

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania

Financial and Single Audit Reports

For the Year Ended June 30, 2014

TABLE OF CONTENTS

	Page
Transmittal Letter	1
FINANCIAL AUDIT	
AUDITOR'S REPORTS	
Independent Auditor's Report.....	2
Report of Independent Accountants On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	5
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis.....	7
BASIC FINANCIAL STATEMENTS	
DISTRICT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position.....	25
Statement of Activities.....	26
FUND FINANCIAL STATEMENTS	
Governmental Funds	
Balance Sheet.....	27
Reconciliation of the Balance Sheet to the Statement of Net Position.....	28
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	29
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	30
General Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual.....	31
Proprietary Fund	
Statement of Net Position.....	32
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	33
Statement of Cash Flows.....	34
Fiduciary Funds	
Statement of Net Position.....	35
Statement of Changes in Net Position.....	36
Notes to Financial Statements.....	37

SINGLE AUDIT

Page

Report of Independent Accountants On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	58
Schedule of Expenditures of Federal Awards.....	60
Notes to the Schedule of Expenditures of Federal Awards.....	61
Schedule Of Findings And Questioned Costs.....	62
Summary Schedule Of Prior Audit Findings.....	65

OTHER INFORMATION

Report Distribution List.....	67
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TRANSMITTAL LETTER

Members of the School Board
Shamokin Area School District
2000 W. State Street
Coal Township, Pennsylvania

We have performed the single audit of the Shamokin Area School District for the fiscal year ended June 30, 2014 and have enclosed the single audit package.

The single audit was performed to fulfill the requirements of OMB Circular A-133 - *Audits of States, Local Governments and Non-Profit Organizations*. It entailed: (1) an audit of the financial statements and our opinion thereon; (2) an audit of the 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 financial statements; (4) a review of the internal control structure made as a part of the audit of the federal financial assistance programs; (5) a review of compliance based on an audit of the financial statements in accordance with *Government Auditing Standards*; and (6) a review of compliance with laws and regulations related to the federal financial assistance programs and our opinion thereon.

Klacik & Associates PC

Shamokin, Pennsylvania
March 15, 2015

Independent Auditor's Report

Members of the School Board
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 (the District) as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's 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.

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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 District, as of June 30, 2014, 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 7-24 and budgetary comparison information on page 31 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 District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 the responsibility of management and was derived from and relates 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standard*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2015 on our consideration of the 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 District's internal control over financial reporting and compliance.

Klacik & Associates PC

Shamokin, Pennsylvania
March 15, 2015

**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**

Members of the School Board
Shamokin Area School District
Coal Township, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Shamokin Area School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 15, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in

internal control over financial reporting 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 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.

Klacik & Associates PC

Shamokin, Pennsylvania
March 15, 2015

**SHAMOKIN AREA SCHOOL DISTRICT
COAL TOWNSHIP, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2014**

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, 2014. 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 2013-2014, 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. This cost is invoiced to the home districts of the students assigned to Northwestern Academy. The district is still collecting on unpaid invoices and is in the process of contacting PDE for assistance in receiving payment of outstanding invoices regarding Northwestern Academy. 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 Districts 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

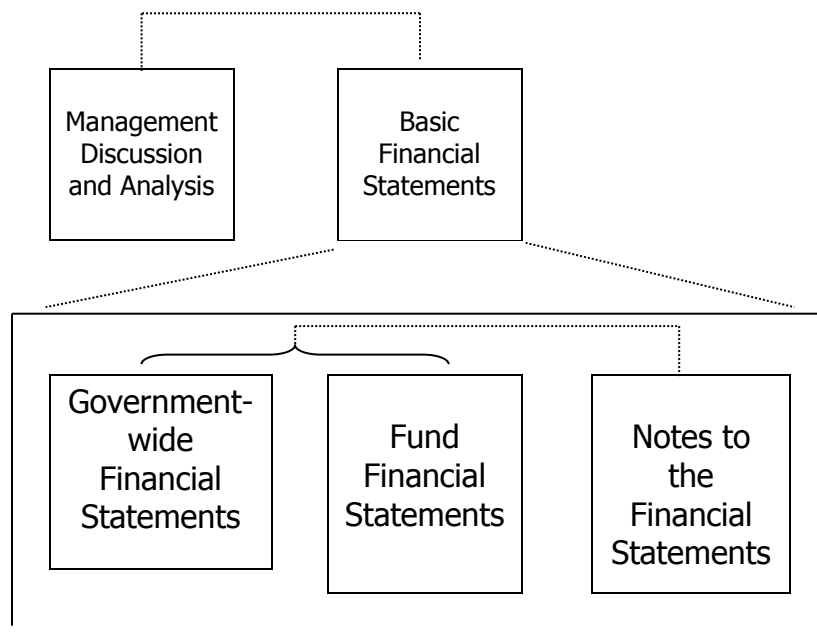


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the 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 \$30,343,232 increased from the prior year net position total of \$28,222,954 as of June 30, 2014. (See Table A-3.)

Table A-3
Shamokin Area School District
For Years Ended June 30, 2014 and 2013
Net Position

	Government Activities 2013-2014	Government Activities 2012-2013	Business-Type Activities 2013-2014	Business-Type Activities 2012-2013	Total 2013-2014	Total 2012-2013
Current and other assets	\$17,359,628	\$18,420,592	\$992,261	\$911,514	\$18,351,889	\$19,332,106
Capital assets	20,743,297	18,989,326	183,795	40,002	20,927,092	19,029,328
Total Assets	\$38,102,925	\$37,409,918	\$1,176,056	\$951,516	\$39,278,981	\$38,361,434
Current and other liabilities	\$4,985,875	\$5,788,908	\$157,450	\$275,367	\$5,143,325	\$6,064,275
Long-term liabilities	3,792,424	4,084,205	0	0	3,792,424	4,084,205
Total Liabilities	8,778,299	9,873,113	157,450	275,367	8,935,749	10,148,480
Invested in capital assets Net of related debt	17,059,957	15,677,051	183,795	40,002	17,243,752	15,717,053
Restricted for Capital Projects	2,025,555	2,819,733	0	0	2,025,555	2,819,733
Other Restrictions	0	0	0	0	0	0
Unrestricted total net position	10,239,114	9,040,021	834,811	646,147	11,073,925	9,686,168
Total Net Position	\$29,324,626	\$27,536,805	\$1,018,606	\$686,149	\$30,343,232	\$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, 2014 and 2013

	Governmental Activities 2013-2014	Governmental Activities 2012-2013	Business-Type Activities 2013-2014	Business-Type Activities 2012-2013	Total 2013-2014	Total 2012-2013
REVENUES:						
Program Revenues						
Charges for Services	\$0	\$0	\$352,537	\$338,313	\$352,537	\$338,313
Operating Grants & Contributions	6,342,613	6,968,805	1,011,045	956,925	7,353,658	7,925,730
General Revenues						
Property Taxes	2,008,573	2,249,075	0	0	2,008,573	2,249,075
Other Taxes	3,332,178	3,248,765	0	0	3,332,178	3,248,765
State Formula Aid	11,864,558	11,660,093	0	0	11,864,558	11,660,093
Investment Earnings	18,932	44,981	1,074	173	20,006	45,154
Transfers	(61,905)	100,000	67,703	(100,000)	5,798	0
Loss on fixed assets	0	0	0	0	0	0
Other	3,787,092	5,304,260	1,250	3,940	3,788,342	5,308,200
Total Revenues	27,292,041	29,575,979	1,433,609	1,199,351	28,725,650	30,775,330
EXPENSES:						
Depreciation – unallocated	390,055	492,485	0	0	390,055	492,485
Instruction	17,652,578	18,209,010	0	0	17,652,578	18,209,010
Instructional Student Support	1,282,905	1,312,264	0	0	1,282,905	1,312,264
Administration	2,825,228	2,711,276	0	0	2,825,228	2,711,276
Operation & Maintenance of Facilities	3,853,810	3,645,187	0	0	3,853,810	3,645,187
Pupil Transportation	1,296,329	1,193,983	0	0	1,296,329	1,193,983
Student Activities	453,996	439,957	0	0	453,996	439,957
Community Services	15,015	5,857	0	0	15,015	5,857
Scholarships and Awards	0	0	0	0	0	0
Capital Acquisition	15,241	123,440	0	0	15,241	123,440
Interest on long term debt	215,412	205,291	0	0	215,402	205,291
Food Service	0	0	1,287,912	1,278,955	1,287,912	1,278,955
Total Expenses	28,000,559	28,338,750	1,287,912	1,278,955	29,288,471	29,617,705
INCREASE (DECREASE) IN NET POSITION	\$(708,518)	\$1,237,229	\$145,697	\$(79,604)	\$(562,821)	\$1,157,625

The District's specific revenues as indicated above were \$27,292,041 for the year ended June 30, 2014. Taxes and State Formula Aid amounted to \$17,205,309. Another \$6,342,613 came from Operating Grants and Contributions. Food service revenue totaled \$1,433,609 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 \$28,000,559 for the year ended June 30, 2014. 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 \$20,685,808 or 73.88%, Administrative Costs accounted for \$2,825,228 or 10.09%, Operation of the District's Facilities accounted for \$3,853,810 or 13.76%, and Food Service Costs totaled \$1,287,912. (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.

- Overall, net position decreased by \$562,821 (See Table A-4.)

Table A-5
Shamokin Area School District
Net Cost of Governmental Activities
For Years Ended June 30, 2014 and 2013

	Total Cost of Services 2013-2014	Total Cost of Services 2012-2013	Percentage Change	Net Cost of Services 2013-2014	Net Cost of Services 2012-2013	Percentage Change
Depreciation – unallocated	\$390,055	\$492,485	-20.80%	\$(390,056)	\$(492,485)	-20.80%
Instruction	17,652,578	18,209,010	-3.06%	(12,565,412)	(12,521,859)	0.35%
Instructional Student Support	1,282,905	1,312,264	-2.24%	(1,151,484)	(1,024,414)	12.40%
Administration	2,825,228	2,711,276	4.20%	(2,795,348)	(2,644,940)	5.69%
Operation & Maintenance of Facilities	3,853,810	3,645,187	5.72%	(3,661,413)	(3,530,053)	3.72%
Pupil Transportation	1,296,329	1,193,983	8.57%	(476,979)	(404,074)	18.04%
Student Activities	453,996	439,957	3.19%	(371,897)	(418,104)	-11.05%
Community Services	15,015	5,857	156.36%	(14,715)	(5,285)	178.43%
Interest & Charges on Long-Term Debt	215,402	205,291	4.93%	(215,402)	(205,291)	4.93%
Scholarships/Awards	0	0	0	0	0	0%
Capital acquisition	15,241	123,440	-87.65%	(15,241)	(123,440)	-87.65%
Refund of prior year revenues	0	0	0	0	0	-%
Total Expenses	\$28,000,559	\$28,338,750	-1.19%	\$(21,657,947)	\$(21,369,945)	1.35%

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, 2014, the District's governmental funds reported a combined fund balance of \$10,433,216 an increase of \$35,514 from the prior year amount of \$10,397,702. (See Table A-6.) Although there was an increase overall, there were decreases in fund 39 for the elementary project as this project comes to an end (October 2014), other capital projects and the bond payable. The other factors are specific to two funds:

General Fund:

Overall, the District budgeted adequately for all levels of expenditures. Overall, actual expenditures of \$26,587,898 reflect 89.3% of the original budget estimate of \$29,776,150 or 10.7% 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. In addition, funds were budgeted to resolve past year issues regarding wards of state reimbursement from the state that may be owed to Northwestern. This item is still being discussed with our solicitor and has been budgeted for following year until its resolution.

Total actual revenue totaled \$27,479,496 equating to \$679,067 less than the original budget estimate of \$28,158,563.

Actual local revenue was below the original budget by \$896,634, largely due to unpaid tuition/rental invoices to home districts of students enrolled at Northwestern Academy. State revenue was approximately \$442,633 more than originally projected due to increase in subsidy for retirement reimbursement and the basic education subsidy. Federal revenue was below estimates by \$225,065 due to title one and school based ACCESS medical assistant reimbursement.

Based on the aforementioned, the district general fund realized an increase of \$35,514.

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 2013-14 the district expended a total of \$514,944 in capital projects, debt service, 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. However, the Federal Government Sequestrian affected the 100% repayment of the interest. The district is receiving about 92% of the interest paid for the Elementary Project Bond Issuance.

At the beginning of the fiscal year, the fund balance was \$2,218,711. With all of the capital expenditures and revenue, the ending fund balance totaled \$1,898,000 or a net change in fund balance of (\$320,711).

Table A-6
Shamokin Area School District
Change in Fund Balances
For Years Ended June 30, 2014 and 2013

	Fund Balance June 30, 2014	Fund Balance June 30, 2013	Increase (Decrease)
General Fund	\$8,407,661	\$7,577,968	\$829,693
Capital Reserve Fund	1,898,000	2,218,711	(320,711)
Non-Major Funds	0	0	0
Other Capital Projects Fund 39	127,555	601,023	(473,468)
Totals	\$10,433,216	\$10,397,702	\$35,514

Revenues for the District's governmental funds were \$27,679,465 while total expenses were \$27,582,045 yielding revenue of \$97,420. 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 by November, 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, 2014 and 2013**

	Revenues 2013-2014	Revenues 2012-2013	Increase (Decrease)	% Change
Local Sources	\$9,193,373	\$10,490,348	\$(1,296,975)	-12.36%
State Sources	16,927,439	16,416,548	510,891	3.11%
Federal Sources	1,358,683	2,003,336	(644,653)	-32.18%
Total Revenue	\$27,479,496	\$28,910,232	\$(1,430,736)	-4.95%

Total General Fund revenue decreased by \$1,430,736 or 4.95%. There was also a slight decrease in 2012-13 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, 2014 and 2013**

	Expenditures 2013-2014	Expenditures 2012-2013	Increase (Decrease)	% Change
Salaries	\$11,024,001	\$10,860,712	\$163,289	1.50%
Employee Benefits	7,149,748	6,153,294	996,454	16.19%
Purchased Professional Services	1,434,466	3,577,125	(2,142,659))	-59.9%
Purchased Property Services	1,932,851	1,939,448	(6,597)	-0.34%
Other Purchased Services	3,606,000	3,539,787	66,213	1.87%
Supplies	821,137	955,388	(134,251))	-14.05%
Equipment	476,379	398,258	78,121	19.62%
Dues/Fees/Misc.	143,279	94,011	49,268	52.41%
Other Expenditures	67,703	0	67,703	
Total Expenditures	\$26,655,564	\$27,518,023	\$(862,459)	-3.13%

Total General Fund expenditures decreased by \$862,459 or -3.13% from the previous year. As the district realized decreases in some of the line items due to the lack of state funding and impending district fiscal crisis creating the need to implement a spending freeze. Employees Benefits increased due to increase cost of healthcare and PSERS retirement. Equipment increased due to purchases of computers and technology for classrooms through the Rural and Low Income Grant. (See Table A-8.)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the District had \$20,927,092 in net capital assets, including land, buildings, furniture and equipment. This is an increase based on the total of \$19,029,328 in June of 2013 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, 2014 and 2013

	Governmental Activities 2013-2014	Government al Activities 2012-2013	Business- Type Activities 2013-2014	Business- Type Activities 2012-2013	Total 2013-2014	Total 2012-2013	% Change
Land	\$10,362,707	\$10,353,348	\$0	\$0	\$10,362,707	\$10,353,348	0.09%
Site Improvements	606,294	902,359	0	0	606,294	902,359	-32.81%
Building and Building Improvements (net of acc dep)	3,416,587	3,371,013	0	0	3,416,587	3,371,013	1.35%
Furniture and Equipment (net of acc dep)	2,139,293	644,282	183,795	40,002	2,323,088	684,284	239.49%
Debt Issuance	67,340	71,298			67,340	71,298	-5.55%
Construction in Progress	4,151,076	3,647,026			4,151,076	3,647,026	13.82%
Totals	\$20,743,297	\$18,989,326	\$183,795	\$40,002	\$20,927,092	\$19,029,328	9.97%

Debt Administration

As of June 30, 2011, the District had total outstanding general obligation debt of \$0. During the 2011-12 fiscal year, the district approved a \$4,068,000 bond issue via the Qualified Zone Academy Bond program offered 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, 2014 and 2013

	Year Ending June 30, 2014	Year Ending June 30, 2013	Increase (Decrease)	% Change
General Obligation Bonds	\$3,390,000	\$3,616,000	\$(226,000)	-6%
Compensated Absences and Other Post Employment Benefits	402,424	468,205	(65,781)	-14.05%
Totals	\$3,792,424	\$4,084,205	\$(291,781)	-7%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A major financial issue facing the District again in fiscal year 2013-2014, 2014-15 and in 2015-16 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 expired 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 \$15,240. .

The composite rate is being eliminated for the 2014-15 school year. Each employee will be assigned to the tier that reflects their eligibility per contract agreement. These tiers and annual cost are Single \$7,848, Husband & wife \$17,256, Parent & child \$10,980, Parent & children \$14,904, or Family \$21,960. The tiers establish a potential liability and difficulty in budgeting as employees move from single to two party or family coverage. It is projected for the 2015-16 school to increase by 5.5% per tier level.

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 was \$1,200,000 and the cost was For the first four months of 2014-15 the enrollment has increased by 50% when compared to 1314 enrollment year numbers. There have been bills introduced to address the funding inequities, however movement has been limited.

The local parochial school, Our Lady of Lourdes High School, has become a pre-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.

Providing instruction at Northwestern Academy has also seen its challenges. A decision was made to provide special education instruction in 1213 and with the addition of regular education in 1314. At that time, enrollment numbers were steady. These enrollment numbers have been declining since 1213. The district must take a closer look at the programs being offered and this facility and its total cost to the district. Though the district does invoice the home districts of costs, school code does limit what can be charged for regular education tuition. The lease agreement with Northwestern was for the 2012-13 school year and we are still negotiating terms for the 1314 and 1415 school year. Other items of concern between Shamokin Area School District and Northwestern Human Services are Wards of state tuition reimbursement for years prior to 2008-09, regular education tuition portion of the special education students during 2012-13, and outstanding payments from home school districts of invoices.

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 since 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 and 2015-16 budget, the district is still in negotiations and has prepared the budget without any increases included. Negotiations have been limited in progress and it is difficult to predict how to budget for 2015-16 and future budgets.

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 was **16.93%**. The 2014-15 is 21.41% and 25.84% for 2015-16. There also were changes to the plan for new employees related to retirement age, multiplier, and the vesting period. Legislation is still addressing these issues. The annual increases present a significant funding issue for the Commonwealth of Pennsylvania as well as local school districts.

The district was approved for a \$500,000 PEDA grant to focus on energy savings by updating/replacing HVAC system at High School. As part of this process, the district contracted with Schneider's Electric to conduct an energy audit. The result of the energy audit would possibly be an ESCO Project that will yield energy savings for the district. The energy savings will be applied to the cost of financing a project. This project will need financing that is estimated to be in the range of \$4.5 million and if approved will begin in the summer of 2015.

The district is projecting an operating deficit in the range of \$3,000,000; the actual budget figure is \$1,487,048 for 2012-13 however personnel and legal issues have contributed to the estimated increase in the deficit. In 13-14, the district was able to keep their expenses within the revenue collected and not have a high need to use the fund balance to budget. However, as stated above negotiations are in process and salaries were at a freeze. 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, maintenance of infrastructure, 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	Retirement 2015-2016	Retirement 2016-2017	Retirement 2017-2018
5.64%	8.65%	12.36%	16.93%	21.41%	25.84%	26.26%	26.80%

The percentage of the total budget of revenue and expenditure by category for 2014-2015 as compared to 2013-2014 budget estimates is as follows:

BUDGETED REVENUES

	2013-2014	2014-2015
Local	36.32%	34.63%
State	58.71%	58.09%
Federal/Other	5.84%	7.28%

BUDGETED EXPENDITURES

	2013-2014	2014-2015
Instruction	67%	65.35%
Support Services	30%	32.08%
Non-Instruction/Community	2%	1.94%
Fund Transfers/Other	1%	.62%

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
As of June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets:			
Cash and cash equivalents	\$ 10,177,540	\$ 926,896	\$ 11,104,436
Investments	419,614	-	419,614
Taxes receivable, net	1,983,028	-	1,983,028
Due from other governments	4,779,446	37,947	4,817,393
Inventories	-	16,387	16,387
Other Current Assets	-	11,031	11,031
Total Current Assets	<u>17,359,628</u>	<u>992,261</u>	<u>18,351,889</u>
Non-Current Assets:			
Debt Issuance Costs, net of accumulated amortization	67,340	-	67,340
Land	10,362,707	-	10,362,707
Land and site improvements, net of accumulated depreciation	606,294	-	606,294
Buildings and improvements, net of accumulated depreciation	3,416,587	-	3,416,587
Furniture and equipment, net of accumulated depreciation	2,139,293	183,795	2,323,088
Construction in progress	4,151,076	-	4,151,076
Total Non-Current Assets	<u>20,743,297</u>	<u>183,795</u>	<u>20,927,092</u>
Total Assets	38,102,925	1,176,056	39,278,981
Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 38,102,925</u>	<u>\$ 1,176,056</u>	<u>\$ 39,278,981</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Current Liabilities:			
Accounts payable	\$ 624,588	\$ 155,579	\$ 780,167
Accrued salaries and benefits	1,644,958	-	1,644,958
Due to other governments	2,397,400	-	2,397,400
Current portion of compensated absences	25,000	-	25,000
Current portion of long-term debt	226,000	-	226,000
Accrued interest	67,929	-	67,929
Deferred revenues	-	1,871	1,871
Internal balances	-	-	-
Total Current Liabilities	<u>4,985,875</u>	<u>157,450</u>	<u>5,143,325</u>
Non-current Liabilities:			
Long-term portion of compensated absences	334,146	-	334,146
Long-term portion of bonds payable	3,390,000	-	3,390,000
Long-term portion of other postemployment benefits	68,278	-	68,278
Total Non-Current Liabilities	<u>3,792,424</u>	<u>-</u>	<u>3,792,424</u>
Total Liabilities	8,778,299	157,450	8,935,749
Deferred Inflows of Resources	-	-	-
Total Liabilities and Deferred Inflows of Resources	<u>8,778,299</u>	<u>157,450</u>	<u>8,935,749</u>
Net Position:			
Invested in capital assets, net of related debt	17,084,957	183,795	17,268,752
Restricted for capital projects	2,025,555	-	2,025,555
Unrestricted	10,214,114	834,811	11,048,925
Total Net Position	<u>29,324,626</u>	<u>1,018,606</u>	<u>30,343,232</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 38,102,925</u>	<u>\$ 1,176,056</u>	<u>\$ 39,278,981</u>

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, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Unallocated depreciation	\$ 390,055	\$ -	\$ -	\$ (390,055)	\$ -	\$ (390,055)
Instruction	17,652,578	-	5,087,166	(12,565,412)	-	(12,565,412)
Instructional student support	1,282,905	-	131,421	(1,151,484)	-	(1,151,484)
Administrative and financial support services	2,825,228	-	29,880	(2,795,348)	-	(2,795,348)
Operation and maintenance of plant services	3,853,810	-	192,397	(3,661,413)	-	(3,661,413)
Pupil transportation	1,296,329	-	819,350	(476,979)	-	(476,979)
Student activities	453,996	-	82,099	(371,897)	-	(371,897)
Community services	15,015	-	300	(14,715)	-	(14,715)
Capital acquisition	15,241	-	-	(15,241)	-	(15,241)
Interest on long-term debt	215,402	-	-	(215,402)	-	(215,402)
Total Governmental Activities	28,000,559	-	6,342,613	(21,657,946)	-	(21,657,946)
Business-Type Activities:						
Food services	1,287,912	352,537	1,011,045	-	75,670	75,670
Total Primary Government	<u>\$ 29,288,471</u>	<u>\$ 352,537</u>	<u>\$ 7,353,658</u>	<u>(21,657,946)</u>	<u>75,670</u>	<u>(21,582,276)</u>
General Revenues:						
Taxes:						
Property taxes, levied for general purposes				2,008,573	-	2,008,573
Public utility, relty, earned income and miscellaneous taxes levied for general purposes				3,332,178	-	3,332,178
Grants, subsidies, and contributions not restricted				11,864,558	-	11,864,558
Investment Earnings				18,931	1,074	20,005
Miscellaneous				3,787,092	1,250	3,788,342
Transfers				(61,905)	67,703	5,798
Total General Revenues				<u>20,949,427</u>	<u>70,027</u>	<u>21,019,454</u>
Change in Net Position				<u>(708,519)</u>	<u>145,697</u>	<u>(562,822)</u>
Net Position - July 1, 2013, as previously stated				27,536,805	686,149	28,222,954
Adjustment to restate beginning net position				2,496,339	186,760	2,683,099
Net Position - July 1, 2013, restated				<u>30,033,144</u>	<u>872,909</u>	<u>30,906,053</u>
Net Position - June 30, 2014				<u>\$ 29,324,625</u>	<u>\$ 1,018,606</u>	<u>\$ 30,343,231</u>

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

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 8,108,632	\$ 1,917,418	\$ 151,490	\$ 10,177,540
Investments	-	-	-	-
Taxes Receivable	1,983,028	-	-	1,983,028
Due from Other Funds	-	7,955	-	7,955
Intergovernmental Receivables	4,779,446	-	-	4,779,446
Other Receivables	-	-	-	-
Other Current Assets	-	-	-	-
TOTAL ASSETS	14,871,106	1,925,373	151,490	16,947,969
DEFERRED OUTFLOW OF RESOURCES				
	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES				
	<u>\$ 14,871,106</u>	<u>\$ 1,925,373</u>	<u>\$ 151,490</u>	<u>\$ 16,947,969</u>
LIABILITIES & DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 573,280	\$ 27,373	\$ 23,935	\$ 624,588
Intergovernmental Payables	2,397,400	-	-	2,397,400
Due to Other Funds	7,955	-	-	7,955
Accrued Salaries and Benefits	1,644,958	-	-	1,644,958
Deferred Revenue	1,839,851	-	-	1,839,851
Other Current Liabilities	-	-	-	-
TOTAL LIABILITIES	6,463,444	27,373	23,935	6,514,752
DEFERRED INFLOWS OF RESOURCES				
	-	-	-	-
FUND BALANCES				
Restricted Fund Balance	-	1,898,000	127,555	2,025,555
Assigned Fund Balance	2,000,000	-	-	2,000,000
Unassigned Fund Balance	6,407,661	-	-	6,407,661
TOTAL FUND BALANCES	8,407,661	1,898,000	127,555	10,433,216
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES				
	<u>\$ 14,871,105</u>	<u>\$ 1,925,373</u>	<u>\$ 151,490</u>	<u>\$ 16,947,968</u>

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Reconciliation of Governmental Funds Balance Sheet
To the Statement of Net Position
Governmental Funds
As of June 30, 2014

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 10,433,216**

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	49,067,271	
Less: accumulated depreciation	<u>(28,391,314)</u>	20,675,957

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 but not on the governmental fund statements. 67,340

Investments held in the OPEB trust are reported on the District-Wide financial statements but not on the government fund statements. 419,614

Long-term liabilities, including bond and notes payable, are not due and payable in the current period and are not reported as liabilities in the fund statements.

Other postemployment benefits	(68,278)	
Bonds payable	(3,616,000)	
Compensated absences	<u>(359,146)</u>	(4,043,424)

Governmental funds do not report a liability for accrued interest until due and payable - such liability is accrued on the District-Wide financial statements. (67,929)

Delinquent personal and property taxes receivable are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds. 1,839,851

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 29,324,625**

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

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Statement of Revenues, Expenditures & Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Local Sources:	\$ 9,193,373	\$ 1,836	\$ 5,735	\$ 9,200,944
State Sources	16,927,439	-	-	16,927,439
Federal Sources	1,358,683	192,397	-	1,551,080
TOTAL REVENUES	<u>27,479,495</u>	<u>194,233</u>	<u>5,735</u>	<u>27,679,463</u>
EXPENDITURES				
Instruction	17,155,613	-	-	17,155,613
Support Services	8,975,773	87,104	-	9,062,877
Non-Instructional Services	454,554	-	-	454,554
Capital Outlay	-	-	479,203	479,203
Debt Service	-	427,840	-	427,840
Refunds of prior year revenues	1,957	-	-	1,957
TOTAL EXPENDITURES	<u>26,587,897</u>	<u>514,944</u>	<u>479,203</u>	<u>27,582,044</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>891,598</u>	<u>(320,711)</u>	<u>(473,468)</u>	<u>97,419</u>
OTHER FINANCING SOURCES (USES)				
Interfund Transfers In (Out)	(61,905)	-	-	(61,905)
Proceeds from sale of fixed assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(61,905)</u>	<u>-</u>	<u>-</u>	<u>(61,905)</u>
Net Change in Fund Balances	829,693	(320,711)	(473,468)	35,514
Fund Balance - July 1, 2013	<u>7,577,968</u>	<u>2,218,711</u>	<u>601,023</u>	<u>10,397,702</u>
Fund Balance - June 30, 2014	<u>\$ 8,407,661</u>	<u>\$ 1,898,000</u>	<u>\$ 127,555</u>	<u>\$ 10,433,216</u>

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

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance to the Statement of Activities
Governmental Funds
For the Year Ended June 30, 2014

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 35,514
Reconciliation of prior tax receivables and deferred revenue that will not be collected for several months after the District's year end require an adjustment not included in the governmental funds.	(332,689)
Accrual of other postemployment benefits are recorded in the Statement of Activities but are not recognized in governmental funds.	(105,639)
Bond issuance costs are recognized in the period incurred in the governmental funds but are amortized in the Statement of Activities.	(3,959)
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.	171,420
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.	521,929
Principal payments on long-term debt are expensed in the governmental fund statements, but reduce long-term debt on the Statement of Net Position.	218,829
Principal payments on long-term debt were reduced by investment income earned on the State Public School Building Authority (SPSBA)'s collective investment of all Principal Sinking Fund deposits. This is recognized in the Statement of Activities but is not recognized in the governmental funds.	7,171
Interest expense is recognized in the governmental fund statements when paid but is accrued in the Statement of Activities.	257
Increase in investments in the OPEB trust are expensed in the governmental fund statements but are an asset in the Statement of Net Assets.	38,989
Depreciation expense is recognized in the Statement of Activities but is not recognized in the governmental funds.	(1,260,339)
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$ (708,518)

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

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Statement of Revenues, Expenditures & Change in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Budgetary	Final Budget
			Basis	Positive
				(Negative)
REVENUES				
Local Revenues	\$ 10,090,008	\$ 10,090,008	\$ 9,193,373	\$ (896,635)
State Program Revenues	16,484,807	16,484,807	16,927,439	442,632
Federal Program Revenues	1,583,748	1,583,748	1,358,683	(225,065)
TOTAL REVENUES	28,158,563	28,158,563	27,479,495	(679,068)
EXPENDITURES				
<i>Instruction:</i>				
Regular Programs	11,159,913	11,159,913	10,216,528	943,385
Special Programs	3,973,700	3,973,700	4,045,209	(71,509)
Vocational Programs	1,213,954	1,213,954	1,397,761	(183,807)
Other Instructional Programs	2,793,411	2,793,411	1,324,164	1,469,247
Nonpublic School Programs	-	-	-	-
Community/Junior College Programs	-	-	-	-
Pre-Kindergarten Programs	181,184	181,184	171,951	9,233
<i>Support Services:</i>				
Pupil Personnel Services	738,494	738,494	594,978	143,516
Instructional Staff Services	624,302	624,302	656,330	(32,028)
Administrative Services	1,309,354	1,309,354	1,493,028	(183,674)
Pupil Health	309,189	309,189	295,961	13,228
Business Services	692,247	692,247	695,308	(3,061)
Operation & Maint. of Plant Services	4,393,400	4,393,400	3,671,995	721,405
Student Transportation Services	1,407,350	1,407,350	1,256,370	150,980
Central and Other Support Services	354,988	354,988	311,803	43,185
Other Support Services	-	-	-	-
<i>Operation of Noninstructional Services:</i>				
Food Services	-	-	-	-
Student Activities	574,930	574,930	440,002	134,928
Community Services	48,134	48,134	14,362	33,772
Scholarships and Awards	1,600	1,600	190	1,410
Acquisition, Constr., & Improvements	-	-	-	-
Debt Service	-	-	-	-
Refund of Prior year's revenue	-	-	1,957	(1,957)
TOTAL EXPENDITURES	29,776,150	29,776,150	26,587,897	3,188,253
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES	(1,617,587)	(1,617,587)	891,598	2,509,185
OTHER FINANCING SOURCES (USES)				
Interfund Transfers (Out)	-	-	(61,905)	(61,905)
Budgetary Reserve	(180,000)	(180,000)	-	180,000
Proceeds from Sale of Fixed Assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES				
(USES)	(180,000)	(180,000)	(61,905)	118,095
Net Change in Fund Balances	(1,797,587)	(1,797,587)	829,693	2,627,280
Fund Balance - July 1, 2013	4,596,492	4,596,492	7,577,968	2,981,476
Fund Balance - June 30, 2014	\$ 2,798,905	\$ 2,798,905	\$ 8,407,661	\$ 5,608,756

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

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Statement of Net Assets
Proprietary Fund
June 30, 2014

	Food Service
ASSETS & DEFERRED OUTFLOWS OF RESOURCES	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 926,896
Due from Other funds	-
Governmental Receivables	37,947
Other Receivables	-
Inventories	16,387
Total Current Assets	<u>981,230</u>
<i>Noncurrent Assets:</i>	
Machinery and Equipment	687,364
Less: Accumulated Depreciation	<u>(503,569)</u>
Total Noncurrent Assets	183,795
Deferred Outflows of Resources	<u>-</u>
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,165,025</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	
<i>Current Liabilities:</i>	
Accounts Payable	\$ 155,579
Due to Other Funds	-
Other Current Liabilities	<u>(11,031)</u>
Total Current Liabilities	<u>144,548</u>
<i>Noncurrent Liabilities:</i>	
Deferred Revenues	<u>1,871</u>
TOTAL LIABILITIES	<u>146,419</u>
Deferred Inflows of Resources	-
NET POSITION	
Investment in Capital Assets, net of Related Debt	183,795
Unassigned Fund Balance	<u>834,811</u>
TOTAL NET POSITION	<u>1,018,606</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	<u>\$ 1,165,025</u>

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

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2014

	Food Service
OPERATING REVENUES:	
Food Service Revenue	\$ 352,537
Other Revenue	1,250
TOTAL OPERATING REVENUES	<u>353,787</u>
OPERATING EXPENSES:	
Salaries	27,495
Employee Benefits	40,244
Purchased Property Service	-
Other Purchased Service	458,306
Supplies	691,558
Depreciation	42,967
Other Operating Expenses	27,342
TOTAL OPERATING EXPENSES	<u>1,287,912</u>
OPERATING INCOME/(LOSS)	<u>(934,125)</u>
NONOPERATING REVENUES (EXPENSES):	
Earnings on Investments	1,074
State Sources	47,925
Federal Sources	963,120
Interfund Transfers	67,703
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,079,822</u>
CHANGE IN NET POSITION	<u>145,697</u>
NET POSITION - JULY 1, 2013	686,149
ADJUSTMENT TO RESTATE BEGINNING NET POSITION	<u>186,760</u>
NET POSITION - JULY 1, 2013, RESTATED	<u>872,909</u>
NET POSITION - JUNE 30, 2014	<u><u>\$ 1,018,606</u></u>

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

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014

	Food Service
<i>Cash Flows from Operating Activities</i>	
Cash Received from Customers and Intergovernments	\$ 391,539
Cash Payments to Employees for Services	-
Cash Payments to Suppliers for Goods and Services	(1,372,234)
Net Cash (Used for) Operating Activities	(980,695)
<i>Cash Flows from Noncapital Financing Activities</i>	
State Sources	47,925
Federal Sources	963,120
Operating Transfers In (Primary Government)	67,703
Net Cash Provided by Noncapital Financing Activities	1,078,748
<i>Cash Flows from Investing Activities</i>	
Earnings on Investments	1,074
Net Cash Provided by Investing Activities	1,074
Net Increase (Decrease) in Cash and Cash Equivalents	99,127
Cash and Cash Equivalents Beginning of Year	827,769
Cash and Cash Equivalents End of Year	\$ 926,896
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:	
Operating Income (Loss)	\$ (934,125)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	42,967
(Increase) Decrease in Accounts Receivable	39,745
(Increase) Decrease in Inventories	(334)
Increase (Decrease) in Accounts Payable	6,905
Increase (Decrease) in Deferred Revenues	(1,993)
Increase (Decrease) in due to other funds	(133,860)
Total Adjustments	(46,570)
Net Cash (Used for) Operating Activities	\$ (980,695)

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

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Statement of Net Position
Fiduciary Funds
June 30, 2014

	Private Purpose Trust	Activity	Total Fiduciary Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS & DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Cash and Cash Equivalents	\$ 54,404	\$ 145,369	\$ 199,773
TOTAL ASSETS	<u>54,404</u>	<u>145,369</u>	<u>199,773</u>
DEFERRED OUTFLOW OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 54,404</u></u>	<u><u>\$ 145,369</u></u>	<u><u>\$ 199,773</u></u>
LIABILITIES			
Other Current Liabilities	\$ -	\$ 145,369	\$ 145,369
TOTAL LIABILITIES	<u>-</u>	<u>145,369</u>	<u>145,369</u>
DEFERRED INFLOW OF RESOURCES			
NET POSITION			
Unreserved Fund Balance	-	-	-
Unassigned Fund Balance	54,404	-	54,404
TOTAL NET POSITION	<u>54,404</u>	<u>-</u>	<u>54,404</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 54,404</u></u>	<u><u>\$ 145,369</u></u>	<u><u>\$ 199,773</u></u>

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

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Statement of Changes in Net Position
Fiduciary Funds
June 30, 2014

	Private Purpose Trust
ADDITIONS	
Gifts and Contributions	\$ 3,062
Other Additions	20
TOTAL ADDITIONS	<u>3,082</u>
DEDUCTIONS	
Scholarships awarded	6,350
Activities	-
TOTAL DEDUCTIONS	<u>6,350</u>
CHANGE IN NET POSITION	<u>(3,268)</u>
NET POSITION - JULY 1, 2013	19,088
ADJUSTMENT TO RESTATE BEGINNING NET POSITION	<u>38,584</u>
NET POSITION - JULY 1, 2013, RESTATED	<u>57,672</u>
NET POSITION - JUNE 30, 2014	<u><u>\$ 54,404</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, 2014**

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.

A. 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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. FUND ACCOUNTING

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

C. BASIS OF PRESENTATION

Government-wide statements (i.e., 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.

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 for building and site Improvements 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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -continued

BASIS OF PRESENTATION- continued

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.

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, clubs and scholarships.

D. 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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BASIS OF ACCOUNTING - continued

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.

E. 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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BUDGETS AND BUDGETARY ACCOUNTING - continued

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.

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.

F. 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.

G. 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.

H. 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.

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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

CAPITAL ASSETS – continued

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

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

I. 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.

J. 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.

K. 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.

L. 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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

M. 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).

N. 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:

A. 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.

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, 2014, the carrying amount of the District's deposits was \$ 11,304,208 and the bank balance was \$ 11,569,895. Of the bank balance, \$ 1,649,774 was covered by federal depository insurance coverage and \$ 9,920,121 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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

DEPOSITS – continued

Custodial Credit Risk - continued

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%).

As of June 30, 2014, the District had the following deposits (carrying value):

Pennsylvania Local Government Investment Trust (PLGIT)	\$ 151,489
Pennsylvania School District Liquid Asset Fund (PSDLAF)	123,958
Pennsylvania Treasurer's Invest Program for Local Governments	<u>7,529,774</u>
Total Deposits	<u>\$7,805,221</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.

B. 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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

INVESTMENTS - continued

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.

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 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, 2014 consist of \$419,614 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, 2014, are comprised of the following:

Federal Programs	\$ 439,250
State Programs	482,479
Local Programs	<u>3,857,717</u>
Total	<u>\$ 4,779,446</u>

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2013	\$ 3,842,000	\$ 530,566	\$ (37,361)
Additions	-	22,000	519,064
Reductions	(226,000)	(193,420)	(413,425)
Long-Term Debt - June 30, 2014	<u>\$ 3,616,000</u>	<u>\$ 359,146</u>	<u>\$ 68,278</u>
Due Within One Year	<u>\$ 226,000</u>	<u>\$ 25,000</u>	<u>\$ -</u>

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

<u>Years Ending June 30,</u>	<u>General Obligation Note Series A of 2011</u>
2015	\$ 226,000
2016	226,000
2017	226,000
2018	226,000
2019	226,000
2020 - 2024	904,000
2025 - 2028	1,130,000
2029 - 2030	<u>452,000</u>
Total	<u><u>\$ 3,616,000</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, 2014**

NOTE 4 - CHANGES IN LONG-TERM DEBT – continued

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 92.80% 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, 2014, the estimated liability for compensated absences related to vacation payable was \$40,255.

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, 2014, the estimated liability for compensated absences related to sick and personal leave was \$152,892.

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, 2014, the estimated liability for compensated absences related to outstanding early retirement incentives was \$166,000.

The total compensated absences at yearend were \$359,147.

OTHER POST EMPLOYMENT BENEFITS

The District also provides other postemployment benefits as more fully discussed in Note 10. Total liability (asset) at June 30, 2014 was \$68,278.

SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 5 - CAPITAL ASSETS:

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

	Balance July 1, 2013	Adjustment to Restate Fund Balances	Restated Balance July 1, 2013	Net Additions	Balance June 30, 2014
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Construction in Progress	\$ 3,647,026	\$ -	\$ 3,647,026	\$ 714,774	\$ 4,361,800
Land	10,353,348	9,359	10,362,707	-	10,362,707
Total Capital Assets, Not Depreciated	14,000,374	9,359	14,009,733	714,774	14,724,507
Capital Assets, Being Depreciated:					
Buildings and Improvements	21,289,483	591,728	21,881,211	-	21,881,211
Site Improvements	3,207,753	(393,314)	2,814,439	-	2,814,439
Furniture & Equipment	6,851,401	2,988,558	9,839,959	17,879	9,857,838
Total Capital Assets, Being Depreciated	31,348,637	3,186,972	34,535,609	17,879	34,553,488
Accumulated Depreciation For:					
Buildings and Improvements	(17,918,470)	(223,263)	(18,141,733)	(322,891)	(18,464,624)
Site Improvements	(2,305,394)	164,413	(2,140,981)	(67,164)	(2,208,145)
Furniture & Equipment	(6,207,119)	(641,142)	(6,848,261)	(870,284)	(7,718,545)
Total Accumulated Depreciation	(26,430,983)	(699,992)	(27,130,975)	(1,260,339)	(28,391,314)
Governmental Activities - Capital Assets, Net -	\$ 18,918,028	\$2,496,339	\$21,414,367	\$(527,686)	\$ 20,886,681
Business Type Activities:					
Furniture/Equipment	\$ 689,609	\$ (2,245)	\$ 687,364	\$ -	\$ 687,364
Less: Accumulated Depreciation	(649,607)	189,005	(460,602)	(42,967)	(503,569)
Business Type Activities- Capital Assets, Net	\$ 40,002	\$ 186,760	\$ 226,762	\$ (42,967)	\$ 183,795

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 5 - CAPITAL ASSETS - continued

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

Unallocated Depreciation	\$ 390,055
Instruction	545,632
Instructional Student Support	39,798
Administrative & Financial Support Services	88,992
Operation & Maintenance of Plant Services	119,558
Pupil Transportation	39,959
Student Activities	13,994
Community Services	463
Capital Acquisition	15,241
Interest on Long-Term Debt	6,647
	<hr/>
Total Depreciation Expense	<u><u>\$ 1,260,339</u></u>

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 TO) 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 TO) of the member's qualifying compensation. Members who joined the System after June 30, 2001 contribute at 7.50 percent (automatic Membership Class TO). For all new hires and for members who elected Class TO 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

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014, the rate of employer's contribution was 16.93 percent of covered payroll. The 16.93 percent rate is comprised of a pension contribution rate of 16.00 percent for pension benefits and 0.93 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, 2014, 2013, 2012, and 2011, were \$658,299, \$341,344, \$207,777, and \$237,257, respectively, equal to the required contributions for each year.

NOTE 7 - TAXES ASSESSED AND DEFERRED REVENUE:

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

Tax Type	Millage/Rate	Tax Levy
Real Estate - Northumberland County	26.4195 mills	\$ 2,717,057
Occupation Tax- Act 511	\$200.00/person	964,000
Per Capita Tax- Act 511	\$ 5.00/person	64,565
Per Capita Tax - Section 679	\$ 5.00/person	64,565
Total Assessed Valuation		<u>\$ 3,810,187</u>

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.

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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

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 expenditure 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, 2014, 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. In as much as the Plan has no assets, reporting another 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.

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 2014, the District made no contributions and instead elected to continue funding on a *pay-as-you-go* basis, which amounted to \$413,425 for 2014. These costs are recognized as an expense when claims or premiums are paid.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 10 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – continued

ANNUAL OPEB COST AND NET OPEB OBLIGATION

For 2014, 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	(1,681)
Adjustment to Annual Required Contribution	<u>7,243</u>
Annual OPEB Cost	519,064
Contributions or Payments Made	<u>(413,425)</u>
Increase in Net OPEB Obligation	105,639
Net OPEB Obligation, Beginning of Year	<u>(37,361)</u>
Net OPEB Obligation, End of Year	<u>\$ 68,278</u>

Percentage of Annual OPEB Cost Contributed	79.65%
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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, 2014**

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>\$ 2,163,615</u>
 Funded Ratio	 <u>14.12%</u>
 Covered Payroll	 <u>\$ 9,565,244</u>
 UAAL as Percentage of Covered Payroll	 <u>22.62%</u>

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).

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 12 - GASB STATEMENT NO. 54 - continued

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.

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 non-General funds are classified as restricted fund balance.

It is possible for the non-General 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 non-General fund.

BALANCE SHEET - GOVERNMENTAL FUNDS				
JUNE 30, 2014				
EQUITY	General	Capital Reserve	Capital Projects	Total Governmental Funds
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	-	1,898,000	127,555	2,025,555
Committed	-	-	-	-
Assigned	2,000,000	-	-	2,000,000
Unassigned	6,407,661	-	-	6,407,661
TOTAL FUND BALANCE	\$ 8,407,661	\$ 1,898,000	\$ 127,555	\$ 10,433,216

NOTE 13 - CONTINGENCY

At June 30, 2014, the District is in the process of completing the capital renovations on the District's Elementary School. During the 2012-2013, the plumbing contractor on the project (Yannuzzi, Inc.) had 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 has received a writ of summons from Yanuzzi, Inc. The District's design professional has indicated that the

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014, the District's share of the trust is \$419,614.

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.

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 provided all educational services that the District was required to provide under Section 1306 of the School Code and educated, on the District's behalf, all students who were placed residentially at Northwestern. The District would 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 would 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 had 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 had been added to the escrow account

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

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

accumulated interest. The District complied with the order and, in August 2012, it paid Northwestern all sums held in escrow.

Effective July 1, 2013, the SASD had 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 to be paid by the SASD to Northwestern. The SASD invoiced 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.

Effective July 1, 2014, the SASD has "taken over" providing all education services including regular and special education provided at Northwestern. As of the audit date, a contract for the 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 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 neither 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.

NOTE 17 - INTERFUND ACTIVITY:

A summary of interfund operating transfers for the year ended at June 30, 2014 is as follows:

Fund	Interfund Revenue (Expenditure)
General	\$ (61,905)
Cafeteria	67,703
Activity	(5,798)

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 18 – RESTATEMENT OF FUND BALANCE AS OF JUNE 30, 2013

CAPITAL ASSET APPRAISAL

On January 9, 2014, Industrial Appraisal Company performed a full property inventory and accounting cost report, which was later updated for the year ended June 30, 2014. This was the first time the District has had a full appraisal done in over a decade. There were many capital assets that were not previously captured and therefore missed being recorded in the fund balance.

In order to properly reflect the District's records as of June 30, 2014, the beginning fund balances must be restated as of June 30, 2013 to include all previously missed capital assets and accumulated depreciation recaptured in the report. See Note 5 for capital assets schedule.

As a result, net assets and fund balances of the District were restated as follows:

	<u>General Fund</u>	<u>Food Service</u>
Balance as of June 30, 2013 (as previously stated)	\$7,577,968	\$686,149
Restatement	<u>2,496,339</u>	<u>186,760</u>
Balance as of June 3, 2014 (as restated)	<u><u>\$10,074,307</u></u>	<u><u>\$872,909</u></u>

FIDUCIARY FUND

The District maintains five (5) scholarship accounts in the Fiduciary Funds. In the fiscal year ended June 30, 2013, the financial statements only reflected one (1) scholarship account. In order to properly report the year's activity and ending position, the beginning balance must be restated to include all five (5) scholarships. The effect of this adjustment was to increase beginning assets and fund balance by \$38,584.

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the School Board
Shamokin Area School District
2000 West State Street
Coal Township, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Shamokin Area School District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The 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 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 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 District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2014.

Report on Internal Control over Compliance

Management of the 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 District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 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, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The 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.

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.

Klacik & Associates PC

Shamokin, Pennsylvania
March 15, 2015

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	PROGRAM OR AWARD AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED OR (DEFERRED) REVENUE AT 6/30/13	REVENUE RECOGNIZED	FEDERAL EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT 6/30/14
U.S. DEPARTMENT OF EDUCATION									
Passed through Pennsylvania Department of Education:									
ESEA Title I Grants to Local Educational Agencies	84.010	013-140380	7/1/13-9/30/14	\$ 696,508	\$ 605,883	\$ -	\$ 718,058	\$ 718,058	\$ 112,175
ESEA Title I Grants to Local Educational Agencies	84.010	013-130380	7/1/12-9/30/13	764,882	146,556	138,856	7,700	7,700	-
ESEA Title I - Delinquent	84.010	107-140380	7/1/13-9/30/14	327,987	195,915	-	193,518	193,518	(2,397)
ESEA Title I - Delinquent	84.010	107-130380	7/1/12-9/30/13	376,698	101,945	39,075	62,870	62,870	-
Rural Education	84.358	007-140380	7/1/13-9/30/14	47,812	31,875	-	9,733	9,733	(22,142)
Rural Education	84.358	007-130380	7/1/12-9/30/13	53,361	29,106	930	11,713	11,713	(16,463)
ESEA Title II Improving Teacher Quality	84.367	020-140380	7/1/13-9/30/14	169,535	146,929	-	161,030	161,030	14,101
ESEA Title II Improving Teacher Quality	84.367	020-130380	7/1/12-9/30/13	176,039	81,916	39,036	42,880	42,880	-
Passed through Central Susquehanna Intermediate Unit:									
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	07/01/13-06/30/14		119,391	-	432,365	432,365	312,974
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	07/01/12-06/30/13	469,865	341,142	341,142	-	-	-
Special Education - Grants to States (IDEA, Preschool)	84.173	N/A	07/01/13-06/30/14			-	-	-	-
Special Education - Grants to States (IDEA, Preschool)	84.173	N/A	07/01/12-06/30/13	5,083	5,083	5,083	-	-	-
Race to the Top - ARRA	84.395	B413A120004	7/1/12-9/30/13	56,709	7,817	657	7,160	7,160	-
TOTAL U.S. DEPARTMENT OF EDUCATION					1,813,558	564,779	1,647,027	1,647,027	398,248
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Passed through Pennsylvania Department of Public Welfare:									
Medical Assistance Program (ACCESS Title XIX)									
Administration Reimbursement	93.778	N/A	07/01/13-06/30/14	36,812	22,757	-	36,812	36,812	14,055
Medical Assistance Program (ACCESS Title XIX)									
Administration Reimbursement	93.778	N/A	07/01/12-06/30/13	13,352	6,554	6,554	-	-	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					29,311	6,554	36,812	36,812	14,055
U.S. DEPARTMENT OF AGRICULTURE									
Passed through Pennsylvania Department of Education:									
School Breakfast Program (SBP)	10.553	116-49-650-3	07/01/13-06/30/14	-	165,238	-	168,884	168,884	3,646
School Breakfast Program (SBP)	10.553	116-49-650-3	07/01/12-06/30/13	158,878	3,413	3,413	-	-	-
National School Lunch Program (NSLP)	10.555	116-49-650-3	07/01/13-06/30/14	-	631,161	-	644,043	644,043	12,882
National School Lunch Program (NSLP)	10.555	116-49-650-3	07/01/12-06/30/13	676,887	11,823	11,823	-	-	-
Fresh Fruit and Vegetables Program	10.582	116-49-650-3	07/01/13-06/30/14		64,560	-	77,994	77,994	13,434
Passed through Pennsylvania Department of Agriculture:									
Value of USDA Commodities	10.555	2-02-49-650	07/01/13-06/30/14	65,209	51,473	(8,709)	58,311	58,311	(1,871)
					(A.)	(B.)		(C.)	(D.)
TOTAL U.S. DEPARTMENT OF AGRICULTURE					927,668	6,527	949,232	949,232	28,091
TOTAL FEDERAL AWARDS					\$ 2,770,537	\$ 577,860	\$ 2,633,070	\$ 2,633,070	\$ 440,393

Code Legend

- (A.) Total amount of commodities received
(B.) Beginning inventory at July 1, 2013
(C.) Total amount of commodities used
(D.) Ending inventory at June 30, 2014

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

1. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards has been presented on the accrual basis of accounting. Expenditures are recorded, accordingly, when incurred rather than when paid.

The expenditures of Federal awards under the American Recovery and Reinvestment Act of 2009 (ARRA) are separately identified on the accompanying Schedule of Expenditures of Federal Awards.

The Shamokin Area School District (the District) has received noncash assistance during the year ended June 30, 2014 which is included in the Schedule of Expenditures of Federal Awards.

2. CATEGORIZATION OF EXPENDITURES

The accompanying Schedule of Expenditures of Federal Awards reflects Federal expenditures for all programs which were active during the year. The categorization of expenditures included in the accompanying Schedule of Expenditures of Federal Awards is based on the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued in June and December of each year. The accompanying Schedule of Expenditures of Federal Awards reflects CFDA changes issued through March 2014.

3. IDENTIFICATION OF MAJOR PROGRAMS

As shown on the accompanying *Schedule of Findings and Questioned Costs*, the dollar threshold used to determine major programs was three hundred thousand dollars (\$300,000). The District had the following major programs which were audited:

Child Nutrition Cluster:

10.553	School Breakfast Program (SBP)
10.555	National School Lunch Program (NSLP)
10.559	Summer Food Service Program for Children (SFSPC)

84.010	Title I Grants to Local Educational Agencies
--------	--

Special Education Cluster (IDEA):

84.027	Special Education--Grants to States (IDEA, Part B)
84.173	Special Education--Preschool Grants (IDEA Preschool)

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	UNQUALIFIED
Internal control over financial reporting:	
Material weakness(es) identified?	_____ yes <u> X </u> no
Significant deficiency(ies)?	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____ yes <u> X </u> no
Significant deficiency(ies)?	<u> X </u> yes _____ none reported
Type of auditors' report issued on compliance for major programs:	UNQUALIFIED
Any audit findings disclosed that are required to be reported in accordance with Section (510(a) of OMB Circular A-133?	<u> X </u> yes _____ no

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Education Agencies
Special Education Cluster (IDEA):	
84.027	Special Education--Grants to States (IDEA, Part B)
84.173	Special Education--Preschool Grants (IDEA Preschool)
Child Nutrition Cluster:	
10.553	School Breakfast Program (SBP)
10.555	National School Lunch Program (NSLP)
10.559	Summer Food Service Program for Children (SFSPC)

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

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

FINDING NO.

FINDING/NONCOMPLIANCE

2014-001

**COMPLIANCE AND INTERNAL CONTROL OVER
ALLOWABLE COSTS/COST PRINCIPLES – SEMI –ANNUAL
CERTIFICATIONS NOT OBTAINED FOR ALL EMPLOYEES
WORKING SOLELY ON A SINGLE COST OBJECTIVE–
SIGNIFICANT DEFICIENCY**

Criteria: OMB Circular A-133 requires that an employee working solely on a single cost objective must furnish a semi-annual certification that he/she has been engaged solely in activities that support the single cost objective. The certification must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

Condition: The District did not collect signed semi-annual certifications from two employees charged solely to a single Federal cost objective. The District used their class schedules as documentation for their sole cost objective.

Cause: Lack of understanding of Federal allowable cost - documentation of employee time and effort requirements.

Effect: Greater opportunity for error in the charging of expenditures to Federal cost objectives and no assurance that errors will be detected and corrected on a timely basis.

Questioned Costs: None reported

Recommendation: We recommend the District collect semi-annual certifications from all employees working solely in activities that support a single cost objective, to ensure all expenditures are properly charged to a specific grant program and funding stream.

Management

Response: The Shamokin Area School District agrees with the finding. In the upcoming fiscal year, they will require all employees associated with a single cost objective to sign semi-annual certifications regardless of their additional supporting documentation of class schedules.

SHAMOKIN AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

FINDING NO.

FINDING/NONCOMPLIANCE

2013-001

**COMPLIANCE AND INTERNAL CONTROL OVER AVERAGE
PAID LUNCH EQUITY CALCULATION**

Condition: Federal fiscal regulations require that the District annually compute its average paid lunch pricing requirement to ensure that the Paid Lunch Equity has been met. During the prior fiscal year, the District did not complete the required computation and as such did not determine if it had met the equity requirement.

Recommendation: The District should 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 requirements.

Resolution: The District has calculated and maintained supporting documentation for their Paid Lunch Equity calculation in the current fiscal year. They have also ensured that the pricing requirement is satisfied through additional non-federal source equity contributions.

SHAMOKIN AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

FINDING NO.

FINDING/NONCOMPLIANCE

2013-002

**COMPLIANCE AND INTERNAL CONTROL OVER ANNUAL
VERIFICATION OF LUNCH APPLICATIONS**

Condition: Federal regulations require that the District annually verify a sample of their lunch applications; these must be reviewed and signed by a confirming official and then the verifying official. During the prior year, the District completed the verification process but the applications were not signed by either the confirming or verifying official.

Recommendation: The District should ensure that the verified applications are signed by the appropriate confirming and verifying officials.

Resolution: The District has performed the annual verification correctly in the current fiscal year.

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania

REPORT DISTRIBUTION LIST

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