000 WEST STATE STREET	
	COAL TOWNSHIP, PA 17866-2707	
Contact Name:	KAREN COLANGELO	
Contact Title:	BUSINESS MANAGER	
Contact Number:	(570) 648-5752	Format: (XXX)XXX-XXXX

The subrecipient who qualifies to submit a complete **Single Audit Reporting Package** must include the following essential elements:

- ☒ Independent Auditor's Report on the financial statements
- ☒ Financial statements and notes to the financial statements
- ☒ Independent Auditor's Report on the Schedule of Expenditures of Federal Awards (SEFA)
- ☒ Schedule of Expenditures of Federal Awards (SEFA)
- ☒ A report on compliance & internal control at the financial statement level in accordance with Government Auditing Standards
- ☒ A report on compliance & internal control at the federal level in accordance with OMB Circular A-133
- ☒ Schedule of Findings and Questioned Costs
- ☐ Summary Schedule of Prior Audit Findings (if applicable)
- ☒ Corrective Action Plan (if applicable)
- ☒ Data Collection Form
- ☐ Management Letter (if applicable)

The subrecipient who qualifies to submit a complete **Program-Specific Audit Reporting Package** must include the following essential elements:

- ☐ Independent Auditor's Report on the federal program's financial statements or the federal program's SEFA
- ☐ Financial statements or SEFA of the federal program and notes to the program's financial statements or SEFA
- ☐ A report on compliance & internal control related to the federal program
- ☐ Schedule of Findings and Questioned Costs
- ☐ Summary Schedule of Prior Audit Findings (if applicable)
- ☐ Corrective Action Plan (if applicable)
- ☐ Data Collection Form
- ☐ Management Letter (if applicable)

Print Checklist

OMB No. 0348-0057		U.S. Dept. of Comm. - Econ and Stat Admin. - U.S. Census Bureau	
09/17/2013		ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET	
GENERAL INFORMATION		REPORTID: 584125 VERSION:1	
1. Fiscal Period End Date		2. Type of Circular A-133 Audit	
6/30/2013		Single Audit	
3. Audit Period Covered		If Audit Period Other, Number of months	
Annual			
4. Auditee Identification Numbers		d. Auditee Data Universal Numbering System (DUNS) Number	
a. Auditee Employer Identification Number (EIN)			
23-1654594			
b. Are multiple EINS covered in this report?		e. Are multiple DUNS covered in this report?	
No		No	
If Yes, the additional EINS are listed on		If Yes, the additional DUNS are listed on	
Additional EINS		Additional DUNS	
5. AUDITEE INFORMATION		6. PRIMARY AUDITOR INFORMATION	
a. Auditee Name		a. Audit Firm / Organization Name	
SHAMOKIN AREA SCHOOL DISTRICT		JONES & CO PC CPAS	
		b. Audit Firm / Organization EIN	
		23-2746883	
b. Auditee Address (Number and street)		c. Audit Firm / Organization Address (Number and street)	
2000 WEST STATE STREET		110 NORTH SECOND STREET	
Auditee City		Auditor Firm/Organization City	
COAL TOWNSHIP		POTTSVILLE	
Auditee State		Auditor Firm/Organization State	
PA		PA	
Auditee ZIP Code		Auditor Firm/Organization ZIP Code	
17866-2707		17901	
c. Auditee Contact Name		d. Primary Auditor Name	
KAREN COLANGELO		RICHARD W PITCAVAGE	
Auditee Contact Title		Primary Auditor Title	
BUSINESS MANAGER		CPA-DIRECTOR	
d. Auditee Contact Telephone		e. Primary Auditor Contact Telephone	
(570)648-5752		(570)622-5010	
e. Auditee Contact Fax		f. Primary Auditor Contact Fax	
(570)648-2592		(570)622-3283	
f. Auditee Contact E-mail		g. Primary Auditor Contact E-mail	
KCOLANGELO@INDIANS.K12.PA.US		RICHPI@PTD.NET	
		7. Was a secondary auditor used?	
		No	
		8. If Yes, the additional auditors are listed on	
		Secondary Auditors	

FINANCIAL STATEMENTS SUMMARY

1.Type of audit report

Unmodified

2. Is a 'going concern' emphasis-of-matter paragraph included in the audit report?

No

3.Is a significant deficiency disclosed?

No

4.Is a material weakness disclosed?

No

5.Is a material noncompliance disclosed?

No**FEDERAL PROGRAMS SUMMARY**

1.Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide)

No

2.What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))

\$300,000

3.Did the auditee qualify as a low-risk auditee? (§.530)

Yes

4.Were Prior Audit Findings related to direct funding shown in the Summary Schedule of Prior Audit Findings? (§.315(b))

No5.Indicate which Federal agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding.**None**

Form SF-SAC Single Audit Data Collection Form												REPORTID: 584125	VERSION:1
6. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR													
Federal Agency Prefix 1		Extension 2	Federal Program Name	Amount Expended	R&D	Loan/Loan Guarantee	ARRA 3	Direct Award	Major Program (MP)	If yes (MP), type of audit report 4	Number of Audit Findings		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)			
84	010	ESEA TITLE I	\$1,669,645	N	N	N	N	N			0		
84	298	RURAL AND LOW INCOME SCHOOLS	\$87,875	N	N	N	N	N			0		
84	367	ESEA TITLE IIA	\$218,283	N	N	N	N	N			0		
84	027	IDEA B	\$469,865	N	N	N	N	N			0		
84	413	RACE TO THE TOP - ARRA	\$42,927	N	N	Y	N	N			0		
84	173	IDEA SECTION 619	\$5,083	N	N	N	N	N			0		
93	778	MEDICAL ASSISTANCE ADMINISTRATIVE REIMBURSEMENT	\$13,352	N	N	N	N	N			0		
10	555	AFTER SCHOOL SNACKS	\$2,786	N	N	N	N	Y	Unmodified		0		
10	553	REGULAR/NEEDY BREAKFAST	\$158,879	N	N	N	N	Y	Unmodified		0		
10	559	SUMMER FOOD PROGRAM	\$7,324	N	N	N	N	Y	Unmodified		0		
10	555	NATIONAL SCHOOL LUNCH	\$676,888	N	N	N	N	Y	Unmodified		2		
10	555	COMMODITIES	\$57,348	N	N	N	N	Y	Unmodified		0		
Total Federal Awards Expended:			\$3,410,255										

Form SF-SAC Single Audit Data Collection Form						REPORTID: 584125 VERSION:1			
7. FEDERAL AWARD FINDINGS									
Federal Agency Prefix	Extension	Federal Program Name	Audit Finding Reference Number	Type(s) of Compliance Requirement(s) ¹	Compliance Findings ²	Internal Control Findings ²	Other Findings ²	Questioned Costs	
(a)	(b)	(c)	(d)	(e)	Modified Opinion	Material Weakness	Significant Deficiency	(f)	(g)
10 555	NATIONAL SCHOOL LUNCH	2013-1	N	N	Y	N	N	N	Y
10 555	NATIONAL SCHOOL LUNCH	2013-2	N	N	Y	N	N	N	N
1 Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material									
2 There are 9 valid combinations of 'Compliance Findings,' 'Internal Control Findings,' and 'Other Findings' for each Federal program with findings. (See in									

[illegible]

Form SF-SAC Single Audit Data Collection Form	REPORTID: 584125 VERSION:1
PART I, Item 4c. AUDITEE EIN CONTINUATION SHEET (FROM PART I, ITEM 4b)	

Additional EINs

Form SF-SAC Single Audit Data Collection Form	REPORTID: 584125 VERSION:1
PART I, Item 4f. AUDITEE DUNS CONTINUATION SHEET (FROM PART I, ITEM 4e)	

Additional DUNS

Form SF-SAC Single Audit Data Collection Form										REPORTID: 584125		VERSION:1									
PART I, Item 8, SECONDARY AUDITORS' CONTACT INFORMATION																					
Auditor Firm Name (a)		Auditor EIN (b)		Auditor Address (c)		City (d)		State (e)		ZIP Code (f)		Contact Name (g)		Contact Title (h)		Contact Phone (i)		Contact Fax (j)		Contact E-mail (k)	

CERTIFICATIONS

Auditee Certification Statement	Auditor Statement
<p>This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.</p>	<p>The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. Except for Part III, Items 4, 5, 6a-6h, and, when audit findings are reported, 7a-7c, the information included in Parts II and III of this form was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.</p>
Auditee Certification	Auditor Statement
ELECTRONICALLY CERTIFIED: 2/26/2014	ELECTRONICALLY CERTIFIED: 2/25/2014
Name of certifying official	
KAREN COLANGELO	
Title of certifying official	
BUSINESS MANAGER/FPC	

¹ The letters entered in the 'Type(s) of Compliance Requirements' field apply to audit findings (i.e., noncompliance, significant deficiency (including questioned costs, fraud, and other items reported under §_510(a)) reported for each Federal program:

- A. Activities Allowed or Unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis-Bacon Act
- E. Eligibility
- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds
- I. Procurement and suspension and debarment
- J. Program income
- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions
- O. None (2008 through 2012 Only)
- P. Other

SHAMOKIN AREA SCHOOL DISTRICT
SINGLE AUDIT REPORT
COAL TOWNSHIP, PENNSYLVANIA
FOR THE YEAR ENDED JUNE 30, 2013

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JONES & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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Board of School Directors
Shamokin Area School District
Coal Township, Pennsylvania

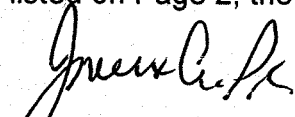
We have performed the Single Audit of the Shamokin Area School District for the fiscal year ended June 30, 2013 and have enclosed the Single Audit reporting package.

The reporting packages must be submitted no later than 30 days after you receive our Single Audit Report but no later than nine months after your year end (March 31, 2014).

The Single Audit was done to fulfill the requirements of the OMB Circular A-133. It entailed: (1) an audit of the general purpose financial statements and our opinion thereon; (2) an examination of schedule of expenditures of federal awards and our opinion thereon, (3) a review of the internal control structure based solely on the understanding obtained as part of the audit of the general purpose financial statements; (4) a review of the internal control structure made as a part of the audit of the major federal programs; (5) a review of compliance based on an audit of the general purpose financial statements in accordance with Government Auditing Standards; and (6) a review of compliance with laws and regulations related to the major federal programs and our opinion thereon.

As part of our report, we have not enclosed a management letter for the fiscal year ended June 30, 2013.

When filing the Single Audit Report and Data Collection form with the appropriate agencies listed on Page 2, the District must enclose the appropriate number of reports as listed.



December 13, 2013
Pottsville, Pennsylvania

SHAMOKIN AREA SCHOOL DISTRICT

LIST OF REPORT DISTRIBUTION

JUNE 30, 2013

- | | |
|---|--|
| 1 Single Audit Report,
Data Collection Form and
Single Audit Reporting
Package Checklist | Must be submitted Via Electronic
Mail (E-mail)
Commonwealth of Pennsylvania
Office of the Budget - Bureau of
Audits, Special Audit Services
Division
<u>RA-BOASingleAudit@state.pa.us</u> |
| 1 Single Audit Report and
Data Collection Form | Federal Audit Clearinghouse
Via Internet Website
<u>www.harvester.census.gov/sac</u> |
| 1 Single Audit Report | Prothonotary Office
Northumberland County Courthouse
Sunbury, PA |

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Shamokin Area School District
Coal Township, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Shamokin Area School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Shamokin Area School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10-26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

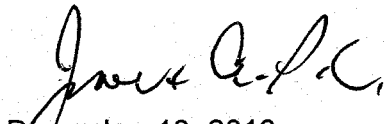
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shamokin Area School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013, on our consideration of the Shamokin Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Shamokin Area School District's internal control over financial reporting and compliance.



December 13, 2013
Pottsville, Pennsylvania

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of School Directors
Shamokin Area School District
Coal Township, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Shamokin Area School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Shamokin Area School District's basic financial statements, and have issued our report thereon dated December 13, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Shamokin Area School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Shamokin Area School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Shamokin Area School District's internal control.

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

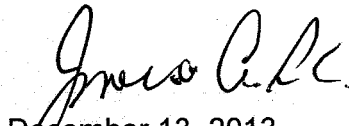
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Shamokin Area School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



December 13, 2013
Pottsville, Pennsylvania

JONES & CO.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of School Directors
Shamokin Area School District
Coal Township, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Shamokin Area School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Shamokin Area School District's major federal programs for the year ended June 30, 2013. The Shamokin Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Shamokin Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Shamokin Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Shamokin Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Shamokin Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-1 and 2013-2. Our opinion on each major federal program is not modified with respect to these matters.

The Shamokin Area School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Shamokin Area School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

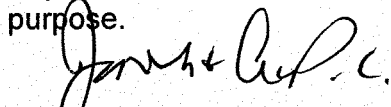
Report on Internal Control over Compliance

Management of the Shamokin Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Shamokin Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Shamokin Area School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



December 13, 2013
Pottsville, Pennsylvania

SHAMOKIN AREA SCHOOL DISTRICT
COAL TOWNSHIP, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2013

The discussion and analysis of Shamokin Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

During the fiscal year 2012-2013, the Shamokin Area School District experienced another year of significant increases in the costs for labor and instruction and diminished state support as compared to recent years. However, the most significant expenditure was the cost for rental of classrooms at Northwestern Academy which totaled \$1,310,921.15, approximately \$606,813.15 over budget. Consequently, in the budgeting process, the Board of School Directors balanced the budget by utilizing the general fund, fund balance.

USING THE ANNUAL FINANCIAL REPORT (AFR)

This annual report consists of two distinct series of financial statements: district-wide and fund.

The first two statements (district-wide) are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

The remaining statements (fund) focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how general District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like a business. For this District, this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

Figure A-1
Required Components of
Shamokin Area School District's
Financial Report

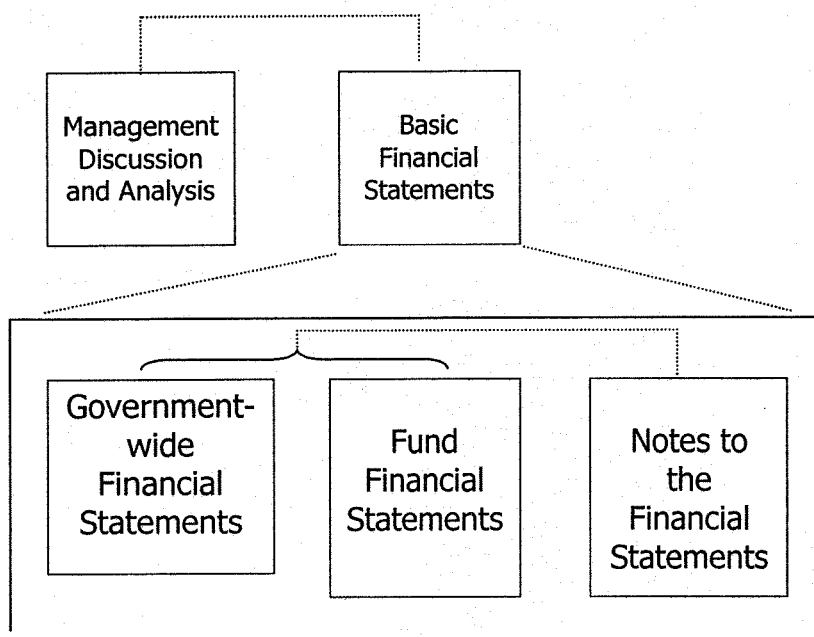


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the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

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

		Fund Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the District operates similar to private business – Food Services	Instances in which the District is the trustee or agent to someone else's resources – Scholarship Funds
Required financial statements	Statement of Net Position (NAGW) Statement of Activities (SOA)	Balance Sheet (NAG) Statement of Revenues, Expenditures, and Changes in Fund Balance (REG)	Statement of Net Position (NAP) Statement of Revenues, Expenses, and Changes in Net Assets (REP) Statement of Cash Flows (CFP)	Statement of Fiduciary Net Assets (NAF) Statement of Changes in Fiduciary Net Assets (CNAF)
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the performance of the students.

The government-wide financial statements of the District are divided into two categories:

- Governmental activities – All of the District's basic services are included here, such as instruction, administration, and community services. Property taxes, state and federal subsidies, and grants finance most of these activities.
- Business type activities –The District operates a food service operation and charges fees to staff, students, and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds – Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds - The District is the trustee, or fiduciary, for some scholarship and agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statement because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net position of \$28,222,954 increased from the prior year net position total of \$26,990,701 as of June 30, 2013. (See Table A-3.)

**Table A-3
Shamokin Area School District
For Years Ended June 30, 2013 and 2012
Net Position**

	Government Activities 2011-2012	Government Activities 2012-2013	Business-Type Activities 2011-2012	Business-Type Activities 2012-2013	Total 2011-2012	Total 2012-2013
Current and other assets	\$22,304,573	\$18,420,592	\$721,316	\$911,514	\$23,025,889	\$19,332,106
Capital assets	16,255,034	18,989,326	47,484	40,002	16,302,518	19,029,328
Total Assets	38,559,607	37,409,918	768,800	951,516	39,328,407	38,361,434
Current and other liabilities	7,876,951	5,788,908	77,675	275,367	7,954,626	6,064,275
Long-term liabilities	4,383,080	4,084,205	0	0	4,383,080	4,084,205
Total Liabilities	12,260,031	9,873,113	77,675	275,367	12,337,706	10,148,480
Invested in capital assets Net of related debt	15,942,267	15,677,051	47,484	40,002	15,989,751	15,717,053
Restricted for Capital Projects	6,449,909	2,819,733	0	0	6,449,909	2,819,733
Other Restrictions	0	0	0	0	0	0
Unrestricted total net position	3,907,400	9,040,021	643,641	646,147	4,551,041	9,686,168
Total Net Position	\$26,299,576	\$27,536,805	\$691,125	\$686,149	\$26,990,701	\$28,222,954

Most of the District's net assets are invested in capital assets (buildings, land, and equipment).

Table A-4
Shamokin Area School District
Change in Net Position
For Years Ended June 30, 2013 and 2012

	Governmental Activities 2011-2012	Governmental Activities 2012-2013	Business-Type Activities 2011-2012	Business-Type Activities 2012-2013	Total 2011-2012	Total 2012-2013
REVENUES:						
Program Revenues						
Charges for Services	0	0	387,877	338,313	387,877	338,313
Operating Grants & Contributions	6,791,176	6,968,805	958,602	956,925	7,749,778	7,925,730
General Revenues						
Property Taxes	2,189,242	2,249,075	0	0	2,189,242	2,249,075
Other Taxes	2,778,720	3,248,765	0	0	2,778,720	3,248,765
State Formula Aid	11,660,326	11,660,093	0	0	11,660,326	11,660,093
Investment Earnings	14,644	44,981	331	173	14,975	45,154
Transfers	0	100,000	0	(100,000)	0	0
Loss on fixed assets	0	0	0	0	0	0
Other	5,622,320	5,304,260	8,045	3,940	5,630,365	5,308,200
Total Revenues	29,056,428	29,575,979	1,354,855	1,199,351	30,411,283	30,775,330
EXPENSES:						
Depreciation – unallocated	603,279	492,485	0	0	603,279	492,485
Instruction	21,106,128	18,209,010	0	0	21,106,128	18,209,010
Instructional Student Support	1,239,818	1,312,264	0	0	1,239,818	1,312,264
Administration	2,597,086	2,711,276	0	0	2,597,086	2,711,276
Operation & Maintenance of Facilities	2,492,437	3,645,187	0	0	2,492,437	3,645,187
Pupil Transportation	1,393,147	1,193,983	0	0	1,393,147	1,193,983
Student Activities	574,946	439,957	0	0	574,946	439,957
Community Services	52,459	5,857	0	0	52,459	5,857
Scholarships and Awards	0	0	0	0	0	0
Capital Acquisition	0	123,440	0	0	0	123,440
Interest on long term debt	146,313	205,291	0	0	146,313	205,291
Food Service	0	0	1,397,031	1,278,955	1,397,031	1,278,955
Total Expenses	30,205,613	28,338,750	1,397,031	1,278,955	31,602,644	29,617,705
INCREASE (DECREASE) IN NET POSITION	(1,149,185)	1,237,229	(42,176)	(79,604)	(1,191,361)	1,157,625

The District's specific revenues as indicated above were 29,575,979 for the year ended June 30, 2013. Taxes and State Formula Aid amounted to \$17,157,933. Another \$6,968,805 came from Operating Grants and Contributions. Food service revenue totaled \$1,199,351 and the remainder came from fees charged for services, investment earnings, and miscellaneous sources. (See Table A-4.)

The total cost of all programs and services was \$28,338,750 for the year ended June 30, 2013. The majority of the District's costs related to educating and servicing students (Instruction, Instructional Student Support, Pupil Transportation, Student Activities), in the amount of \$21,155,214 or 74.7%, Administrative Costs accounted for \$2,711,276 or 9.6%, Operation of the District's Facilities accounted for \$3,645,187 or 12.9%, and Food Service Costs totaled \$1,278,955. (See Table A-4.) In general most of the District's costs are paid for by District taxpayers and taxpayers of the Commonwealth of Pennsylvania. For 2009-10 the district did receive funds through the American Recovery Act, also known as ARRA. This portion of governmental activities was paid for with taxes and state aid based on the statewide education aid formula and with investment earnings and other general revenues.

- Overall, net position increased by \$1,157,625 (See Table A-4.)

Table A-5
Shamokin Area School District
Net Cost of Governmental Activities
For Years Ended June 30, 2012 and 2013

	Total Cost of Services 2011-2012	Total Cost of Services 2012-2013	Percentage Change	Net Cost of Services 2011-2012	Net Cost of Services 2012-2013	Percentage Change
Depreciation – unallocated	\$603,279	492,485	-18.37%	(603,279)	(492,485)	18.37%
Instruction	21,106,128	18,209,010	-13.73%	(15,582,993)	(12,521,859)	-19.64%
Instructional Student Support	1,239,818	1,312,264	5.84%	(996,484)	(1,024,414)	2.80%
Administration	2,597,086	2,711,276	4.40%	(2,540,438)	(2,644,940)	4.11%
Operation & Maintenance of Facilities	2,492,437	3,645,187	46.25%	(2,387,910)	(3,530,053)	47.83%
Pupil Transportation	1,393,147	1,193,983	-14.30%	(557,310)	(404,074)	-27.50%
Student Activities	574,946	439,957	-23.48%	(551,046)	(418,104)	-24.13%
Community Services	52,459	5,857	-88.84%	(48,664)	(5,285)	-89.14%
Interest & Charges on Long-Term Debt	146,313	205,291	40.31%	(146,313)	(205,291)	40.31%
Scholarships/Awards	0	0	0%	0	0	0%
Capital acquisition	0	123,440	-%-		(123,440)	
Refund of prior year revenues	0	0	-%-	0	0	-%-
Total Expenses	\$30,205,613	\$28,338,750	-6.18%	(23,414,437)	(21,369,945)	-8.73%

The results of this year's operations as a whole are reported in the Statement of Activities. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers. (See Table A-5.)

FINANCIAL ANALYSIS OF DISTRICT FUNDS

As of June 30, 2013, the District's governmental funds reported a combined fund balance of \$10,397,702 a decrease of \$2,137,717 from the prior year amount of \$12,535,419. (See Table A-6.) The primary reason for the decrease in all funds is due to the establishment of fund 39, other capital projects and accounting for the bond payable of \$3,842,000. The other factors are specific to two funds:

General Fund:

Overall, the District budgeted adequately for all levels of expenditures. Overall, actual expenditures of \$27,518,024 reflect 96.18% of the original budget estimate of \$28,612,428 or 3.82% of the original budget was not expended. Towards the end of the fiscal year the district historically does not maximize each expenditure line item unless it is deemed necessary. Specifically in this past fiscal year a spending and hiring freeze was implemented to help offset the fiscal crisis.

Total budget revenue totaled \$28,910,232 equating to \$1,584,852 more than the original budget estimate of \$27,325,380.

Actual local revenue exceeded the original budget by \$600,729, largely due to increases in the following: tuition payments for Northwestern Academy, IDEA funding (ARRA), private donations, refunds of prior year expenditures, current earned income tax and delinquent 511 taxes. State revenue was approximately \$614,573 more than originally projected due to increases in subsidy for 1305/1306 students (wards of state), retirement reimbursement and the basic education subsidy. Federal revenue exceeded estimates by \$369,550 due to title one ARRA carryover funds and Title VI funding.

Based on the aforementioned, the district general fund realized an increase of \$1,492,458.

Capital Reserve Fund:

The District established this fund in accordance with Section 1432 of the Pennsylvania Municipal Code and in compliance with the Pennsylvania School Code. It is utilized for unforeseen and various capital expenditures. In 2012-13 the district expended a total of \$613,880 in capital projects, purchases, and improvements throughout the district. For the 2012-13 fiscal year and thereafter, the QZAB debt service will be paid from the capital reserve account.

At the beginning of the fiscal year, the fund balance was \$2,619,077. With all of the capital expenditures and revenue, the ending fund balance totaled \$2,218,711 or a net change in fund balance of (\$400,366).

Table A-6
Shamokin Area School District
Change in Fund Balances
For Years Ended June 30, 2012 and 2013

	Fund Balance June 30, 2012	Fund Balance June 30, 2013	Increase (Decrease)
General Fund	\$6,085,510	\$7,577,968	1,492,458
Capital Reserve Fund	2,619,077	2,218,711	(400,366)
Non-Major Funds	0	0	0
Other Capital Projects Fund 39	3,830,832	601,023	(3,229,809)
Totals	\$12,535,419	\$10,397,702	(\$2,137,717)

Revenues for the District's governmental funds were \$28,910,232 while total expenses were \$27,518,024 yielding a revenue of \$1,392,208. The establishment of fund 39, other capital projects for the QZAB project in the amount of \$4,068,000 contributed to the overall positive change in fund balance in 11-12, however all of the funds are earmarked and will be spent prior to June 30, 2014.

General Fund Budget

During the fiscal year, the Board of School Directors (The Board) may authorize revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law.

The District applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process.

Budgeted expenditures and other financing uses also increased this same amount to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budget reserve category to specific expenditure areas.

The Budgetary Reserve includes amounts that may be funded by designated fund balance for planned opportunities of expenditures for improvements/enhancements to the District operations. The district fund balance has been used to offset past and forecasted future budget deficits but no longer can sustain such action. These amounts will only be appropriated into expenditure categories if the fiscal results of the prior year-end with a positive addition to fund balance, which exceeds the total of these projected expenditures. The Board is using this method of budgeting to control tax increases while also protecting the integrity of the fund balance.

The following provides a summary of General Fund revenues:

Table A-7
Shamokin Area School District
General Fund Revenues
For Years Ended June 30, 2013 and 2012

	Revenues 2011-2012	Revenues 2012-2013	Increase (Decrease)	% Change
Local Sources	10,507,426	10,490,348	(17,078)	-0.16%
State Sources	16,386,990	16,416,548	29,558	0.18%
Federal Sources	2,064,513	2,003,336	(61,177)	-2.96%
Total Revenue	\$28,958,929	\$28,910,232	(48,697)	-0.17%

Total General Fund revenue decreased slightly by \$48,697 or .17% from the previous year. (See Table A-7.)

The following provides a summary of General Fund expenditures:

Table A-8
Shamokin Area School District
General Fund Expenditures
For Years Ended June 30, 2013 and 2012

	Expenditures 2011-2012	Expenditures 2012-2013	Increase (Decrease)	% Change
Salaries	\$11,563,338	\$10,860,712	(702,626)	-6.08%
Employee Benefits	5,766,306	6,153,294	386,988	6.71%
Purchased Professional Services	7,028,080	3,577,125	(3,450,955)	-49.10%
Purchased Property Services	712,170	1,939,448	1,227,278	172.33%
Other Purchased Services	3,615,963	3,539,787	(76,176)	-2.11%
Supplies	1,341,854	955,388	(386,466)	-28.8%
Equipment	58,054	398,258	340,204	586.01%
Dues/Fees/Misc.	116,528	94,011	(22,517)	-19.32%
Other Expenditures	0	0	0	0%
Total Expenditures	\$30,202,293	\$27,518,023	(2,684,270)	-8.89%

Total General Fund expenditures decreased by \$2,684,270 or -8.89% from the previous year. As the district realized decreases in the majority of the line items due to the lack of state funding and impending district fiscal crisis creating the need to implement a spending freeze including retired staff positions. Employees Benefits increased due to increase cost of healthcare and PSERS retirement. Property Service increased due to the lease agreement with Northwestern Academy estimated to be \$1.3 million. Equipment increased due to purchases of computers and technology for classrooms through the Rural and Low Income Grant along with the technology equipment needed for the special education program at Northwestern Academy. (See Table A-8.)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the District had \$19,029,328 in net capital assets, including land, buildings, furniture and equipment. This is an increase based on the total of \$16,302,518 in June of 2012 due to construction at the elementary building (reference table A-9.)

Table A-9
Shamokin Area School District
Capital Assets
For Years Ended June 30, 2013 and 2012

	Governmental Activities 2011-2012	Governmental Activities 2012-2013	Business-Type Activities 2011-2012	Business-Type Activities 2012-2013	Total 2011-2012	Total 2012-2013	% Change
Land	10,353,348	10,353,348	0	0	10,353,348	10,353,348	0.00%
Site Improvements	\$946,397	\$902,359	\$0	\$0	\$946,397	\$902,359	-4.65%
Building and Building Improvements (net of acc dep)	3,771,339	3,371,013	0	0	3,771,339	3,371,013	-10.61%
Furniture and Equipment (net of acc dep)	760,489	644,282	47,484	40,002	807,973	684,284	-15.31%
Debt Issuance	75,599	71,298			75,599	71,298	-5.69%
Construction in Progress	347,862	3,647,026			347,862	3,647,026	948.41 %
Totals	\$16,255,034	\$18,989,326	\$47,484	\$40,002	\$16,302,518	\$19,029,328	16.73%

Debt Administration

As of June 30, 2013 and 2012, the District had total outstanding general obligation debt of \$3,616,000. and \$3,842,000., respectively. The general obligation bond is offered thru the Qualified Zone Academy Bond program funded through ARRA for the elementary renovation project. This project is amortized over eighteen years at near zero percent interest.

Other obligations include accrued vacation pay and sick leave for specific employees of the District and other post employment benefits. More detailed information about our long-term liabilities is included in the financial statements. (See Table A-10.)

The following provides a summary of our Long-Term Liabilities:

Table A-10
Shamokin Area School District
Long-Term Liabilities
For Years Ended June 30, 2013 and 2012

	Year Ending June 30, 2012	Year Ending June 30, 2013	Increase (Decrease)	% Change
General Obligation Bonds	\$3,842,000	\$3,616,000	(226,000)	-6%
Compensated Absences and Other Post Employment Benefits	\$ 541,080	\$ 468,205	(72,875)	-13.47%
Totals	\$4,383,080	\$4,084,205	\$(298,875)	-7%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A major financial issue facing the District again in fiscal year 2012-2013 and in 2013-14 is the funding of the district contractual obligations, specifically salaries and benefits for district staff. The Collective Bargaining agreement with the Shamokin Area Educational Association expires on June 30th, 2013 as well as the agreement with AFSCME who represents the support staff employees. All of the teachers participate in the Central Susquehanna Regional Health Care Trust administered through the CSIU. The annual cost per teacher for the PPO program is based on a composite rate of \$13,764. The traditional indemnity plan is based on a composite rate of \$14,748. The traditional indemnity plan will no longer be available as a plan option beginning January 1, 2014. Therefore these employees will need to select the PPO plan beginning January 1, 2014. The traditional indemnity plan for 6 months and PPO plan for remaining six months annual cost is \$15,648, however less than ten employees have opted for this coverage. The composite rate for 2013-14 is \$1,270 per month or \$15,240 annually representing a 10.7%.

The trust at its December 2012 meeting, discussed the implementation of a tiered structure for pricing based on enrollment. The year one impact would be negligible for the district, however establishes a potential liability and difficulty in budgeting as employees move from single to two party or family coverage. This tier plan will go into effect for the 2014-15 school year. The tiers for the 2014-15 school year will include single, husband & wife, parent & child, parent & children, and family. It is estimated that there may be a 6.5% increase to these costs of the 2013-14 tier costs.

The district approved retirement incentives during 2011-12 that compensates retiring teachers \$10,000 per year into an HRA account for seven years or until age 65. This seven year incentive ends in June, 2018. Although not a financial savings except for year one, for the district, it minimized the amount of furloughs. Support staff employees were given \$500 per year of service as an incentive to retire, however this was a one time only transaction and does not affect any employee in future years.

Our special education, alternative education and most notable, the cyber charter school population appears to be increasing proportionately year after year. As a result, Shamokin Area School District expenses for these programs have increased each school year. The majority of these expenses are out of our control. For fiscal year 2009-10, the district spent \$684,817.20 for cyber charter schools which also was \$451,817.20 over budget. In 2010-11, the cost totaled \$913,283.77 and in 2011-12, the total was \$915,067.69. The 2013-14 budget line item is \$1,200,000. There have been bills introduced to address the funding inequities, however all have died in session.

The majority of the local parochial schools consolidated and relocated their operation to Our Lady of Lourdes High School, which has become a kindergarten to twelfth grade facility. Depending on the future success of this initiative, it may cause some parents to enroll their children in the district. Depending on the actual influx of children, this situation may present some challenges, both physically and financially for the district in the future years.

The agreement between the district and the American Federation of State, County, and Municipal Employees expired in June of 2013. Both parties have started negotiations. The present agreement granted annual increases retroactive to July 1, 2009 as follows, .40, .60, .50, and .40 in 2012. The prior two contracts yielded annual hourly increase of: \$.75, .80, \$.80, \$.60, \$.60, \$.60, \$.60, \$.60, and \$.60. Without a contract in place in the time period between January and June of 2013, the budget was prepared without any increases included, however either the budgetary reserve would be used or the board would need to reopen the budget to allocate the appropriate funds to cover the cost of the contract. For the 2014-15 budget, the district is still in negotiations and has prepared the budget without any increases included.

The District expects its retirement contribution on behalf of its employees to the Pennsylvania School Employees Retirement System (PSERS) to continue increasing in the future. House Bill 2497 was passed on October 14, 2010. This legislation addressed in part, the anticipated increases in PSERS. Specifically, for 2011-12, the employer contribution rate is 8.65%. For 2012-13 the rate is established at 12.36% which would have been 28.71% without this legislation. The rate for 2013-14 is 16.93% and a maximum increase of 4.5% is in place for future years. The estimate for 2014-15 is 21.41%, 2019-20-28.04%, 2024-25-27.51%, 2029-30- 27.29%, 2034-35- 27.18% and 2039-40- 7.90%. There also were changes to the plan for new employees related to retirement age, multiplier, and the vesting period. Although these changes elude the near 30% spike, the increase to 21.41% in 2014-15 presents a significant funding issue for the Commonwealth of Pennsylvania as well as local school districts.

The district is projecting an operating deficit in the range of \$2,000,000 the actual budget figure is \$1,797,587 for 2013-14 however personnel and legal issues have contributed to the estimated increase in the deficit. Act 48 of 2002 prohibited districts from raising taxes if their fund balance exceeded eight percent of their projected expenditures. Thus the district has been unable to raise taxes over the past several years until this past year. The maximum millage increase was 2.6% or .6695 mills. Unfortunately, this only creates roughly \$69,000 in additional revenue. Prior to Act 48, the last district tax increase was in June of 1992. The combination of not raising local real estate taxes, reduced state funding and increased cyber charter school expenditures has contributed to this current financial dilemma. Significant cuts to programs, staff and supplies will continue to be necessary to balance the budget in future years.

House Bill 39 was signed into law as Act 1 of 2008. This legislation outlined rules for slot money distribution, requiring front-end voter referenda on tax shifting, mandating new school district budget practices, and requiring back end voter referenda on future real estate tax increases above an "index" and on building projects. Among other things, Act 1 is designed to provide homeowner real estate tax reductions in varying amounts. Act 1 in conjunction with the reduced state funding may continue to have many collateral consequences for school districts, including negative education program impacts, possible bond downgrade and related borrowing expense, substantial implementation expense and many diverse required actions.

Table A-12
Shamokin Area School District
Employer's Retirement Contributions

Retirement 2009-10	Retirement 2008-2009	Retirement 2007-2008	Retirement 2006-2007	Retirement 2005-2006	Retirement 2004-2005	Retirement 2003-2004	Retirement 2001-2002
4.78%	4.76%	7.13%	6.46%	4.69%	4.23%	3.77%	1.15%

Retirement 2010-11	Retirement 2011-12	Retirement 2012-2013	Retirement 2013-2014	Retirement 2014-2015 - Projected	Retirement 2015-2016 - Projected	Retirement 2016-2017 - Projected	Retirement 2017-2018- Projected
5.64%	8.65%	12.36%	16.93%	21.25%	25.56%	26.26%	26.80%

The percentage of the total budget of revenue and expenditure by category for 2013-2014 as compared to 2012-2013 budget estimates is as follows:

BUDGETED REVENUES

	2012-2013	2013-2014
Local	36.19%	36.30%
State	57.83%	58.31%
Federal/Other	5.98%	5.38%

BUDGETED EXPENDITURES

	2012-2013	2013-2014
Instruction	68.21%	64.61%
Support Services	28.95%	32.79%
Non-Instruction/Community	2.15%	1.98%
Fund Transfers/Other	.69%	0.63%

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, and creditors 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 visit the district website, www.indians.k12.pa.us and click on the link titled "Right to Know" request form or contact Karen Colangelo, Business Manager at Shamokin Area School District, 2000 West State Street, Coal Township PA 17866, (570) 648-5752.

SHAMOKIN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2013

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 9,902,925	\$ 827,769	\$ 10,730,694
Investments	380,625	0	380,625
Taxes receivable, net	2,519,550	0	2,519,550
Intergovernmental receivables	5,617,492	16,132	5,633,624
Inventories	0	16,053	16,053
Other current assets	0	51,560	51,560
TOTAL CURRENT ASSETS	18,420,592	911,514	19,332,106
NON-CURRENT ASSETS			
Debt Issuance Costs - Net of Accumulated Amortization of \$7,166.	71,298	0	71,298
Land	10,353,348	0	10,353,348
Land and site improvements - net of accumulated depreciation	902,359	0	902,359
Building and building improvements - net of accumulated depreciation	3,371,013	0	3,371,013
Furniture and equipment - net of accumulated depreciation	644,282	40,002	684,284
Construction in Progress	3,647,026	0	3,647,026
TOTAL NON-CURRENT ASSETS	18,989,326	40,002	19,029,328
TOTAL ASSETS	37,409,918	951,516	38,361,434
DEFERRED OUTFLOWS OF RESOURCES	0	0	0
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 37,409,918	\$ 951,516	\$ 38,361,434
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable	\$ 632,611	\$ 137,643	\$ 770,254
Accrued salaries and benefits	1,904,897	0	1,904,897
Internal balances	(133,860)	133,860	0
Current portion of long-term debt	251,000	0	251,000
Deferred revenues	0	3,864	3,864
Accrued Interest	68,186	0	68,186
Due to other governments	3,066,074	0	3,066,074
TOTAL CURRENT LIABILITIES	5,788,908	275,367	6,064,275
NON-CURRENT LIABILITIES			
Long-term portion of compensated absences	505,566	0	505,566
Long-term portion of bonds payable	3,616,000	0	3,616,000
Long-term portion of other postemployment benefits	(37,361)	0	(37,361)
TOTAL NON-CURRENT LIABILITIES	4,084,205	0	4,084,205
TOTAL LIABILITIES	9,873,113	275,367	10,148,480
NET POSITION			
Invested in capital assets, net of related debt	15,677,051	40,002	15,717,053
Restricted for capital projects	2,819,733	0	2,819,733
Unrestricted	9,040,021	646,147	9,686,168
TOTAL NET POSITION	27,536,805	686,149	28,222,954
TOTAL LIABILITIES AND NET POSITION	\$ 37,409,918	\$ 961,516	\$ 38,371,434

See notes to financial statements
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Unallocated depreciation	\$ 492,485	\$ 0	\$ 0	\$ (492,485)
Instruction	18,209,010	0	5,687,151	(12,521,859)
Instructional student support	1,312,264	0	287,850	(1,024,414)
Administrative and financial support services	2,711,276	0	66,336	(2,644,940)
Operation and maintenance of plant services	3,645,187	0	115,134	(3,530,053)
Pupil transportation	1,193,983	0	789,909	(404,074)
Student activities	439,957	0	21,853	(418,104)
Community services	5,857	0	572	(5,285)
Capital acquisition	123,440	0	0	(123,440)
Interest on long-term debt	205,291	0	0	(205,291)
TOTAL GOVERNMENTAL ACTIVITIES	28,338,750	0	6,968,805	(21,369,945)
BUSINESS-TYPE ACTIVITIES				
Food services	1,278,955	338,313	956,925	16,283
TOTAL PRIMARY GOVERNMENT	29,617,705	338,313	7,925,730	(21,353,662)
GENERAL REVENUES AND TRANSFERS				
Taxes:				
Property taxes, levied for general purposes, net			2,249,075	0
Public utility, realty, earned income and miscellaneous taxes levied for general purposes, net			3,248,765	0
Grants, subsidies, and contributions not restricted			11,660,093	0
Investment earnings			44,981	173
Miscellaneous			5,304,260	3,940
Transfers			100,000	(100,000)
TOTAL GENERAL REVENUES AND TRANSFERS			22,607,174	(95,887)
CHANGE IN NET POSITION				
			1,237,229	(79,604)
NET POSITION - BEGINNING			26,299,576	691,125
PRIOR PERIOD ADJUSTMENT			0	74,628
NET POSITION - ENDING			\$ 27,536,805	\$ 686,149
				\$ 28,222,954

See notes to financial statements which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2013

	<u>General</u>	<u>Capital Reserve</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Cash	\$ 6,912,858	\$ 2,154,385	\$ 835,682	\$ 9,902,925
Taxes receivable, net	2,519,550	0	0	2,519,550
Due from other funds	133,860	7,955	0	141,815
Intergovernmental receivables	5,512,986	104,507	0	5,617,493
TOTAL ASSETS	<u>15,079,254</u>	<u>2,266,847</u>	<u>835,682</u>	<u>18,181,783</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 15,079,254</u>	<u>\$ 2,266,847</u>	<u>\$ 835,682</u>	<u>\$ 18,181,783</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 349,818	\$ 18,136	\$ 234,659	\$ 602,613
Intergovernmental payables	3,066,074	0	0	3,066,074
Due to other funds	7,955	0	0	7,955
Accrued salaries and benefits	1,904,896	0	0	1,904,896
Deferred revenue	2,172,543	0	0	2,172,543
TOTAL LIABILITIES	<u>7,501,286</u>	<u>18,136</u>	<u>234,659</u>	<u>7,754,081</u>
DEFERRED INFLOWS OF RESOURCES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES				
Restricted for capital projects	0	2,218,711	601,023	2,819,734
Assigned	2,000,000	0	0	2,000,000
Unassigned	5,577,968	0	0	5,577,968
TOTAL FUND BALANCES	<u>7,577,968</u>	<u>2,218,711</u>	<u>601,023</u>	<u>10,397,702</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 15,079,254</u>	<u>\$ 2,236,847</u>	<u>\$ 835,682</u>	<u>\$ 18,151,783</u>

See notes to financial statements
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

GOVERNMENTAL FUNDS

AS OF JUNE 30, 2013

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 10,397,702
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	45,349,011	
Less: accumulated depreciation	<u>(26,430,983)</u>	18,918,028

Governmental funds report debt issuance costs as an other financing use at the time of payment. These items are reported as an unamortized asset in the District-Wide financial statements	71,298
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Investments held in the OPEB trust are reported on the District-Wide financial statements but not on the governmental funds statements	380,625
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Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and are not reported as liabilities in the funds statements.

Other postemployment benefits	37,361	
Bonds payable	(3,842,000)	
Compensated absences	<u>(530,566)</u>	(4,335,205)

Governmental funds do not report a liability for accrued interest until due and payable - such liability is accrued on the District-Wide financial statements	(68,186)
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Delinquent personal and property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.	<u>2,172,543</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>27,536,805</u>
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SHAMOKIN AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

ALL GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	General	Capital Reserve	Capital Projects	Total Governmental Funds
REVENUES				
Local sources	\$ 10,490,348	\$ 4,500	\$ 11,695	\$ 10,506,543
State sources	16,416,548	0	0	16,416,548
Federal sources	2,003,336	209,014	0	2,212,350
TOTAL REVENUES	<u>28,910,232</u>	<u>213,514</u>	<u>11,695</u>	<u>29,135,441</u>
EXPENDITURES				
Instruction	18,284,049	0	0	18,284,049
Support services	8,801,405	0	0	8,801,405
Non-instructional services	432,570	0	0	432,570
Capital outlay	0	613,880	2,808,724	3,422,604
Debt service	0	0	432,780	432,780
Refunds of prior year revenues	0	0	0	0
TOTAL EXPENDITURES	<u>27,518,024</u>	<u>613,880</u>	<u>3,241,504</u>	<u>31,373,408</u>
(DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,392,208</u>	<u>(400,366)</u>	<u>(3,229,809)</u>	<u>(2,237,967)</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers in (out)	100,000	0	0	100,000
Proceeds from sale of fixed assets	250	0	0	250
TOTAL OTHER FINANCING SOURCES (USES)	<u>100,250</u>	<u>0</u>	<u>0</u>	<u>100,250</u>
NET CHANGE IN FUND BALANCES	<u>1,492,458</u>	<u>(400,366)</u>	<u>(3,229,809)</u>	<u>(2,137,717)</u>
FUND BALANCES - BEGINNING	<u>6,085,510</u>	<u>2,619,077</u>	<u>3,830,832</u>	<u>12,535,419</u>
FUND BALANCES - ENDING	<u>\$ 7,577,968</u>	<u>\$ 2,218,711</u>	<u>\$ 601,023</u>	<u>\$ 10,397,702</u>

See notes to financial statements
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES**

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (2,137,717)
Because some property taxes will not be collected for several months after the District's year end, they are not considered as available revenues in the government funds.	315,331
Accrual of other postemployment benefits are recorded in the Statement of Activities but are not recognized in governmental funds.	63,274
Bond issuance costs are recognized in the period incurred in the governmental funds but are amortized in the Statement of Activities	(4,299)
Compensated absences reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.	9,602
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.	3,383,720
Principal payments on long-term debt are expensed in the governmental fund statements, but reduce long-term debt on the Statement of Net Position	226,000
Interest expense is recognized in the governmental fund statements when paid but is accrued in the Statement of Activities	1,489
Increase in investments in the OPEB trust are expensed in the governmental fund statements but are an asset in the Statement of Net Assets	24,956
Depreciation expense is recognized in the Statement of Activities but is not recognized in governmental funds.	<u>(645,127)</u>
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>1,237,229</u>

See notes to financial statements
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 9,889,619	\$ 9,889,619	\$ 10,490,348	\$ 600,729
State sources	15,801,975	15,801,975	16,416,548	614,573
Federal sources	1,633,786	1,633,786	2,003,336	369,550
TOTAL REVENUES	27,325,380	27,325,380	28,910,232	1,584,852
EXPENDITURES				
Regular programs	11,055,735	11,055,735	10,997,081	58,654
Special programs	3,339,566	3,339,566	3,856,173	(516,607)
Vocational programs	1,004,598	1,004,598	1,115,865	(111,267)
Other instructional programs	3,915,747	3,915,747	2,140,635	1,775,112
Nonpublic school program	35,669	35,669	32	35,637
Community/junior college programs	0	0	0	0
Pre-K programs	301,680	301,680	174,263	127,417
Pupil personnel services	672,868	672,868	681,526	(8,658)
Institutional staff services	530,843	530,843	630,738	(99,895)
Administrative services	1,434,398	1,494,398	1,485,247	9,151
Pupil health	298,904	298,904	296,852	2,052
Business services	694,390	694,390	648,795	45,595
Operation and maintenance of plant services	3,034,582	3,034,582	3,611,210	(576,628)
Student transportation services	1,290,239	1,290,239	1,178,586	111,653
Central and other support services	385,018	385,018	268,451	116,567
Other support services	0	0	0	0
Student activities	568,457	568,457	426,713	141,744
Community services	48,134	48,134	5,710	42,424
Scholarships and awards	1,600	1,600	147	1,453
Capital acquisition	0	0	0	0
Debt service	0	0	0	0
Refunds of prior years revenues	0	0	0	0
TOTAL EXPENDITURES	28,612,428	28,672,428	27,518,024	1,154,404
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,287,048)	(1,347,048)	1,392,208	2,739,256
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	0	0	100,000	100,000
Budgetary reserve	(200,000)	(140,000)	0	140,000
Proceeds from sale of fixed assets	0	0	250	250
TOTAL OTHER FINANCING SOURCES (USES)	(200,000)	(140,000)	100,250	240,250
NET CHANGE IN FUND BALANCES	(1,487,048)	(1,487,048)	1,492,458	2,979,506
FUND BALANCE - BEGINNING OF YEAR	3,052,230	3,052,230	6,085,510	3,033,280
FUND BALANCE - END OF YEAR	\$ 1,565,182	\$ 1,565,182	\$ 7,577,968	\$ 6,012,786

See notes to financial statements
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Food Service</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS	
Cash	\$ 827,769
Due from other governments	16,132
Other receivables	61,560
Inventories	16,053
TOTAL CURRENT ASSETS	<u>921,514</u>
NON-CURRENT ASSETS	
Machinery and equipment	689,609
Less: accumulated depreciation	<u>(649,607)</u>
TOTAL NON-CURRENT ASSETS	40,002
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 961,516</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	\$ 137,643
Due to other funds	133,860
TOTAL CURRENT LIABILITIES	<u>271,503</u>
NON-CURRENT LIABILITIES	0
Deferred revenues	3,864
TOTAL NON-CURRENT LIABILITIES	<u>3,864</u>
TOTAL LIABILITIES	<u>275,367</u>
DEFERRED INFLOWS OF RESOURCES	0
NET POSITION	
Invested in capital assets - net of related debt	40,002
Unrestricted	646,147
TOTAL NET POSITION	<u>686,149</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 961,516</u>

See notes to financial statements
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	Food Service
OPERATING REVENUES	
Food service revenues	\$ 338,313
Other revenue	3,940
TOTAL OPERATING REVENUES	<u>342,253</u>
OPERATING EXPENSES	
Personal services - salaries	109,905
Personal services - employee benefits	52,658
Purchased property services	8,412
Other purchased services	444,133
Supplies	649,386
Depreciation	7,482
Other operating expenses	6,979
TOTAL OPERATING EXPENSES	<u>1,278,955</u>
OPERATING (LOSS)	(936,702)
NON-OPERATING REVENUES (EXPENSES)	
Earnings on investments	173
State sources	53,701
Federal sources	903,224
Interfund transfers	(100,000)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>857,098</u>
CHANGE IN NET POSITION	(79,604)
NET POSITION - BEGINNING OF YEAR	691,125
PRIOR PERIOD ADJUSTMENT	<u>74,628</u>
NET POSITION - END OF YEAR	<u><u>\$ 686,149</u></u>

See notes to financial statements
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and intergovernments	\$ 554,986
Cash paid to employees for services	(162,563)
Cash paid to suppliers	(1,108,910)
NET CASH (USED FOR) OPERATING ACTIVITIES	<u>(716,487)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State sources	53,701
Federal sources	903,224
Operating funds transfers	(100,000)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>856,925</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	0
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>173</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	140,611
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>687,158</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 827,769</u>
OPERATING (LOSS)	\$ (936,702)
ADJUSTMENTS TO RECONCILE OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:	
Depreciation	7,482
Changes in current assets and current liabilities	
(Increase) Decrease in accounts receivable	819
(Increase) Decrease in inventories	14,222
Increase (Decrease) in accounts payable	87,594
Increase (Decrease) in deferred revenue	109,563
Increase (Decrease) in due to other funds	535
TOTAL ADJUSTMENTS	<u>220,215</u>
TOTAL CASH (USED FOR) OPERATING ACTIVITIES	<u>\$ (716,487)</u>

See notes to financial statements
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Private Purpose Trust</u>	<u>Activity</u>	<u>Total Fiduciary Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Cash	\$ 19,088	\$ 144,365	\$ 163,453
TOTAL ASSETS	<u>19,088</u>	<u>144,365</u>	<u>163,453</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 19,088</u>	<u>\$ 144,365</u>	<u>\$ 163,453</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
LIABILITIES			
Other current liabilities	\$ 0	\$ 144,365	\$ 144,365
TOTAL LIABILITIES	<u>0</u>	<u>144,365</u>	<u>144,365</u>
DEFERRED INFLOWS OF RESOURCES	<u>0</u>	<u>0</u>	<u>0</u>
NET POSITION			
Unrestricted	<u>19,088</u>	<u>0</u>	<u>19,088</u>
TOTAL NET POSITION	<u>19,088</u>	<u>0</u>	<u>19,088</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 19,088</u>	<u>\$ 144,365</u>	<u>\$ 163,453</u>

See notes to financial statements
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Private Purpose Trust
ADDITIONS	
Gifts and contributions	\$ 0
Other additions	10
TOTAL ADDITIONS	<u>10</u>
DEDUCTIONS	
Scholarships awarded	2,000
TOTAL DEDUCTIONS	<u>2,000</u>
CHANGE IN NET POSITION	<u>(1,990)</u>
NET POSITION - BEGINNING OF YEAR	<u>21,078</u>
NET POSITION - END OF YEAR	<u><u>\$ 19,088</u></u>

See notes to financial statements
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Shamokin Area School District (the "District") is governed by the Shamokin Area School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

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

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments.

The financial statements include:

- Management's Discussion and Analysis (MD&A), providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full-accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on major funds.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DEFINING THE REPORTING ENTITY

The reporting entity was defined by applying the following criteria which were established by the Governmental Accounting Standards Board Statement Number 14, "The Financial Reporting Entity".

- (A) Financial interdependency
- (B) Selection of governing authority
- (C) Designation of management
- (D) Ability to significantly influence operations
- (E) Accountability for fiscal matters.

In defining the reporting entity, all known federal program awards received by the entity have been included and have been subjected to the terms and requirements of the Single Audit Act.

In applying the above criteria, the District does not have any component units nor is the District a component unit of any other primary government.

BASIS OF PRESENTATION

Government-wide statements - The statement of net position and the statement of activities provide information about the financial activities of the overall district, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-Type activities are financed in whole or in part by fees charged to external parties.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BASIS OF PRESENTATION - continued

The statement of activities presents a comparison between direct expenses and program revenues for each business-type activity of the District and for each function of the District's governmental activities.

- Direct Expenses are those that are clearly identifiable with a specific program.
- Program revenues include 1) charges to students or recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.
- Taxes and other items not properly included among program revenues are reported as general revenues.

Depreciation expense is not allocated by function and is included on a separate line of the direct expenses. The effect of interfund activity has been removed from these statements.

Fund Financial Statements - The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category - *governmental, proprietary and fiduciary*-are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Enterprise fund operating revenues are related to charges for food in the District's cafeteria. The primary non-operating revenues are federal nutrition program grants and commodities received from the U.S. Department of Agriculture.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BASIS OF PRESENTATION - continued

The fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the District-wide statements.

The District reports the following major governmental funds:

General Fund - The General Fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Capital Reserve Fund - The Capital Reserve Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary and trust funds.

Capital Projects Fund - The Capital Projects Fund is used to account for the acquisition or construction of major capital facilities, other than those financed by proprietary and trust funds.

The District reports the following major proprietary fund types:

Food Service Fund - The Food Service Fund is used to account for all financial transactions related to the food service operation.

Other fund types:

Agency Funds - These funds account for assets held by the District as an agent for various student groups and clubs.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BASIS OF ACCOUNTING

The district-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities are reported as other financing sources.

All business-type activities and enterprise funds of the district follow FASB Statements and Interpretations on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BUDGETS AND BUDGETARY ACCOUNTING

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

An operating budget is adopted prior to the beginning of each year for the General Fund 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 adoption of the School District's budget and reporting of its financial statements, specifically:

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

The School District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the School District.

Notice that public hearing will be held on the proposed operating budget must be included in the advertisement; such hearings 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 of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BUDGET AND BUDGETARY ACCOUNTING - continued

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year end, if any, are reported in the fund financial statements as reservations of fund balances.

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

DEPOSITS AND INVESTMENTS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments with a maturity of one year or less at the time of purchase are recorded at cost or amortized cost. Those with a maturity of greater than one year are reported at fair value. Changes in the fair value of investments are recorded as investment income.

INVENTORY

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standard costs, as determined by the Department of Agriculture. In the financial statements, commodities received are recorded as deferred revenue until consumed.

CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$1,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

CAPITAL ASSETS - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Land	Not Depreciated
Land Improvements	20 years
Buildings and Improvements	15-30 years
Furniture and Equipment	5-15 years
Vehicles	3-15 years

COMPENSATED ABSENCES

Compensated absences are those for which employees receive pay. A liability is recorded through the use of estimates, which apply historical data to current factors. The District maintains records of unused absences and applies current and/or contracted compensation rates to the various types of compensated absences. Sick leave is recorded using the termination payment method, which has no current maximum per employee. The District allows only restricted sabbatical leave and therefore, has no recorded liability in advance of the sabbatical.

RESTRICTED ASSETS

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the District-wide financial statements.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a restricted purpose.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

NET POSITION

Net position represents the difference between assets and liabilities in the District-wide financial statements. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets.

FOOD SERVICE FUND - UNALLOCATED COSTS

The District does not attempt to allocate "Building-Wide Costs" to the Food Service Fund. Thus, General Fund expenditures (utilities, janitorial services, insurance, etc.) which partially benefit the Food Service Fund are not proportionately recognized within the Food Service Fund. Similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no facilities rental expense).

ESTIMATES

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

NOTE 2 - DEPOSITS AND INVESTMENTS:

DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The deposit policy of the school district adheres to state statutes and prudent business practice. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents consist of demand deposits at various financial institutions, a money market mutual fund investment in Pennsylvania Treasurer's Invest Program for Local Government, a money market fund and certificate of deposit, the Pennsylvania School District Liquid Asset Fund (PSDLAF), and cash on hand. The market values of deposits are equal to the cost of the deposits.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS – continued

DEPOSITS - continued

Custodial Credit Risk - continued

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

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

At June 30, 2013, the carrying amount of the District's deposits was \$10,894,147. and the bank balance was \$10,978,392. Of the bank balance, \$950,370. was covered by federal depository insurance coverage and \$10,028,022. was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the District's name.

The District has deposits in the Pennsylvania School District Liquid Asset Fund (PSDLAF), the Pennsylvania Treasurer's Invest Program for Local Government, and the Pennsylvania Local Government Investment Trust (PLGIT) as authorized by the Board. PSDLAF was established to enable school districts to pool funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. Pennsylvania Treasurer's Invest Program for Local Government insures that it will not place deposits with any single issuing institution if the largest participant's pro rata share of such deposits exceeds \$100,000., unless such deposits are secured by (1) Treasurer, federal agencies (collateralized at 102%) or (2) certificates of deposit (collateralized by 120%).

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

DEPOSITS - continued

Custodial Credit Risk - continued

As of June 30, 2013, the District had the following deposits (carrying value):

Pennsylvania Local Government Investment Trust (PLGIT)	\$ 835,681
Pennsylvania School District Liquid Asset Fund (PSDLAF)	661,185
Pennsylvania Treasurer's Invest Program for Local Governments	<u>6,223,444</u>
Total Deposits	\$ <u>7,720,310</u>

Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT and PSDLAF act like a money market mutual fund in that its objective is to maintain a stable net asset of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit.

INVESTMENTS

The investment policy of the school district adheres to state statutes and prudent business practices. The investments of the school district consist of certificates of deposit and U.S. Agency Obligations as authorized by the Board. Investments are stated at cost including accrued interest which approximates market value.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It is the practice of the District to limit its interest rate risk by investing in securities with maturity dates under one year.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

INVESTMENTS - continued

Custodial Credit Risk

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

Credit Risk

Under Section 4440.1 of the Public School Code of 1949, as amended, the District is permitted to invest its monies as follows:

Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Concentration Risk

The District does not have a policy that would limit the amount it may invest in any one issuer.

Investments at June 30, 2013 consist of \$380,625. of PA OPEB Conservative Master Trust Fund with the US Bank. Cost approximates market value.

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES:

Intergovernmental receivables listed in the General Fund at June 30, 2013, are comprised of the following:

State Programs	\$ 452,883
Federal Programs	572,441
Local Programs	<u>4,487,662</u>
Total	<u>\$ 5,512,986</u>

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 4 - CHANGES IN LONG-TERM DEBT:

A summary of the changes in general long-term debt follows:

	General Obligation Note Series A of 2011	Compensated Absences	Other Post- Employment Benefits
Long-Term Debt - July 1, 2012	\$ 4,068,000	\$ 540,167	\$ 25,913
Additions	0	0	509,644
Reductions	(226,000)	(9,601)	(572,918)
Long-Term Debt - June 30, 2013	<u>\$ 3,842,000</u>	<u>\$ 530,566</u>	<u>\$ (37,361)</u>
Due Within One Year	<u>\$ 226,000</u>	<u>\$ 25,000</u>	<u>\$ 0</u>

A summary of General Long-Term Debt principal maturities requirements follows:

Year Ending June 30,	General Obligation Note Series A of 2011
2014	\$ 226,000
2015	226,000
2016	226,000
2017	226,000
2018	226,000
2019-2023	1,130,000
2024-2028	1,130,000
2029-2030	452,000
Total	<u><u>\$ 3,842,000</u></u>
Due Within One Year	<u><u>\$ 226,000</u></u>

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 4 - CHANGES IN LONG-TERM DEBT:

GENERAL OBLIGATION NOTE PAYABLE

SERIES A OF 2011

On November 3, 2011, the District, thru the Pennsylvania State Public School Building Authority (Qualified Zone Academy Bonds (QZAB) – Direct Subsidy Bonds) the District issued a General Obligation Note Series A of 2011 in the amount of \$4,068,000. at a fixed interest rate of 5.138%. The proceeds of the issue are to be used to complete capital renovations and to pay issuance costs. Annual installments, as set forth below, are required to provide for payment of principal and interest through September 2029. Under the QZAB program the District will receive 100% reimbursement of interest paid on the Note in the form of a Federal reimbursement.

COMPENSATED ABSENCES

Vacation - District employees who are required to work on a twelve-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation may be taken or accumulated within certain limits and is paid prior to retirement or termination at the employee's current rate of pay. At June 30, 2013, the estimated liability for compensated absences related to vacation payable was \$42,132.

Sick Leave and Personal Leave - Most District employees are credited with ten sick days and three personal leave days annually. Upon retirement, employees received payment for the unused portion of their sick leave and personal leave based on years of service and on rates specified by contracts or agreements. At June 30, 2013, the estimated liability for compensated absences related to sick and personal leave was \$344,434.

Early Retirement Incentive - The District offers an early retirement incentive to professional employees who retire having at least ten complete years of service with the District and at least thirty complete years as a professional employee in public schools of the Commonwealth of Pennsylvania. At June 30, 2013, the estimated liability for compensated absences related to outstanding early retirement incentives was \$144,000.

TOTAL COMPENSATED ABSENCES	\$530,566. =====
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OTHER POST EMPLOYMENT BENEFITS

The District also provides other postemployment benefits as more fully discussed in Note 10. Total liability (asset) at June 30, 2013 was (\$37,361).

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 5 - CAPITAL ASSETS:

A summary of capital asset activity during the fiscal year follows:

	Balance June 30, 2012	Net Additions (Deductions)	Balance June 30, 2013
Governmental Activities:			
Capital Assets, Not Being Depreciated			
Land	\$ 10,353,348	\$ 0	\$ 10,353,348
Construction in progress	347,862	3,299,164	3,647,026
Total Capital Assets, Not Being Depreciated	10,701,210	3,299,164	14,000,374
Capital Assets, Being Depreciated:			
Buildings and Improvements	21,284,388	5,095	21,289,483
Site Improvements	3,164,727	43,026	3,207,753
Furniture and Equipment	6,814,966	36,435	6,851,401
Total Capital Assets, Being Depreciated	31,264,081	84,556	31,348,637
Accumulated Depreciation For:			
Buildings and Improvements	(17,513,049)	(405,421)	(17,918,470)
Site Improvements	(2,218,330)	(87,064)	(2,305,394)
Furniture and Equipment	(6,054,477)	(152,642)	(6,207,119)
Total Accumulated Depreciation	(25,785,856)	(645,127)	(26,430,983)
Governmental Activities - Capital Assets, Net	\$ 16,179,435	\$ 2,738,593	\$ 18,918,028
Business-type Activities:			
Furniture/Equipment	\$ 689,609	\$ 0	\$ 689,609
Less: Accumulated Deprecation	(642,125)	(7,482)	(649,607)
Business-type Activities - Capital Assets, Net	\$ 47,484	\$ (7,482)	\$ 40,002

Depreciation expense was charged to functions of the District as follows:

Instructional	\$ 85,439
Instructional Student Support	7,709
Operation and Maintenance of Plant Services	34,402
Transportation	13,311
Student Activities	14,713
Unallocated	603,279
Total Depreciation Expense	\$ 758,853

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 6 - PENSION PLAN:

PLAN DESCRIPTION

The Shamokin Area School District contributes to the Pennsylvania Public School System Employees' Retirement System (the "System"), a multiple-employer public employee retirement system administered by the Pennsylvania Public School Employees' Retirement System Board. The System provides retirement and disability benefits, legislative mandated ad hoc cost-of-living adjustments, and has a health insurance premium assistance program to qualifying annuitants. The Pennsylvania Public School Employees Retirement Code (the "Code") assigns the Authority to establish and amend benefit provisions to the System by the Pennsylvania General Assembly. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees Retirement System, P.O. Box 125, Harrisburg, Pa 17108-0125. The report is also available in the publications section of the system's site on the internet (www.psers.state.pa.us).

FUNDING POLICY

The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth. Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001 contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future 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 30, 2013, the rate of employer's contribution was 12.36 percent of covered payroll. The 12.36 percent rate is comprised of a pension contribution rate of 11.50 percent for pension benefits and .86 percent for healthcare insurance premium assistance. The employer and Commonwealth share such cost. The District's contributions (net of any reimbursement from the Commonwealth) to the System for the years ended June 30, 2013, 2012, and 2011, were \$341,344., \$207,777., and \$237,257., respectively, equal to the required contributions for each year.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 7 - TAXES ASSESSED AND DEFERRED REVENUE:

The following is a listing of the taxes assessed along with their respective assessed valuations:

<u>Tax Type</u>	<u>Millage/Rate</u>	<u>Tax Levy</u>
Real Estate - Northumberland County	26.4195 mills	\$ 2,647,462
Occupation Tax - Act 511	\$200.00/person	1,008,200
Per Capita Tax - Act 511	\$ 5.00/person	66,810
Per Capita Tax - Section 679	\$ 5.00/person	66,810
Total Assessed Valuation		\$ 3,789,282

The following is the tax calendar showing levy date, payment periods and delinquent dates for the above listed taxes:

Levy date	July 1
Discount (2%) payment period	July 1 to August 31
Face payment period	September 1 to October 31
Penalty (10%) payment period	November 1 to December 31
Delinquent date	January 1

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the net amount estimated to be collectible was measurable and available within the 60 days, was recognized as revenue, and the balance deferred in the fund financial statements. All taxes, net of uncollectible amounts, are recognized in the period for which levied in the government-wide financial statements, regardless of when collected.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 8 - RISK MANAGEMENT AND LITIGATION:

This District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains coverage from commercial insurance companies to cover these risks of loss.

NOTE 9 - COMMITMENTS AND CONTINGENCIES:

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

During the normal course of business, the District is subject to numerous disputes and claims. At June 30, 2013, there were no items of pending or threatened litigation which management feels would have a material effect on the District's financial condition.

NOTE 10 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS:

PLAN DESCRIPTION

The Shamokin Area School District Retiree Health Care Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the School Board. The Plan provides postemployment healthcare benefits to eligible retirees of the District in accordance with the various labor contracts and personnel policies. At July 1, 2012, 62 retired employees were eligible to participate. Inasmuch as the Plan has no assets, reporting an other employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

FUNDING POLICY

The contribution requirements of plan members and the District are established and may be amended by the School Board, subject to applicable labor contracts. Plan members are not required to contribute; however, for the member and the spouse, coverage ceases upon the later of the exhaustion of accumulated sick days at retirement used to obtain health coverage, the exhaustion of an HCA based on accumulated sick days at retirement, or Medicare eligibility. If a retiree runs out of unused sick days prior to reaching Medicare eligibility, they may continue on the District plan by paying 100% of premiums.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – continued

FUNDING POLICY - continued

The District may contribute the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirteen years. For 2013, the District made no contributions and instead elected to continue funding on a *pay-as-you-go* basis, which amounted to \$572,918. for 2013. These costs are recognized as an expense when claims or premiums are paid.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

For 2013, the components of the District's annual OPEB (other postemployment benefit) cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan were as follows:

Annual Required Contribution	\$ 513,502
Interest on Net OPEB Obligation	1,166
Adjustment to Annual Required Contribution	<u>(5,024)</u>
Annual OPEB Cost	509,644
Contributions or Payments Made	<u>(572,918)</u>
Increase in Net OPEB Obligation	(63,274)
Net OPEB Obligation, Beginning of Year	<u>25,913</u>
Net OPEB Obligation, End of Year	<u><u>\$ (37,361)</u></u>
Percentage of Annual OPEB Cost Contributed	<u><u>112.42%</u></u>

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - continued

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of July 1, 2012, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 2,519,282
Actuarial Value of Assets	<u>(355,667)</u>
Unfunded AAL (UAAL)	<u><u>\$ 2,163,615</u></u>
 Funded Ratio	 <u><u>14.12%</u></u>
 Covered Payroll	 <u><u>\$ 9,565,244</u></u>
 UAAL as Percentage of Covered Payroll	 <u><u>22.62%</u></u>

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are formed regarding the future. Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the District and the benefits are received by the eligible plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012, actuarial valuation, the individual entry age normal actuarial cost method was used. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study, the assumed rate ranges from 8.5% in the short-term to 5% in the long-term for health care related costs. The UAAL is being amortized as a level percentage of active member payroll over a period of 13 years.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 11 - RELATED ORGANIZATIONS:

Not included in the School District's financial statements are any Parent-Teacher Associations (PTA), Parent-Teacher Organizations (PTO) and athletic and band booster clubs. These agencies provide services to students and employees of the School District, but are separate legal entities having sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the School District. The School District does not account for these entities as component units or joint ventures; it does not maintain an ongoing financial interest or have responsibility for these entities.

NOTE 12 - GASB STATEMENT NO. 54:

On June 15, 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54 (Fund Balance Reporting and Governmental Fund Type Definitions). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB-54 establishes criteria for classifying fund balances into specifically defined classifications that should be based on hierarchy that reflects the extent to which the government is bound to honor constraints on how those funds can be spent.

Established classifications are as follows:

Nonexpendable – Amounts that cannot be spend because they are either in a nonspendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts constrained to be used for a specific purpose stipulated by constitution, external resource providers or through enabling legislation.

Committed – Amounts constrained to be used for a specific purpose determined by a formal action of the School District Board of Directors (the district's highest level of decision-making authority).

Assigned – Amounts intended to be used for a specific purpose by the finance committee or an individual authorized by the governing body.

Unassigned – Residual amounts available for any purpose not contained in other classifications.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 12 - GASB STATEMENT NO. 54 – continued

ORDER OF FUND BALANCE SPENDING POLICY

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting entries.

First, nonspendable fund balances are determined. Then, restricted fund balances for the nongeneral funds are classified as restricted fund balance.

It is possible for the nongeneral funds to have negative unassigned fund balance when nonspendable amounts plus the restricted fund balances for specific purpose amounts exceed the positive fund balance for the nongeneral fund.

MINIMUM FUND BALANCE

The District's school board policy states:

- 1.) The school district will strive to maintain an unassigned general fund balance of not less than eight percent (8%) and not more than twelve percent (12%) of the budgeted expenditures for that fiscal year.
- 2.) The total fund balance, consisting of several portions including committed, assigned and unassigned, may exceed twelve percent (12%).
- 3.) If the unassigned portion of the fund balance falls below the threshold of eight percent (8%), the board will pursue variations of increasing revenues and decreasing expenditures or a combination of both until eight percent (8%) is attained. If the assigned and unassigned portions of the fund balance exceed fifteen percent (15%) of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for nonrecurring expenditures only.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 12 - GASB STATEMENT NO. 54 – continued

BALANCE SHEET - GOVERNMENTAL FUNDS				
JUNE 30, 2013				
	<u>General</u>	<u>Capital Reserve</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
EQUITY				
Nonspendable	\$ 0	\$ 0	\$ 0	\$ 0
Restricted	0	2,218,711	601,023	2,819,734
Committed	0	0	0	0
Assigned	2,000,000	0	0	2,000,000
Unassigned	5,577,968	0	0	5,577,968
TOTAL FUND BALANCE	<u>\$ 7,577,968</u>	<u>\$ 2,218,711</u>	<u>\$ 601,023</u>	<u>\$ 10,397,702</u>

NOTE 13 - CONTINGENCY:

At June 30, 2013, the District is in the process of completing capital renovations on the District's Elementary School. The plumbing contractor on the project (Yannuzzi, Inc.) has requested a change order in the amount of \$303,750. for costs they incurred working under a directive to complete such work. The Company maintains that the work completed was not included in the scope of the original contract. The District's design professional has indicated that the change order is not warranted and has no basis under the contract. Consequently, the District has rejected the change order request and no accrual of liability has been made.

NOTE 14 - PENNSYLVANIA OPEB TRUST PARTICIPATION:

In June 2011, the District contributed \$347,118 to the Pennsylvania OPEB Trust. The Trust was established for Local PA Government units to pool their assets for investment to fund retiree benefits other than pensions within the meaning of the Governmental Accounting Standards Board Statements 43 and 45 (OPEB). The District's participation in the Trust is terminable by resolution of the District, subject to the terms, conditions, and restrictions of the Pennsylvania OPEB Trust Agreement and Participation Agreement. The assets of the trust are invested in a mutual fund in the US Bank. At June 30, 2013, the District's share of the trust is \$380,625.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 15 - NORTHWESTERN ACADEMY:

Situated within the boundaries of the Shamokin Area School District (SASD) lies a residential facility known as Northwestern Academy (Northwestern) which is owned by Northwestern Human Services, Inc., a private non-profit corporation. Northwestern provides services to adjudicated minors that are placed at Northwestern on a residential basis. Under the PA School Code of 1949 (School Code) Section 1306, Northwestern is an "institution for the care or training of children". As such, the School Code places certain obligations on the District with regard to the education of students placed at the institution. The District and Northwestern believe that it is in the best interest of the students residing at Northwestern to receive their education on the grounds of Northwestern as a part of the comprehensive program of services administered by Northwestern. Under the terms of an agreement dated July 25, 2000 and effective for fiscal years 1999-2001, which although signed by the then District Superintendent was not ratified by the Board of School Directors, Northwestern provides all educational services that the District is required to provide under Section 1306 of the School Code and will educate, on the District's behalf, all students who are placed residentially at Northwestern. Northwestern represents that at all times during the term of the agreement and extensions, it will meet or exceed the curriculum requirements, standards, and obligations of the Pennsylvania Department of Education. The District will invoice the home District of the student for tuition of the SASD plus a rental component and, if applicable, a special education component both to be calculated as calculated for other districts while at Northwestern and upon collection of this invoice will pass the payment to Northwestern as payment in full for tuition under this agreement less a 7.00% administration charge by the SASD.

As indicated above, the SASD had invoiced the home Districts for rental payments as permitted under the School Code. As a result of questions raised as to the allowability of these rental charges, this practice was terminated with funds collected for these payments being placed in a separate escrow account. Northwestern sued the District in the Court of Common Pleas in Northumberland County, PA, for the continued collection of and payment of lease payments from home districts to Northwestern and a judgment issued on March 14, 2008 by the court affirmed the Northwestern position. The District has continued to invoice the home districts for the rental component. Many home districts have refused to pay the charge and for those that have paid it the payments have been added to the escrow account.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 15 - NORTHWESTERN ACADEMY – continued:

On April 5, 2012, the Court issued a judgment against the District to order the District to dissolve the escrow account and immediately pay these amounts to Northwestern, including accumulated interest. The District complied with the order and, in August 2012, it paid Northwestern all sums held in escrow.

Included in the District's financial statements are the following balances that relate to Northwestern as of and for the year ended June 30, 2013:

	Regular Education	Special Education	Total
Accounts receivable due from student home Districts	\$ 3,033,243	\$ 1,420,890	\$ 4,454,133
Accounts payable due Northwestern Academy	\$ 2,295,820	\$ 438,646	\$ 2,734,466
Cash balances relating to Northwestern Academy	\$ 23,499	N/A	\$ 23,499
Tuition invoiced to home Districts during 2012/2013	\$ 919,103	\$ 1,380,231	\$ 2,299,334
Lease Rental invoiced to home Districts during 2012/2013	\$ 760,922	\$ 482,868	\$ 1,243,790

Represents potential estimated liability to NWA for "regular education" portion of special education rate.

CHANGES DURING 2012/2013 SCHOOL YEAR

Effective July 1, 2013, the SASD has "taken over" the special education operation at Northwestern and serviced these students with District personnel and not with Northwestern and Central Susquehanna Intermediate Unit (CSIU) personnel. Consequently, a new contract was drafted and ratified between the SASD and Northwestern for the lease of the facility to provide special education at Northwestern. This one year agreement, effective for August 1, 2013 thru July 31, 2013, calls for an annual base rent of \$1,310,434.95 to be paid by the SASD to Northwestern. The SASD invoices the home district for the actual special education costs as incurred by SASD computed on a per diem basis along with the regular education SASD per diem tuition rate plus a per diem lease rental charge. Regular education tuition invoiced to the home district includes the regular SASD education per diem tuition rate, plus a per diem lease rental charge.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 15 - NORTHWESTERN ACADEMY – continued:

CHANGES DURING 2013/2014 SCHOOL YEAR

Effective July 1, 2014, the SASD has “taken over” ALL education services including regular and special education provided at Northwestern. As of the audit date, a contract for the 2013/2014 lease rental is being negotiated. In the meantime, the District is paying the monthly lease rental as agreed to in the 2012/2013 lease agreement which calls for an annual base rent of \$1,310,434.95 to be paid by the SASD to Northwestern. The SASD invoices the home district for the actual special education costs as incurred by SASD computed on a per diem basis along with the regular education SASD per diem tuition rate plus a per diem lease rental charge. Regular education tuition invoiced to the home district includes the regular SASD education per diem tuition rate, plus a per diem lease rental charge. The SASD is servicing the special education and regular education needs of Northwestern with professional staff employed by the SASD as is not utilizing sub-contracted services from either the Central Susquehanna Intermediate Unit, nor Northwestern Academy.

NOTE 16 - CHANGE IN ACCOUNTING PRINCIPLE:

Effective July 1, 2012, the District adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, to be in conformity with generally accepted accounting principles. The statement implemented Concepts Statement 4 defining the five elements of the statement of financial position as: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 17 - INTERFUND ACTIVITY:

A summary of interfund accounts receivable (payable), all which are considered current, at June 30, 2013 is as follows:

<u>Fund</u>	<u>Receivable (Payable)</u>
General	\$ 133,860
Cafeteria	\$ (133,860)

A summary of interfund operating transfers for the year ended at June 30, 2013 is as follows:

<u>Fund</u>	<u>Interfund Revenue (Expenditure)</u>
General	\$ 100,000
Cafeteria	\$ (100,000)

NOTE 18 - PRIOR PERIOD ADJUSTMENT – CAFETERIA FUND:

During the current year, the District recorded, with which we concur, a prior period adjustment to reflect a deposit paid and previously expensed at June 30, 2012 to its food service management company for the 2012/2013 school year in the amount of \$74,628. The effect of this adjustment was to increase beginning assets and equity by \$74,628.

SUPPLEMENTAL INFORMATION

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDIT RESULTS

1. Auditor's report expresses an unqualified opinion on the financial statements of Shamokin Area School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Shamokin Area School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Shamokin Area School District expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

Program	CFDA #
After School Snacks	10.555
National School Lunch	10.555
Regular/Needy School Breakfast Program	10.553
Commodities	10.555
Summer Food Program	10.559

8. The threshold for distinguishing types A and B Programs was \$300,000.
9. Shamokin Area School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

2013-1 – National School Lunch – CFDA #10.555,
Grant Period Year Ended June 30, 2013

Criteria and Condition: Federal fiscal regulations require that the District annually compute its average paid lunch pricing requirement to ensure that the Paid Lunch Equity as been met.

Cause: During the current year audit, the District did not complete the required computation and as such did not determine if it had met the equity requirement. Consequently, the auditors computed the average paid lunch pricing requirement and found that while the requirement was \$2.25 for a full pay student lunch, the Districts average paid lunch was \$2.23. Therefore, the District did not meet the equity requirement. Consequently we question the difference between the requirement and the actual (\$.02/paid lunch) multiplied by the number of paid lunches sold (79,774) during the 2012/2013 school year.

Effect: The District failed to compute the equity requirement, failed to meet the average paid lunch pricing requirement, and it did not obtain non-federal source equity contributions to satisfy the requirement.

Questioned Costs: \$1,595.
=====

Recommendation: We recommend that, in the future, the District ensure that the requirement is correctly calculated and that the worksheets be maintained. In addition, the District must ensure that the pricing requirement is met, or other non-federal source equity contributions are obtained in amounts to satisfy the requirement.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding and in the future will ensure that all applicable regulations are followed.

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
FOR THE YEAR ENDED JUNE 30, 2013

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT- continued

2013-2 – National School Lunch – CFDA #10.555,
Grant Period Year Ended June 30, 2013

Criteria and Condition: Federal regulations require that the District annually verify a sample of their lunch applications. These verified applications must be reviewed and signed by a confirming official and then the verifying official.

Cause: During the current year audit, although the District did complete this verification process, none of the 11 applications selected for verification were signed by either the confirming or verifying official.

Effect: Although the verification was completed, the District failed to have the appropriate officials sign the verified applications.

Questioned Costs: NONE
=====

Recommendation: We recommend that, in the future, the District ensure that the verified applications are signed by the appropriate confirming and verifying officials.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding and in the future will ensure that all applicable signatures are obtained.

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

U.S. DEPARTMENT OF EDUCATION		Source Code	Federal CFDA No.	Passed Through Grantor's Number	Program or Award Amount	Grant Period Beginning/Ending Date	Total Received For Year	Accrued or (Deferred) Revenue July 1, 2012	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue June 30, 2013
PASSED THROUGH STATE DEPARTMENT OF EDUCATION:											
E.S.E.A. Title I - Improving Basic Programs - 2012/2013											
(I)	84.010	013-130380			\$ 764,882	7/1/02-9/30/13	\$ 618,326	\$ 0	\$ 757,182	\$ 757,182	\$ 138,856
(I)	84.010	013-110380			842,980	7/1/10-9/30/11	0	(40,653)	40,653	40,653	0
(I)	84.010	013-120380			812,737	7/1/11-9/30/12	316,678	(62,302)	378,978	378,978	0
(I)	84.010	107-130380			379,698	7/1/12-9/30/13	274,753	0	313,828	313,828	39,075
(I)	84.010	107-120380			386,857	7/1/11-9/30/12	181,192	2,188	179,004	179,004	0
(I)	84.010	107-110380			73,251	7/1/10-9/30/11	0	(68)	68	68	0
(I)	84.298	007-120380			62,622	7/1/11-9/30/12	22,772	(39,850)	62,622	62,622	0
(I)	84.298	007-130380			53,361	7/1/12-9/30/13	24,255	0	25,185	25,185	930
(I)	84.298	020-130380			176,039	7/1/12-9/30/13	94,123	0	133,159	133,159	39,036
(I)	84.367	020-120380			177,483	7/1/11-9/30/12	82,569	(2,535)	85,124	85,124	0
(I)	84.410	126-120380			13,245	7/1/11-9/30/12	13,245	13,245	0	0	0
PASSED THROUGH CENTRAL SUSQUEHANNA INTERMEDIATE UNIT:											
IDEA Part B - 2012/2013											
(I)	84.027	N/A			469,865	7/1/12-6/30/13	128,723	0	469,865	469,865	341,142
(I)	84.027	N/A			534,807	7/1/11-6/30/12	151,455	151,455	0	0	0
(I)	84.173	N/A			8,808	7/1/11-6/30/12	560	560	0	0	0
(I)	84.173	N/A			5,083	7/1/12-6/30/13	0	0	5,083	5,083	5,083
(I)	84.413A	B413A120004			56,709	7/1/12-9/30/13	42,270	0	42,927	42,927	657
(I)	84.287	NONE			44,851	7/1/11-6/30/12	14,805	14,805	0	0	0
							1,965,744	36,845	2,493,678	2,493,678	564,779
TOTAL DEPARTMENT OF EDUCATION											
U.S. HEALTH AND HUMAN SERVICES											
PASSED THROUGH STATE DEPARTMENT OF WELFARE											
(I)	93.778	NONE			13,352	7/1/12-6/30/13	6,798	0	13,352	13,352	6,554
U.S. DEPARTMENT OF AGRICULTURE											
PASSED THROUGH STATE DEPARTMENT OF EDUCATION:											
After School Snacks - 2012/2013											
(I)	10.555	116-49-550-3			2,786	7/1/12-6/30/13	2,786	0	2,786	2,786	0
(I)	10.553	116-49-550-3			158,878	7/1/12-6/30/13	155,466	0	158,879	158,879	3,413
(S)	N/A	116-49-550-3			9,689	7/1/12-6/30/13	9,489	0	9,689	9,689	200
(I)	10.559	116-49-550-3			7,324	7/1/12-6/30/13	7,324	0	7,324	7,324	0
(I)	10.559	116-49-550-3			8,132	7/1/11-6/30/12	3,606	3,606	0	0	0
(I)	10.555	116-49-550-3			676,887	7/1/12-6/30/13	665,065	0	676,888	676,888	11,823
(S)	N/A	116-49-550-3			37,977	7/1/12-6/30/13	37,280	0	37,977	37,977	697
							61,823	(4,234)	57,348	57,348	(8,709)
PASSED THROUGH STATE DEPARTMENT OF AGRICULTURE:											
Value of USDA Commodities											
(I)	10.555	2-02-49-650			71,854	7/1/12-6/30/13	942,839	(628)	950,891	950,891	7,424
							46,769	0	47,666	47,666	897
							\$ 2,868,612	\$ 36,217	\$ 3,410,255	\$ 3,410,255	\$ 577,890
TOTAL DEPARTMENT OF AGRICULTURE											
LESS: STATE AWARD EXPENDITURES											
TOTAL FEDERAL FINANCIAL ASSISTANCE											

Source Code Legend:

- (D) Indicates direct federal financial assistance funding.
- (I) Indicates indirect federal financial assistance funding.
- (S) Indicates State matching funding.

Other Source Code Legend:

- (A) Indicates value of USDA commodities received in current year.
- (B) Indicates beginning inventory value of USDA commodities.
- (C) Indicates value of USDA commodities used in current year.
- (D) Indicates ending inventory value of USDA commodities.

See notes to financial statements which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

NOTE 2 - COMMODITIES:

Commodities are received through the State from the U.S. Department of Agriculture. The commodities are valued at amounts assigned to the various items by the U.S. Department of Agriculture when the commodities are offered.