

***SPRING COVE SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
June 30, 2011***

Ritchey, Ritchey & Koontz

CERTIFIED PUBLIC ACCOUNTANTS

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BRAD M. KOONTZ, AUDIT MANAGER

JEFFREY K. KOONTZ, BRANCH MANAGER

School Board

Spring Cove School District

We have performed the Single Audit of the Spring Cove School District for the fiscal year ended June 30, 2011, and have enclosed the Single Audit package.

The Single Audit was done to fulfill the requirements of OMB Circular A-133. It entailed:
1. an audit of the financial statements and our opinion thereon; 2. an examination 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 compliance based on an audit of financial statements in accordance with Government Auditing Standards; and 5. a review of compliance with laws and regulations related to federal expenditures.

During the course of our audit, no conditions were discovered that required the issuance of a management letter to the District.

Very truly yours,

Ritchey, Ritchey & Koontz

December 15, 2011

Ritchey, Ritchey & Koontz

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Spring Cove School District
Roaring Spring, Pennsylvania

Please perform the following actions:

Present and approve the audit report at a School Board Meeting.

Advertise the availability of the audit report in a newspaper of general circulation.

Please distribute copies as follows:

One (1) Copy, electronically filed to:

RA-BOASingleAudit@state.pa.us

Commonwealth of Pennsylvania

Bureau of Audits

Special Audit Services Division

Forum Place - 8th Floor

555 Walnut Street

Harrisburg, PA 17101

One (1) Copy, electronically filed to:

Single Audit Clearinghouse

1201 E 10th St

Jeffersonville IN 47132-0001

One (1) Copy:

To remain open for public inspection in the School District office.

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Independent Auditor's Report

School Board
Spring Cove School District
Roaring Spring, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spring Cove School District as of and for the year ended June 30, 2011 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in addressing the results of our audit.

The Management's Discussion and Analysis section, and Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Spring Cove School District's basic financial statements. The accompanying combining and individual non major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Very truly yours,

Ritchey, Ritchey & Keontz

December 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SPRING COVE SCHOOL DISTRICT
ROARING SPRING, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2011**

The discussion and analysis of Spring Cove School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole.

The Management Discussion and Analysis (MD&A) is an element of the 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

The trends of prior years indicated that during the fiscal 2010/11 fiscal year, the Spring Cove School District would experience a year of significant increases in costs for employee retirement in the form of deposits to the Pennsylvania School Employees Retirement System and self-insured health benefits for our employees. However, due to the realignment of staff, restructuring of healthcare for Administrative and Support staff, as well as a wage freeze for Administrative staff, total expenses remained relatively flat for 2011.

General revenues accounted for \$18,177,241. Program specific revenue in the form of charges for services, operating grants, and contributions account for \$4,995,248. In addition, Federal stimulus funds that were program specific were offered and used by the District.

General revenues for the prior year were \$17,461,641 indicating an increase of \$715,600. The vast majority of increased revenue was in Federal funding at \$335,877.67. State funding for special education has remained essentially level for the fourth year. Earnings and investments were also comparable with 2010 at \$16,377. Total State funding fell \$65,257 as Local revenue rose \$147,561. This is despite no millage increase for the year.

Among the major funds, the General Fund had \$22,813,328 in revenues and \$21,666,244 in expenditures. Revenues increased by \$418,181 and expenditures increased by \$221,444. The General Fund balance increased by \$1,147,086 over the 2010 total General Fund balance of \$4,731,433 to a new total of \$5,878,519. The increase was due to careful use of the funds and a reduction of debt expenses due to refinancing in offsetting expected expenditures. In addition, the expenditures in most account areas were lower than projected due to a very conservative approach to spending.

The General Fund balance is structured as such:

- Unassigned funds total \$2,754,975 and may be spent as needed for all approved expenses.
- Assigned funds total \$1,208,792 and are as such relative to the roof replacement and significant maintenance needs as desired by the Board and relative to the intentions of Business Manager.
- Relative to Board action, Committed funds total \$1,500,000 of which \$500,000 has been set aside for future employee benefits costs and \$1,000,000 for the purpose of cash flow and resources in the event of Local, State or Federal shortfalls in funding.
- Restricted funds total \$320,000 and relate to pledged construction bonding funds.

USING THE ANNUAL FINANCIAL REPORT (AFR)

The annual financial (AFR) report consists of an Introductory Section and a Financial Section that provide additional information regarding the District. Within this Financial Section are the Management Discussion and Analysis (this section) and a series of financial statements and notes to those statements.

These statements are organized so that the reader can understand Spring Cove School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

Two statements are government-wide financial statements – the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the District’s overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District’s operations in more detail than the government-wide statements. The governmental funds statements tell how general District services were financed in the short term, as well as what remains for future spending. Proprietary fund statements offer short 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.

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 assets 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 assets 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 and 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. None of the School District’s other programs are reported as business activities.

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 Assets 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 activity and scholarship 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

The District's total net assets were \$15,261,169 at June 30, 2011.

Table A-1
Fiscal Years Ended June 30, 2010 & 2011
Net Assets

	2010	2010	2010	2011	2011	2011
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and other assets	\$ 11,084,447	\$ 247,103	\$ 11,331,550	\$ 10,502,531	\$ 297,336	\$ 10,799,867
Capital assets	<u>28,502,533</u>	<u>15,923</u>	<u>28,518,456</u>	<u>30,202,481</u>	<u>14,651</u>	<u>30,217,132</u>
Total Assets	<u>\$ 39,586,980</u>	<u>\$ 263,026.00</u>	<u>\$ 39,850,006</u>	<u>\$ 40,705,012</u>	<u>\$ 311,987</u>	<u>\$ 41,016,999</u>
Current and other liabilities	\$ 3,995,133	\$ 10,589	\$ 4,005,722	\$ 3,649,046	\$ 10,697	\$ 3,659,743
Long-term liabilities	<u>22,620,646</u>	<u>0</u>	<u>22,620,646</u>	<u>22,096,087</u>	<u>0</u>	<u>22,096,087</u>
Total Liabilities	<u>\$ 26,615,779</u>	<u>\$ 10,589</u>	<u>\$ 26,626,368</u>	<u>\$ 25,745,133</u>	<u>\$ 10,697</u>	<u>\$ 25,755,830</u>
Net assets						
Invested in capital assets, net of related debt	\$ 5,352,533	15,923	5,368,456	\$ 7,877,481	14,651	7,892,132
Capital projects	2,695,663	0	2,695,663	651,325	0	651,325
Restricted	900,000	0	900,000	414,752	0	414,752
Unrestricted	<u>4,023,005</u>	<u>236,514</u>	<u>4,259,519</u>	<u>6,016,321</u>	<u>286,639</u>	<u>6,302,960</u>
Total Net Assets	<u>\$ 12,971,201</u>	<u>\$ 252,437</u>	<u>\$ 13,223,638</u>	<u>\$ 14,959,879</u>	<u>\$ 301,290</u>	<u>\$ 15,261,169</u>

A major portion of the District's net assets are invested in capital assets (buildings, land, and equipment.) The remaining unrestricted net assets are combined of designated and undesignated amounts. The designated balances are amounts set aside to fund future purchases or planned capital projects by the District, or for funding of future employee benefits costs.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. 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.

Table A-2 presents the total revenues and the expenses of both Governmental Activities and Business-type Activities for the 2010 and 2011 years.

Table A-2
Fiscal Years Ended June 30, 2010 & 2011
Changes in Net Assets

	2010 Governmental Activities	2010 Business-Type Activities	2010 Total	2011 Governmental Activities	2011 Business- Type Activities	2011 Total
Revenues						
Program revenues:						
Charges for services	\$ 111,189	\$ 516,955	\$ 628,144	\$ 79,116	\$ 527,333	\$ 606,449
Operating grants and contributions	4,933,505	455,176	5,388,681	4,439,774	465,462	4,905,236
Capital grants and contributions	384,378	0	384,378	476,358	0	476,358
General revenues:						
Local taxes	7,912,025	0	7,912,025	8,217,458	0	8,217,458
Other taxes	1,222,826	0	1,222,826	1,470,702	0	1,470,702
Grants, subsidies and contributions, unrestricted	7,643,934	0	7,643,934	8,339,678	0	8,339,678
Other	211,837	262	212,099	149,403	98	149,501
Total Revenues	<u>\$ 22,419,694</u>	<u>\$ 972,393</u>	<u>\$ 23,392,087</u>	<u>\$ 23,172,489</u>	<u>\$ 992,893</u>	<u>\$ 24,165,382</u>
Expenses						
Instruction	\$ 12,101,944		\$ 12,101,944	\$ 12,577,260	\$ 0	\$ 12,577,260
Instructional student support	1,104,724		1,104,724	1,134,288		1,134,288
Administrative and financial support	2,671,414		2,671,414	2,284,007		2,284,007
Operation and maintenance of plant	1,959,343		1,959,343	1,854,086		1,854,086
Pupil transportation	1,062,054		1,062,054	992,856		992,856
Student activities	438,965		438,965	461,397		461,397
Community services	10,933		10,933	17,383		17,383
Interest on long-term debt	890,678		890,678	829,808		829,808
Unallocated depreciation expense	983,189		983,189	1,032,726		1,032,726
Food Services	0	884,995	884,995	0	944,040	944,040
Total Expenses	<u>\$ 21,223,244</u>	<u>\$ 884,995</u>	<u>\$ 22,108,239</u>	<u>\$ 21,183,811</u>	<u>\$ 944,040</u>	<u>\$ 22,127,851</u>
Increase (Decrease) In Net Assets	<u>\$ 1,196,450</u>	<u>\$ 87,398</u>	<u>\$ 1,283,848</u>	<u>\$ 1,988,678</u>	<u>\$ 48,853</u>	<u>\$ 2,037,531</u>

Table A-3 shows the District's ten largest functions – instructional programs, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, long-term debt, as well as each program's net cost (total cost less revenues generated by the activities.) This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Fiscal Year Ended June 30, 2011
Governmental Activities

<u>Functions/Programs</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 12,577,260	\$ 9,587,998
Instructional student support	1,134,288	826,199
Administrative	2,284,007	1,741,163
Operation and maintenance	1,854,086	1,854,086
Pupil transportation	992,856	393,277
Student activities	461,397	383,281
Community services	17,383	17,383
Long-term debt	829,808	353,450
Unallocated depreciation expense	1,032,726	1,032,726
Site improvement	0	0
Other support services	<u>0</u>	<u>0</u>
Total governmental activities	<u>\$ 21,183,811</u>	<u>\$ 16,189,563</u>
Less:		
Unrestricted grants, subsidies		<u>(8,339,678)</u>
Total needs from local taxes and other revenues		<u>\$ 7,849,885</u>

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District.

Table A-4
Fiscal Year Ended June 30, 2011
Business-Type Activities

<u>Functions/Programs</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Food Services	\$ <u>944,040</u>	\$ (48,755)
Less:		
Investment earnings		<u>(98)</u>
Total business-type activities		<u>\$ (48,853)</u>

The Statement of Revenues, Expenses and Changes in Fund Net Assets for this proprietary fund will further detail the actual results of operations.

THE DISTRICT FUNDS

At June 30, 2011, the District governmental funds reported a combined fund balance of \$7,500,073, a decrease of \$921,700. The capital projects fund saw a reduction due to initiation of and subsequent payment for capital projects. However, the General Fund saw an increase in capital that more than offset the decrease in funds on hand for capital projects.

	<u>2010</u>	<u>2011</u>	<u>Difference</u>
General Fund	\$ 4,731,433	\$ 5,878,516	\$ 1,147,083
Capital Projects	2,695,662	651,325	(2,044,337)
Other Grant Funds	<u>72,978</u>	<u>81,952</u>	<u>8,974</u>
Total	<u>\$ 7,500,073</u>	<u>\$ 6,611,793</u>	<u>\$ (888,280)</u>

General Fund:

The District budgeted for significant increases in health benefit costs, special education contracted services, and retirement costs. These areas are a challenge for the District in budgeting. In the early 1990's, State funding covered approximately 85% of special education costs and decreased to 65% in the 2000/01 school year. In this budget year, approximately 42% of costs are covered by State funding. The District is self-insured with a consortium of other school districts for health benefits. This category can fluctuate annually based upon the health of the individual employees within the District. Spending on health insurance alone accounted for 10% of General Fund expenditures. The Consortium format has held increases to an average of 7.38%. Retirement rates increased as a percentage of income for the district this year and are expected to continue to increase. The actual contributed dollars for retirement funding increased \$127,911 to a total of \$815,766.

Capital Projects Fund/Construction Fund:

The District has financed capital projects and construction funds to provide for large and small construction projects and assistance to the General Fund when replacement equipment is required such as total replacement of the HVAC system at the Spring Cove Middle School. The construction funds on hand have also been used to construct a free-standing maintenance building during the summer of 2011. The capital projects and construction funds were also used to finish planned ball fields for the Spring Cove Elementary School.

GENERAL FUND BUDGET

During the fiscal year, the Board of School Directors (The Board) authorizes 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. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided.

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 will be funded by designated fund balance for planned opportunities of expenditures for improvements/enhancements to the District operations. 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2011, the District had \$30,202,481 invested in a broad range of capital assets, including land, buildings, and furniture and equipment.

DEBT ADMINISTRATION

As of July 1, 2010, the District had total outstanding bond principal of \$23,150,000. During the year, the District partially refinanced the 2005 Series of General Obligation Bonds with the 2011 Series of General Obligation Bonds and made various payments against principal resulting in an outstanding debt of \$22,325,000 as of June 30, 2011.

Table A-5
Outstanding Debt

	<u>2010</u>	<u>2011</u>
General Obligation Notes/Bonds	<u>\$23,150,000</u>	<u>\$22,325,000</u>

Other obligations include accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in the financial statements. A retirement incentive is to be paid out to a total of four retirees over the next year in the form of \$5,000 per retiree per year. This is the final year of payout for this retirement incentive.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's most recent General Obligation Bond rating is A⁺ as rated by Standard and Poor's and AA⁺ rating by bond issuer AGM. The School Code presently provides that in all cases where the District fails to pay the payment of any indebtedness, the Secretary of Education shall withhold out of any appropriation due the District an amount equal to the principal amount and interest and make payment to the bank. In August of 2005, the District approved incurring debt over the next four years in the amount of \$21 million. The District issued \$10 Million in bonds in 2005, \$7.5 Million in bonds in 2007, and \$3.5 Million in bonds in 2009. Total borrowing capacity as of August 2010 was \$47,387,220. The current debt of \$21,960,000 represents 46% of the 2010 borrowing capacity. The bonds of 2005 were called in majority and reissued in 2011, thus saving the District \$288,664 in total and \$168,841 in the 2010/11 budget year.

The District does not expect significant residential growth in the near future given the conservative nature of the local economy and a lack of developable land within the District. Commercial growth has occurred to a limited degree due to improvements to infrastructure in the area. Most of the commercial growth has been retail and service industries. Agribusiness continues to be a strong mainstay of the Cove area. The infusion of capital on the part of larger wholesale feed production companies and animal nutrition companies has reinforced these industries in the area.

The comparison of revenue and expenditure categories is as follows.

Table A-6
BUDGETED REVENUES

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Local	40.5%	41.8%	43.3%	45.2%	44.5%	44.8%	44.7%
State	55.8%	54.8%	53.7%	51.9%	51.8%	46.5%	45.3%
Federal/Other	3.7%	3.4%	3.09%	2.87%	3.7%	8.7%	10.0%

BUDGETED EXPENDITURES

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Instruction	56.7%	57.1%	56.8%	57.8%	56.6%	56.4%	57.0%
Support Services	30.8%	30.9%	31.0%	29.9%	30.9%	31.2%	29.3%
Non-Instruction/ Community Fund	2.2%	2.0%	1.0%	1.8%	2.1%	2.0%	4.9%
Transfers/Debt	10.3%	8.2%	11.2%	10.4%	10.4%	10.4%	8.7%

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors 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 contact John E. Clark, Business Manager/Board Secretary at:

Spring Cove School District
1100 E. Main Street
Roaring Spring, PA 16673
(814) 224-5124
jclark@scsd.k12pen.com

SPRING COVE SCHOOL DISTRICT
Statement of Net Assets
As of June 30, 2011

	ASSETS		
	<u>Government Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Assets			
Cash & cash equivalents	\$ 7,972,581	\$ 282,824	\$ 8,255,405
Taxes receivable, net	1,010,319	0	1,010,319
Due from other governments	909,909	0	909,909
Other receivables	46,276	3,613	49,889
Inventories	0	10,899	10,899
Prepaid expenses	<u>563,446</u>	<u>0</u>	<u>563,446</u>
Total current assets	<u>10,502,531</u>	<u>297,336</u>	<u>10,799,867</u>
Non Current Assets			
Land & site improvements (net of accumulated depreciation)	1,744,343	0	1,744,343
Building & building improvements (net of accumulated depreciation)	27,189,166	0	27,189,166
Furniture & fixtures (net of accumulated depreciation)	1,231,590	14,651	1,246,241
Library & texts (net of accumulated depreciation)	<u>37,382</u>	<u>0</u>	<u>37,382</u>
Total non current assets	<u>30,202,481</u>	<u>14,651</u>	<u>30,217,132</u>
Total Assets	\$ <u>40,705,012</u>	\$ <u>311,987</u>	\$ <u>41,016,999</u>

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT

Statement of Net Assets

As of June 30, 2011

LIABILITIES AND NET ASSETS

	<u>Government Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Liabilities			
Due to other governments	\$ 28,410	\$ 0	\$ 28,410
Accounts payable	365,144	10,697	375,841
Current portion of long term debt	1,393,427	0	1,393,427
Accrued salaries & benefits	<u>1,862,065</u>	<u>0</u>	<u>1,862,065</u>
Total current liabilities	<u>3,649,046</u>	<u>10,697</u>	<u>3,659,743</u>
Non Current Liabilities			
Bonds payable	21,280,000	0	21,280,000
Other post employment benefits payable	344,867	0	344,867
Long term portion of compensated absences	<u>471,220</u>	<u>0</u>	<u>471,220</u>
Total non current liabilities	<u>22,096,087</u>	<u>0</u>	<u>22,096,087</u>
Total Liabilities	<u>25,745,133</u>	<u>10,697</u>	<u>25,755,830</u>
Net Assets			
Invested in capital assets net of related debt	7,877,481	14,651	7,892,132
Restricted for:			
Construction bonding	320,000	0	320,000
Capital projects	651,325	0	651,325
Unrestricted	<u>6,111,073</u>	<u>286,639</u>	<u>6,397,712</u>
Total net assets	<u>14,959,879</u>	<u>301,290</u>	<u>15,261,169</u>
Total Liabilities & Net Assets	<u>\$ 40,705,012</u>	<u>\$ 311,987</u>	<u>\$ 41,016,999</u>

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Statement of Activities
As of June 30, 2011

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expense) Revenue & Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:								
Instruction	\$ 12,577,260	\$ 0	\$ 0	\$ 2,989,261	\$ 0	\$ (9,587,999)	\$ 0	\$ (9,587,999)
Instructional student support	1,134,288	0	0	308,089	0	(826,199)	0	(826,199)
Administrative & financial support	2,284,007	0	0	542,844	0	(1,741,163)	0	(1,741,163)
Operation & maintenance of plant services	1,854,086	0	0	0	0	(1,854,086)	0	(1,854,086)
Pupil transportation	992,856	0	0	599,579	0	(393,277)	0	(393,277)
Student activities	461,397	0	79,116	0	0	(382,281)	0	(382,281)
Community services	17,383	0	0	0	0	(17,383)	0	(17,383)
Interest on long term debt	829,808	0	0	0	476,358	(353,450)	0	(353,450)
Depreciation & amortization-unallocated	<u>1,032,726</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,032,726)</u>	<u>0</u>	<u>(1,032,726)</u>
Total Governmental Activities	21,183,811	0	79,116	4,439,773	476,358	(16,188,564)	0	(16,188,564)
Business-type activities								
Food service	<u>944,040</u>	<u>0</u>	<u>527,333</u>	<u>465,462</u>	<u>0</u>	<u>0</u>	<u>48,755</u>	<u>48,755</u>
Total	<u>\$ 22,127,851</u>	<u>\$ 0</u>	<u>\$ 606,449</u>	<u>\$ 4,905,235</u>	<u>\$ 476,358</u>	<u>(16,188,564)</u>	<u>48,755</u>	<u>(16,139,809)</u>
General Revenues:								
Taxes:								
						8,217,458	0	8,217,458
						1,470,702	0	1,470,702
						8,339,678	0	8,339,678
						18,367	98	18,465
						<u>131,036</u>	<u>0</u>	<u>131,036</u>
						<u>18,177,241</u>	<u>98</u>	<u>18,177,339</u>
						1,988,677	48,853	2,037,530
						<u>12,971,202</u>	<u>252,437</u>	<u>13,223,639</u>
						<u>\$ 14,959,879</u>	<u>\$ 301,290</u>	<u>\$ 15,261,169</u>

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
 Balance Sheet – Governmental Funds
 As of June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash & cash equivalents	\$ 7,237,877	\$ 652,750	\$ 81,953	\$ 7,972,580
Taxes receivable, net	537,108	0	0	537,108
Due from other governments	909,909	0	0	909,909
Other receivables	<u>46,276</u>	<u>0</u>	<u>0</u>	<u>46,276</u>
Total assets	<u>\$ 8,731,170</u>	<u>\$ 652,750</u>	<u>\$ 81,953</u>	<u>\$ 9,465,873</u>
LIABILITIES				
Due to other governments	\$ 28,410	\$ 0	\$ 0	\$ 28,410
Accounts payable	268,882	1,425	0	270,307
Current portion of long term debt	693,294	0	0	693,294
Accrued salaries & benefits	<u>1,862,065</u>	<u>0</u>	<u>0</u>	<u>1,862,065</u>
Total liabilities	<u>2,852,651</u>	<u>1,425</u>	<u>0</u>	<u>2,854,076</u>
FUND BALANCE				
Restricted:				
Construction bonding	320,000	0	0	320,000
Capital projects	0	651,325	0	651,325
Committed:				
Employee benefits	500,000	0	0	500,000
General fund reserve	1,000,000	0	0	1,000,000
Assigned:				
Capital projects	1,208,792	0	0	1,208,792
Athletic fund	0	0	81,953	81,953
Unassigned	<u>2,849,727</u>	<u>0</u>	<u>0</u>	<u>2,849,727</u>
Total fund balances	<u>5,878,519</u>	<u>651,325</u>	<u>81,953</u>	<u>6,611,797</u>
Total Liabilities & Fund Balances	<u>\$ 8,731,170</u>	<u>\$ 652,750</u>	<u>\$ 81,953</u>	<u>\$ 9,465,873</u>

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

As of June 30, 2011

Total Fund Balance, Governmental Funds \$ 6,611,797

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. The cost of the assets is \$43,759,466 and the accumulated depreciation is \$13,556,985. 30,202,481

Taxes receivable will be collected but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the governmental funds. 473,215

Bond issuance costs are amortized over the life of bond issue, but considered an expense in the year of issuance for governmental funds. The total cost of the issuance is \$689,412 and the accumulated amortization is \$125,966. 563,446

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities consist of:

Bonds payable	\$(22,325,000)
Accrued interest on the bonds	(94,840)
Compensated absences	<u>(471,220)</u>

Total (22,891,060)

Total Net Assets – Governmental Activities \$ 14,959,879

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds

As of June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Local sources	\$ 10,190,955	\$ 53,139	\$ 79,116	\$ 10,323,210
State sources	10,337,703	0	0	10,337,703
Federal sources	<u>2,284,670</u>	<u>0</u>	<u>0</u>	<u>2,284,670</u>
Total revenue	<u>22,813,328</u>	<u>53,139</u>	<u>79,116</u>	<u>22,945,583</u>
Expenditures				
Instruction	12,561,174	0	0	12,561,174
Support	6,214,160	0	0	6,214,160
Noninstructional services	408,642	0	70,141	478,783
Capital outlay	627,175	2,097,477	0	2,724,652
Debt service (principal & interest)	<u>1,855,091</u>	<u>0</u>	<u>0</u>	<u>1,855,091</u>
Total expenditures	<u>(21,666,242)</u>	<u>(2,097,477)</u>	<u>(70,141)</u>	<u>(23,833,860)</u>
Net Change in Fund Balances	1,147,086	(2,044,338)	8,975	(888,277)
Fund Balance, July 1, 2010	<u>4,731,433</u>	<u>2,695,663</u>	<u>72,978</u>	<u>7,500,074</u>
Fund Balance, June 30, 2011	\$ <u>5,878,519</u>	\$ <u>651,325</u>	\$ <u>81,953</u>	\$ <u>6,611,797</u>

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
 Reconciliation of the Governmental Funds
 Statement of Revenue, Expenditures, and Changes in Fund Balance to the Statement of Activities
 As of June 30, 2011

Total net change in fund balances, governmental funds \$ (888,277)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and depreciated. This is the amount by which capital asset purchases exceed depreciation in the period.

Depreciation expense	\$ (973,627)	
Capital outlays	<u>2,673,575</u>	
Total		1,699,948

Bond issuance costs are amortized over the life of the bond issue, but considered an expense in the year of issuance for governmental funds. However, in the statement of activities, these costs are amortized over the life of the bonds. During the year, amortization of bond costs was this amount.

During the year, amortization of bond costs was:	(59,099)
During the year, bond issuance costs to be amortized was:	174,972

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount.	226,906
--	---------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.	825,000
--	---------

Expense for salaries and benefits differs from the amount reported in the governmental funds because long term compensated absences are reported as a liability on the statement of activities and not on the balance sheet of the governmental funds. Compensated absences increased by this amount during the year.	(16,083)
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Interest on long term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources.	<u>25,310</u>
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Change in Net Assets of Governmental Activities	\$ <u>1,988,677</u>
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The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Statement of Net Assets
Proprietary Fund – Food Service
As of June 30, 2011

ASSETS

Current Assets

Cash & cash equivalents	\$ 282,824	
Other receivables	3,613	
Inventory	<u>10,899</u>	
Total current assets		\$ 297,336

Non Current Assets

Furniture & equipment (net of accumulated depreciation)		<u>14,651</u>
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Total Assets		\$ <u>311,987</u>
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LIABILITIES

Current Liabilities

Accounts payable		\$ 10,697
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NET ASSETS

Invested in capital assets net of related debt	\$ 14,651	
Unrestricted	<u>286,639</u>	
Total Net Assets		<u>301,290</u>
Total Liabilities and Net Assets		\$ <u>311,987</u>

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Statement of Revenue, Expenses and Changes in Net Assets
Proprietary Fund – Food Service
As of June 30, 2011

Operating Revenues		
Food service revenue		\$ 527,333
Operating expenses		
Salaries	\$ 253,007	
Employee benefits	86,766	
Purchased professional & technical service	100,965	
Supplies	478,346	
Depreciation	3,167	
Other	<u>21,789</u>	
Total operating revenues		<u>(944,040)</u>
Operating (Loss)		(416,707)
Non operating Revenues		
Earnings on investments	98	
State sources	38,758	
Federal sources	<u>426,704</u>	
Total non operating revenues		<u>465,560</u>
Change in Net Assets		48,853
Total Net Assets, July 1, 2010		<u>252,437</u>
Total Net Assets, June 30, 2011		\$ <u>301,290</u>

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund – Food Service
As of June 30, 2011
Page 1 of 2

Cash Flows from Operating Activities

Cash from users	\$ 538,281	
Cash payment to employees for services	(339,772)	
Cash payments to suppliers for goods and services	<u>(601,787)</u>	
Net cash provided by (used for) operating activities		\$(403,278)

Cash Flows from Non Capital Financing Activities

Local sources	38,758	
State sources	<u>426,705</u>	
Total cash flows from non capital financing activities		465,463

Cash Flows from Capital and Related Financing Activities

Facilities acquisition/construction		(1,895)
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Cash Flows from Investing Activities

Earnings on investments		<u>98</u>
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Net Increase in Cash and Cash Equivalents		60,388
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Cash and Cash Equivalents, July 1, 2010		<u>222,436</u>
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Cash and Cash Equivalents, June 30, 2011		\$ <u>282,824</u>
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The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
 Statement of Cash Flows
 Proprietary Fund – Food Service
 As of June 30, 2011
 Page 2 of 2

Reconciliation of Operating Income to Cash Provided by
 (Used for) Operating Activities

Operating (Loss)		\$(416,707)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	\$ 3,167	
Decrease in accounts receivable	457	
Decrease in inventories	9,698	
Increase in accrued salaries & benefits	<u>107</u>	
Total adjustments		<u>13,429</u>
(Used for) Operating Activities		\$(<u>403,278</u>)

The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT
Statement of Net Assets - Fiduciary Funds
As of June 30, 2011

ASSETS

Current Assets

Cash & cash equivalents	\$ <u>89,428</u>
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LIABILITIES

Current Liabilities

Accounts payable	\$ 89,428
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Net Assets	<u>0</u>
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Total Liabilities and Net Assets	\$ <u>89,428</u>
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The accompanying notes are an integral part of this statement.

SPRING COVE SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Spring Cove School District provides elementary and secondary education to approximately 1,900 students in southern Blair County. The District is a municipal branch of the State of Pennsylvania. The District is governed by a nine member elected school board.

General

The accounts of the School District are maintained, and the accompanying financial statements have been prepared on the basis of accounting practices prescribed or permitted by the *Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems*, issued by the Pennsylvania Department of Education in accordance with the provisions of the school laws of Pennsylvania.

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

Reporting Entity

The District is controlled by a School Board which has oversight responsibility over the public education activities in the School District. The Board is not included in any other governmental reporting entity as defined by GASB Statement No.14. 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. For these reasons, the District is recognized as a primary government in accordance with accounting principles generally accepted in the United States of America.

The report includes all of the services provided by the District to residents within its boundaries. These services include providing educational services to kindergarten, elementary and secondary aged children. In evaluating the District as a primary government in accordance with GASB Statement 14, Financial Reporting Entity, management has addressed all potential component units. Consistent with applicable guidance, the criteria used by the District to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the District reviews the applicability of the following criteria:

The District is financially accountable for:

1. Organizations that make up the legal municipal entity.
2. Legally separate organizations, if the District appoints a voting majority of the organization's governing body and the District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District.
 - a. Impose its Will - If the District can significantly influence the programs, projects, or activities of, or the level of services performed by, the organization.
 - b. Financial Benefit or Burden - Exists if the District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.
3. Organizations fiscally dependent on the District. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the District.

Based upon the application of these criteria, no potential component units were required to be addressed in defining the government's reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the non fiduciary activities of the District. For the most part, the effect of inter fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and state and federal subsidies, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by programs revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include charges to customers and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, amounts due from other governments, interest and miscellaneous fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other items are considered to be measurable and available only when cash is received by the government.

Fund Accounting

The accounts of the School District are organized on the basis of funds or account groups, each of which is considered as a separate entity. Thus, the operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

The funds used by the School District include:

-- Governmental Fund Types

These are the funds through which most governmental functions are furnished. The School District's major funds included in this category are:

- * General Fund - Accounts for all financial resources except those required to be accounted for in other funds.
- * Capital Projects Fund - Accounts for financial resources to be used for the acquisition or construction of major capital facilities.

-- Proprietary Fund Type -

This type of fund accounts for operations that are financed and operated in a manner similar to private business enterprises. The School District's major proprietary fund is:

- * Enterprise Fund - Accounts for all financial resources associated with food service operations.

-- Fiduciary Fund Type, Agency Fund

Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The District's agency fund is:

- * Activities Fund – Accounts for funds held by student groups in activity accounts.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

As a general rule the effect of inter fund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to students for goods and services provided, 2) operating grants and contributions, and 3) capital grants and contributions.

Internally dedicated resources are reported as *general revenues* rather than program revenues. Therefore, general revenues include all taxes.

The District's proprietary fund distinguishes operating revenues from non operating items. Operating revenues and expenses generally result from the provision of services. The principle operating revenues of the District's cafeteria are from charges for food services. Operating expenses for the cafeteria include the cost of food, salaries and related costs, depreciation and administrative expenses. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures, during the reporting period. Actual results could differ from those estimates.

Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within ninety days of the date acquired by the District.

The School Code authorizes the District to invest in obligations of the United States, obligations of the Commonwealth of Pennsylvania or to deposit funds in federally insured banking institutions. If deposits in banking institutions exceed the federally insured amounts, the banking institution must post additional collateral to secure District deposits.

Inventories, Materials, and Supplies

Materials and supplies of the general fund are expensed as purchased. Year end inventories of these items were not material to the financial statements. The cafeteria inventory is expensed on a first-in, first-out basis and valued at the lower of cost or market.

Capital Assets

Capital assets including land, land improvements, buildings and equipment, and library and texts, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of more than \$4,000 and an estimated useful life in excess of one year. These assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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 its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred (if any) during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during this fiscal year.

Land improvements, buildings and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Buildings	35 years
Land improvements	20 years
Equipment	5-15 years

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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

Net Assets – Statement of Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Restricted net assets are those limited by external parties or by law through constitutional provisions or enabling legislation.

Fund Equity – Governmental Funds Balance Sheet

GASB 54 has defined fund balance classifications as follows:

Non spendable – amounts that cannot be spent because they are in a non spendable form (prepaid expenses) or legally or contractually required to be maintained intact.

Restricted – amounts limited by external parties or by law through constitutional provisions or enabling legislation.

Committed – amounts designated by the School Board as required for future use (increases in health care and retirement).

Assigned – amounts that are intended for a particular purpose, such as a rate stabilization fund or segregation of amounts intended for costs expected to be incurred in the future.

Unassigned – amounts available for current use, not restricted in any manner.

Property Tax Calendar

Preliminary property tax assessments are set by the School Board at the May board meeting of each fiscal year. These assessments are finalized at the meeting in June. Notices of property taxes due are mailed to residents on July 1. Taxes at discount are due on or before August 31; taxes at face value are due on or before October 31; and taxes with penalty are due to the District's tax collector on or before December 31. On that date, delinquent accounts are turned over to the County for collection.

Subsequent Events

Subsequent events have been considered through December 15, 2011, which is the date the financial statements were available to be issued.

2. BUDGETING

The District is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

Generally, the District follows these procedures in establishing the budgetary data reflected in the financial statements,

- * Because the District intends to raise property taxes at or below a State prescribed index, the School Board passes a resolution by January 3 of the preceding year and properly notifies the State.
- * Prior to May of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- * A meeting of the Board of Directors is then called for the purpose of adopting the proposed budget after 30 days public notice of the meeting has been given.
- * Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.
- * The budget must be filed with the Pennsylvania Department of Education by July 31 of the fiscal year.

The appropriated budget is prepared by fund, function and object. The legal level of control is at the total fund expenditure level. Management is authorized to make budget transfers between functions and objects. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE Form 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget transfers. Annual appropriations lapse at year end.

3. CASH AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate and other investments consistent with sound business practice.

The deposit and investment policy of the District adheres to state statutes and prudent business practice. Deposits of the governmental funds are either maintained in demand deposits, highly liquid money market funds or pooled for investment purposes in the Pennsylvania Local Government Investment Trust (PLGIT) or Pennsylvania School District Liquid Asset Fund (PSDLAF) and are captioned as "cash and cash equivalents" on the balance sheet. These investments are stated at cost which approximates market. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the District.

Deposits

At June 30, 2011, the deposits of the District can be categorized to indicate the level of risk assumed. Category 1 includes bank balances that are insured or collateralized by insured or registered securities held by the government or its agent in the government's name. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. Category 3 includes bank balances collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the District's name. The District's deposits in money market funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. At June 30, 2011, the District's deposits were as follows:

	Fair Value\ Carrying <u>Amount</u>	<u>Category 1</u>	<u>Uncategorized</u>
Governmental Fund - General Fund			
Cash in Banks	\$ 1,733,876	\$ 1,733,876	\$ 0
Money Market Funds:			
PSDLAF	5,496,083	0	5,496,093
PLGIT	<u>7,918</u>	<u>0</u>	<u>7,918</u>
Total	\$ <u>7,237,877</u>	\$ <u>1,733,876</u>	\$ <u>5,504,011</u>

Governmental Fund - Capital Projects Fund

Cash in Banks	\$ 337,918	\$ 337,918	\$ 0
Money Market Funds:			
PSDLAF	<u>314,832</u>	<u>0</u>	<u>314,832</u>
Total	\$ <u>652,750</u>	\$ <u>337,918</u>	\$ <u>314,832</u>

Governmental Fund - Special Revenue Fund

Cash in Banks	\$ <u>81,953</u>	\$ <u>81,953</u>	\$ <u>0</u>
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Business-type Activity - Enterprise Fund – Food Service

Cash in Banks	\$ 276,790	\$ 276,790	\$ 0
Money Market Funds:			
PLGIT	<u>6,034</u>	<u>0</u>	<u>6,034</u>
	\$ <u>282,824</u>	\$ <u>276,790</u>	\$ <u>6,034</u>

Agency Fund – Spring Cove Activities

Cash in Banks	\$ <u>89,428</u>	\$ <u>89,428</u>	\$ <u>0</u>
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4. CAPITAL ASSETS

Capital asset activity for the year ending June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases (Decreases)</u>	<u>Ending Balance</u>
Land & site improvements	\$ 2,736,631	\$ 352,145	\$ 3,088,776
Buildings & Building improvements	35,649,729	2,321,441	37,971,170
Furniture & equipment	2,250,940	0	2,250,940
Library & texts	448,580	0	448,580

During the year ending June 30, 2011, \$352,135 of improvements were made to athletic fields. Additions to building and building improvements were \$91,118 for construction of a new maintenance building, and \$1,931,403 for installation of a new, energy efficient, HVAC system at the Spring Cove Middle School. Also, building and building improvements included final construction payments for the new elementary school totaling \$297,920. During the year, the sale of the Roaring Spring Elementary playground was completed. Net proceeds to the District were \$51,150. This amount is included as other local source in the capital projects fund and the statement of activities.

A schedule of assets and related accumulated depreciation is as follows:

	<u>Ending Balance</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land & site Improvements	\$ 3,088,776	\$(1,344,433)	\$ 1,744,343
Buildings & Building improvements	37,971,170	(10,782,004)	27,189,166
Furniture & equipment	2,250,940	(1,019,350)	1,231,590
Library & texts	448,580	(411,198)	37,382

Depreciation expense of \$1,032,726 was charged to general government activities, and depreciation expense of \$3,167 was charged to proprietary fund activities.

5. CHANGES IN GENERAL LONG TERM DEBT

The District issues general obligation bonds to provide for the acquisition and construction of major capital facilities. These bonds are direct obligations and pledge the full faith and credit of the District. All payments of principal and interest on General Obligation Bonds are paid by the General Fund. Changes in general long term debt for the year ending June 30, 2011 were as follows:

	<u>Bonds Payable</u>
Balance at July 1, 2010	\$ 23,150,000
Issuance of the 2011 Series of General Obligation Bonds	10,000,000
Payment of General Obligation Bonds	<u>(10,825,000)</u>
Balance at June 30, 2011	22,325,000
Less: current portion	<u>(1,045,000)</u>
Non current obligation	\$ <u>21,280,000</u>

6. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The District has adopted the following policies to accrue and account for these benefits.

- * The District accrues a liability for vacation leave that was earned, but not used, during the current or prior periods and for which employees can receive compensation in a future period.
- * The District accrues a liability for sick leave as the benefits are earned, if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on an employee's termination or retirement.

Additionally, the current portion of the liability is reflected on the District's balance sheet if it is to be paid from expendable, available financial resources. This short term liability is included in the District's Balance Sheet – Governmental Funds and the Statement of Net Assets for Governmental Activities. The long term portion is reflected on the Statement of Net Assets for Governmental Activities.

In accordance with the aforementioned, the District accrued \$693,294 as a short term liability for compensated absences and \$471,220 as a non current liability. The change in the non current portion is as follows:

Balance at July 1, 2010	\$ 445,137
Increase for the year	<u>26,083</u>
Total at June 30, 2011	\$ <u>471,220</u>

7. OTHER POST EMPLOYMENT BENEFITS (OPEB)

In accordance with various labor and employment agreements, the District provides various post employment medical and life insurance benefits to retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, Accounting and Financial reporting by Employers for Postemployment Benefit Plans Other than Pension Plans for the year ending June 30, 2009.

The District self insures the liability for these benefits and funds them on a pay as you go basis. Benefits covered include medical and pharmacy, life insurance and some cash payments for out of network claims. Teachers are covered under Act 110/43; administrators are covered under Act 110/43 for health care benefits and PSERS superannuation for life insurance benefits; and support staff is covered under Act 110/43.

Retiree coverage ends at age 65, death or qualification for Medicare if earlier. Spousal coverage ends at age 65, death or qualification for Medicare or upon cessation of retiree's coverage if earlier. Retirees or spouse must pay full premium coverage for healthcare. An eligible retired administrator receives \$10,000 of life insurance coverage from retirement through age 70, decreasing thereafter to \$5,000 of coverage through age 75. Under an incentive that expired June 30, 2008, selected teacher retirees are receiving annual payments of \$5,000 for three years from the date of retirement.

For the year ending June 30, 2009, medical insurance premium rates were as follows:

	<u>Retiree</u>	<u>Retiree\Spouse</u>
Teacher	\$ 465	\$ 1,197
Administrators	418	1,076
Support Staff	427	1,099

To value the cost of these District post employment benefits, the District contracted for an actuarial valuation in accordance with GASB 45. The significant assumptions of this valuation are contained in the actuary's report available at the District administration office.

The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The actuarial report calculated a total Accumulated Postemployment Benefit Obligation for all current active employees and retired employees of \$2,067,800 as of June 30, 2009. When amortized based on actuarial assumptions, the District should be recognizing an ARC of \$364,738 this year to fund this obligation. For the year ending June 30, 2011, the District paid an estimated \$223,900 toward the obligation. The difference of \$140,838 is recorded as a current year expense. The total unfunded obligation for the years ending June 30, 2010 through June 30, 2011 is \$344,867. This amount is shown as a current portion of long term debt on the governmental funds balance sheet.

8. RETIREMENT PLAN

Substantially all employees of the District are contributing members of the pension plan operated by the Public School Employees' Retirement System of Pennsylvania (PSERS). Information concerning this plan is as follows:

- PSERS is a government cost-sharing multiple employer defined benefit plan.
- Benefits provided by PSERS include retirement and disability, legislative mandated ad hoc cost-of-living adjustments and health care insurance premium assistance to qualifying annuitants.

- The employer and employee obligations to contribute are established by authority of the Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-8535).
- PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to 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 PSERS website.
- The contribution policy of the plan is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth of Pennsylvania.
- Active members prior to July 22, 1983 contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the members qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001 contribute at 7.50 percent (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Contributions of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2011, the rate of employer contribution was 5.64 percent of covered payroll.

The 5.64 percent rate is composed of a pension contribution rate of 5.00 percent for pension benefits and .64 percent for health care insurance premium assistance.

For the year ending June 30, 2011, the District's pension obligation to the plan on behalf of its employees was \$556,843.

9. 2003 SERIES OF GENERAL OBLIGATION BONDS

On March 15, 2003, the Spring Cove School District issued the 2003 Series of General Obligation Bonds in the principal amount of \$ 7,245,000. The bond proceeds were used to (1) to refund, on an advance basis, the District's General Obligation Bonds, Series B of 1999 in the amount of \$4,000,000; (2) to refund, on a current funding basis, the District's General Obligation Bonds, Series of 1998 in the amount of \$2,960,000; and (3) pay the cost of issuance. Proceeds of the refunded bonds were used for various capital improvements.

Costs to issue the bonds including applicable discounts and premiums totaled \$72,362. These costs are being amortized over the life of the issue. Amortization expense for the year ending June 30, 2011 was \$8,514. The issuance costs of \$72,362, less accumulated amortization of \$70,234 (net of \$2,128) are shown as a prepaid expense on the Statement of Net Assets.

Interest rates on the bonds vary from 2 to 3.3 percent.

Principal and interest payments are due on the bonds as follows:

School Year <u>Ending</u>	Principal Due <u>10/1</u>	Interest Due <u>10/1</u> <u>4/1</u>		Total <u>Debt Service</u>
6/30/12	\$ <u>1,025,000</u>	\$ <u>16,913</u>	\$ <u>0</u>	\$ <u>1,041,913</u>

10. 2005 SERIES OF GENERAL OBLIGATION BONDS

On December 15, 2005, the Spring Cove School District issued the 2005 Series of General Obligation Bonds in the principal amount of \$ 10,000,000. The bond proceeds were used to pay the costs of capital projects of the District that include planning, designing, acquiring, constructing, equipping and furnishing (1) a new elementary school; (2) alterations, additions, renovations and/or improvements to the Central High School and related facilities; (3) alterations, additions, renovations and/or improvements to the Spring Cove Middle School and related facilities; and (4) pay the cost of issuance. Bond principal in the amount of \$9,825,028 was paid by the proceeds of the 2011 Series of General Obligation Bonds. See Note 13.

Costs to issue the bonds including applicable discounts and premiums totaled \$229,744. These costs are being amortized over the life of the issue. Amortization expense for the year ending 2011 was \$10,626. Unamortized costs at year end were attributed to the issuance of the 2011 Series of General Obligation Bonds.

Interest rates on the bonds vary from 3.2 to 4.15 percent.

Principal and interest payments are due on the bonds as follows:

School Year <u>Ending</u>	Principal Due <u>11/15</u>	Interest Due <u>11/15</u> <u>5/15</u>		Total <u>Debt Service</u>
6/30/12	\$ 165,000	\$ 5,317	\$ 2,430	\$ 172,747
6/30/13	<u>135,000</u>	<u>2,430</u>	<u>0</u>	<u>137,430</u>
Total	\$ <u>300,000</u>	\$ <u>7,747</u>	\$ <u>2,430</u>	\$ <u>310,177</u>

11. 2007 SERIES OF GENERAL OBLIGATION BONDS

On December 1, 2007, the Spring Cove School District issued the 2007 Series of General Obligation Bonds in the principal amount of \$ 7,500,000. The bond proceeds were used to pay the costs of capital projects of the District including planning, designing, acquiring, constructing, equipping and furnishing (1) a new elementary school and related facilities and grounds; (2) alterations, additions, renovations and/or improvements to the Spring Cove Middle School and related facilities and grounds, including the acquisition and installation of new or replacement equipment and furnishings; and (3) pay the cost of issuance. Costs to issue the bonds including applicable discounts and premiums totaled \$161,147.

These costs are being amortized over the life of the issue. Amortization expense for the year ending 2011 was \$18,072. The issuance costs of \$161,147, less accumulated amortization of \$31,627 (net of \$129,520) are shown as a prepaid expense on the Statement of Net Assets.

Interest rates on the bonds vary from 3.2 to 4.15 percent.

Principal and interest payments are due on the bonds as follows:

School Year <u>Ending</u>	Principal Due		Interest Due		Total <u>Debt Service</u>
	<u>11/15</u>		<u>11/15</u>	<u>5/15</u>	
6/30/12	\$ 15,000	\$ 146,100	\$ 145,845	\$ 306,945	
6/30/13	450,000	145,845	138,083	733,928	
6/30/14	470,000	138,083	129,857	737,940	
6/30/15	490,000	129,857	121,038	740,895	
6/30/16	505,000	121,038	111,821	737,859	
6/30/17	525,000	111,821	101,978	738,799	
6/30/18	550,000	101,978	91,527	743,505	
6/30/19	570,000	91,527	80,128	741,655	
6/30/20	590,000	80,128	68,327	738,455	
6/30/21	615,000	68,327	56,028	739,355	
6/30/22	640,000	56,028	42,907	738,935	
6/30/23	665,000	42,907	29,275	737,182	
6/30/24	690,000	29,275	15,044	734,319	
6/30/25	<u>725,000</u>	<u>15,044</u>	<u>0</u>	<u>740,044</u>	
Total	\$ <u>7,500,000</u>	\$ <u>1,277,958</u>	\$ <u>1,131,858</u>	\$ <u>9,909,816</u>	

12. 2009 SERIES OF GENERAL OBLIGATION BONDS

On May 1, 2009, the Spring Cove School District issued the 2009 Series of General Obligation Bonds in the principal amount of \$ 3,500,000. The bond proceeds were used to pay the costs of capital projects of the District that include planning, designing, acquiring, constructing, equipping and furnishing (1) a new elementary school and related facilities and grounds; (2) alterations, additions, renovations and/or improvements to the Spring Cove Middle School and related facilities and grounds, including the acquisition and installation of new or replacement equipment and furnishings; (3) the repair or replacement of the roof at the Martinsburg Elementary School and district Administrative Office; (4) improvements to the Roaring Spring athletic facility; and (5) pay the cost of issuance.

Costs to issue the bonds including applicable discounts and premiums totaled \$116,467. These costs are being amortized over the life of the issue. Amortization expense for the year ending 2011 was \$18,855. The issuance costs of \$116,467, less accumulated amortization of \$21,075 (net of \$95,392) are shown as a prepaid expense on the Statement of Net Assets.

Interest rates on the bonds vary from 2.0 to 4.125 percent.

Principal and interest payments are due on the bonds as follows:

School Year <u>Ending</u>	Principal Due		Interest Due		Total <u>Debt Service</u>
	<u>11/15</u>		<u>11/15</u>	<u>5/15</u>	
6/30/12	\$ 5,000	\$ 59,936	\$ 59,885	\$ 124,821	
6/30/13	190,000	59,885	57,986	307,871	
6/30/14	195,000	57,986	55,841	308,827	
6/30/15	205,000	55,841	53,175	314,016	
6/30/16	220,000	53,175	50,151	323,326	
6/30/17	235,000	50,151	46,626	331,777	
6/30/18	245,000	46,626	42,705	334,331	
6/30/19	260,000	42,705	38,286	340,991	
6/30/20	285,000	38,286	33,084	356,370	
6/30/21	310,000	33,084	27,272	370,356	
6/30/22	330,000	27,272	20,672	377,944	
6/30/23	360,000	20,672	13,472	394,144	
6/30/24	375,000	13,472	5,878	394,350	
6/30/25	<u>285,000</u>	<u>5,878</u>	<u>0</u>	<u>290,878</u>	
Total	\$ <u>3,500,000</u>	\$ <u>564,569</u>	\$ <u>505,033</u>	\$ <u>4,570,002</u>	

13. 2011 SERIES OF GENERAL OBLIGATION BONDS

On May 12, 2011, the Spring Cove School District issued the 2011 Series of General Obligation Bonds in the principal amount of \$ 10,000,000. The bond proceeds were used to partially refund the 2005 Series of General Obligation Bonds and pay the cost of issuance. This refunding resulting in a savings of about \$281,000 to the District

Costs to issue the bonds including applicable discounts and premiums and costs of issuance associated with the 2005 Series of General Obligation Bonds totaled \$339,437. These costs are being amortized over the life of the issue. Amortization expense for the year ending 2011 was \$3,031. The issuance costs of \$339,437, less accumulated amortization of \$3,031 (net of \$336,406) are shown as a prepaid expense on the Statement of Net Assets.

Interest rates on the bonds vary from .7 to 4.00 percent.

Principal and interest payments are due on the bonds as follows:

School Year <u>Ending</u>	Principal Due		Interest Due		Total <u>Debt Service</u>
	<u>11/15</u>		<u>11/15</u>	<u>5/15</u>	
6/30/12	\$ 0	\$ 145,959	\$ 143,566	\$ 289,525	
6/30/13	510,000	143,566	141,781	795,347	
6/30/14	685,000	141,781	138,356	965,137	
6/30/15	695,000	138,356	131,406	964,762	
6/30/16	710,000	131,406	124,306	965,712	
6/30/17	725,000	124,306	115,244	964,550	

6/30/18	740,000	115,244	105,994	961,238
6/30/19	765,000	105,994	94,519	965,513
6/30/20	785,000	94,519	81,763	961,282
6/30/21	810,000	81,763	67,587	959,350
6/30/22	845,000	67,587	52,378	964,965
6/30/23	875,000	52,378	36,190	963,568
6/30/24	910,000	36,190	18,900	965,090
6/30/25	<u>945,000</u>	<u>18,900</u>	<u>0</u>	<u>963,900</u>

Total \$ 10,000,000 \$ 1,397,949 \$ 1,251,990 \$ 12,649,939

14. FUND BALANCE RESTRICTIONS, COMMITMENTS AND ASSIGNMENTS

General fund balance is restricted for \$320,000 related to construction bonding.

During the year, the District committed portions of its general fund balance for the following:

Employee benefits	\$ 500,000
Emergency Subsidy Shortfalls	<u>1,000,000</u>
Total	\$ <u>1,500,000</u>

During the year, the District assigned portions of its general fund balance for the following:

Capital Projects	\$ <u>1,208,792</u>
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The fund balance of the athletic fund, \$81,953 is committed to District Athletics.

The capital projects fund, fund balance, \$651,325 is considered restricted fund balance and also are shown as restricted net assets on the Statement of Net Assets.

15. CONTINGENT LIABILITIES

Grant Programs

The District participates in state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs.

Risk Financing

The District is exposed to various risks of loss related to torts; theft of, damage to; and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

SPRING COVE SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 9,871,995	\$ 9,871,995	\$ 10,190,955	\$ 318,960
State sources	11,659,863	11,659,863	10,337,703	(1,322,160)
Federal sources	<u>816,632</u>	<u>816,632</u>	<u>2,284,670</u>	<u>1,468,038</u>
Total revenue	<u>22,348,490</u>	<u>22,348,490</u>	<u>22,813,328</u>	<u>464,838</u>
Expenditures				
Regular programs	9,361,874	9,131,024	9,015,445	115,579
Special programs	2,650,880	2,565,670	2,516,968	48,702
Vocational programs	837,732	893,032	878,985	14,047
Other instructional programs	138,976	152,026	149,775	2,251
Pupil personnel services	506,070	527,720	490,926	36,794
Instructional staff services	481,821	442,771	415,781	26,990
Administrative services	1,369,690	1,449,790	1,404,386	45,404
Pupil health	230,374	231,874	227,581	4,293
Business services	469,825	432,375	416,341	16,034
Operation & maintenance of plant services	2,141,437	1,961,437	1,803,009	158,428
Student transportation services	1,156,454	996,454	992,856	3,598
Central & other support services	475,206	501,116	453,081	48,035
Other support services	2,000	10,200	10,199	1
Student activities	415,379	435,879	391,259	44,620
Community services	15,900	22,250	17,383	4,867
Facilities acquisition & construction	56,639	656,639	627,175	29,464
Debt service	2,045,087	1,945,087	1,855,091	89,996
Budgetary reserve	<u>660,262</u>	<u>660,262</u>	<u>0</u>	<u>660,262</u>
Total expenditures	<u>(23,015,606)</u>	<u>(23,015,606)</u>	<u>(21,666,241)</u>	<u>1,349,365</u>
Excess (Deficiency) of Revenue over Expenditures	(667,116)	(667,116)	1,147,087	1,814,203
Fund Balance, July 1, 2010	<u>4,731,433</u>	<u>4,731,433</u>	<u>4,731,433</u>	<u>0</u>
Fund Balance, June 30, 2011	\$ <u>4,064,317</u>	\$ <u>4,064,317</u>	\$ <u>5,878,520</u>	\$ <u>1,814,203</u>

See report on supplementary information.

SPRING COVE SCHOOL DISTRICT
Combining Balance Sheet
Non-Major Governmental Funds
As of June 30, 2011

	Special Revenue Fund Athletic Fund
	<hr/>
ASSETS	
Current Assets	
Cash	\$ <u>81,953</u>
LIABILITIES	\$ 0
Fund Balances	
Unreserved	<u>81,953</u>
Total Liabilities and Net Assets	\$ <u>81,953</u>

See report on supplementary information.

SPRING COVE SCHOOL DISTRICT
 Combining Statement of Revenue, Expenditures and Changes in Fund Balances
 Non-Major Governmental Funds
 For the Year ending June 30, 2011

	Special Revenue Fund <u>Athletic Fund</u>
Revenues	
Local sources	\$ 79,116
Expenditures	
Operation of non-instructional services	<u>(70,141)</u>
Net Change in Fund Balances	8,975
Fund Balance, July 1, 2010	<u>72,978</u>
Fund Balance, June 30, 2011	\$ <u>81,953</u>

See report on supplementary information.

*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*

Ritchey, Ritchey & Koontz

CERTIFIED PUBLIC ACCOUNTANTS

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RANDALL H. RITCHEY, PARTNER

BRUCE E. KOONTZ, PARTNER

BRAD M. KOONTZ, AUDIT MANAGER

JEFFREY K. KOONTZ, BRANCH MANAGER

School Board
Spring Cove School District
Roaring Spring, Pennsylvania

We have audited the financial statements of the Spring Cove School District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with generally auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Very truly yours,

Ritchey, Ritchey & Koontz

December 15, 2011

*REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133*

Ritchey, Ritchey & Koontz

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JEFFREY K. KOONTZ, BRANCH MANAGER

School Board
Spring Cove School District
Roaring Spring, Pennsylvania

Compliance

We have audited the compliance of the Spring Cove School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the accompanying findings and recommendations section. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Spring Cove School District, complied, in all material respects, the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Spring Cove School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Very truly yours,

Ritchey, Ritchey & Koontz

December 15, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPRING COVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grantor's Number	Grant Period Beginning/ Ending Date	Program Award	Total Received For Year	Accrued Or (Deferred) Revenue at July 1, 2010	Expenditures	Accrued Or (Deferred) Revenue at June 30, 2011
U.S. Dept. of Education Passed Through the PA Dept. of Educ:									
Drug Free Schools	I	84.186	100-100412	July 1, 2009 June 30, 2010	7,839.00 F	1,568.00	1,568.00	0.00	0.00
Title I Improving Basic Programs	I	84.010	013-100412	July 1, 2009 June 30, 2010	493,715.00 F	188,204.01	46,776.96	141,427.05	0.00
Title I Improving Basic Programs	I	84.010	013-110412	July 1, 2010 June 30, 2011	475,518.00 F	286,105.47	0.00	361,155.91	75,050.44
Title II-A Improving Teacher Qual.	I	84.367	020-100412	July 1, 2009 June 30, 2010	160,336.00 F	45,665.34	26,879.17	18,786.17	0.00
Title II-A Improving Teacher Qual.	I	84.367	020-110412	July 1, 2010 June 30, 2011	130,722.00 F	95,970.72	0.00	115,672.27	19,701.55
Title I - ARRA	I	84.389	127-100412A	July 1, 2009 June 30, 2010	240,210.00 F	(626.00)	(626.00)	0.00	0.00
Title II-D Education Technology	I	84.318	055-100412	July 1, 2009 June 30, 2010	72,600.00 F	58,080.00	(14,520.00)	72,600.00	0.00
Title I Academic Achievement	I	84.010	077-100412	July 1, 2009 June 30, 2010	1,800.00 F	1,440.00	(360.00)	1,800.00	0.00
ARRA-Fiscal Stabilization-Basic Ed	I	84.394	126-100412	July 1, 2009 June 30, 2010	905,676.00 F	226,419.00	226,419.00	0.00	0.00
ARRA-Fiscal Stabilization-Basic Ed	I	84.394	126-110412	July 1, 2010 June 30, 2011	902,294.00 F	902,294.00	0.00	902,294.00	0.00
ARRA-Education Jobs Fund	I	84.41	140-182173	July 1, 2010 June 30, 2011	534,437.00 F	534,437.00	0.00	534,437.00	0.00
Passed Through PA Dept. of Revenue									
Public Assistance Grants - PEMA	I	97.036		July 1, 2010 June 30, 2011	5961.78 F	5961.78	0.00	5961.78	0.00

SPRING COVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grantor's Number	Grant Period Beginning/ Ending Date	Program Award		Total Received For Year	Accrued Or (Deferred) Revenue at July 1, 2010	Expenditures	Accrued Or (Deferred) Revenue at June 30, 2011
U.S. Dept. of Education Passed Through the Appalachia Intermediate Unit 08										
IDEA Funds	I	84.027	62-110008	July 1, 2010 June 30, 2011	367,167.00	F	0.00	0.00	367,167.00	367,167.00
IDEA Funds - ARRA	I	84.391A	128-100008	Feb. 17, 2009 Sept. 30, 2011	406,923.00	F	194,166.17	194,166.17	207,619.83	207,619.83
Title II-B MSP Seeds	I	84.366B	075-100608	July 1, 2010 June 30, 2011	5,300.00	F	800.00	0	2147.59	1,347.59
Passed Through PA Depts. Of Education & Public Welfare										
Medical Assistance Reimbursement	I	93.778		July 1, 2010 June 30, 2011	1,081.58	F	1,081.58	0.00	1,081.58	0.00
TOTAL DEPARTMENT OF EDUCATION							<u>2,541,567.07</u>	<u>520,663.30</u>	<u>2,732,150.18</u>	<u>711,610.41</u>

SPRING COVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grantor's Number	Grant Period Beginning/ Ending Date	Program Award	Total Received For Year	Accrued Or (Deferred) Revenue at July 1, 2010	Expenditures	Accrued Or (Deferred) Revenue at June 30, 2011
U.S. Dept. of Agriculture Passed Through the PA Dept. of Educ.									
National School Breakfast Program	I	10-553	NA	July 1, 2010 June 30, 2011	NA F	58,195.68	0.00	58,195.68	0.00
National School Breakfast Program	I	NA	NA	July 1, 2010 June 30, 2011	NA S	5,130.39	0.00	5,130.39	0.00
National School Lunch Program	I	10-555	NA	July 1, 2010 June 30, 2011	NA F	309,210.18	0.00	309,210.18	0.00
National School Lunch Program	I	NA	NA	July 1, 2010 June 30, 2011	NA S	33,627.19	0.00	33,627.19	0.00
U.S. Dept. of Agriculture Passed Through the PA Dept. of Agri:									
Value of USDA Commodities	I	10-555	NA	July 1, 2010 June 30, 2011	NA F	48,545.15	(16,047.03)	59,298.28	(5,293.90)
TOTAL DEPT OF AGRICULTURE						<u>454,708.59</u>	<u>(16,047.03)</u>	<u>465,461.72</u>	<u>(5,293.90)</u>
TOTAL FEDERAL ASSISTANCE						<u>2,996,275.66</u>	<u>504,616.27</u>	<u>3,197,611.90</u>	<u>706,316.51</u>

CODES:
I - Indirect Funding
F - Federal Share
S - State Share

SPRING COVE SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2011

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting Basis

The schedule of expenditures of federal awards includes the federal grant activity of the Spring Cove School District and is prepared under the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Inventory Valuation

Inventories are accounted for under the first-in, first-out method. Purchased commodities are valued at the lower of cost or market. Donated commodities are based on USDA valuations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SPRING COVE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ending June 30, 2011

Financial Statements

Type of auditor's report: Unqualified.

Internal over financial reporting

- * Material weakness(es) identified? Yes X No
- * Significant deficiency(ies) identified Yes X None Reported
- * Non compliance material to financial
noted? Yes X No

Federal Awards

- * Material weakness(es) identified? Yes X No
- * Significant deficiency(ies) identified Yes X None Reported

Type of auditor's 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? X Yes No

Identification of Major Programs:

The District's federal programs tested for compliance during our audit were: IDEA; IDEA ARRA; ARRA Fiscal Stabilization – Basic Education; ARRA Education Jobs Fund; Food Nutrition Cluster; and Title II – Improving Teacher Quality. The amount expended for these programs was \$2,572,680. These expenditures represented 81.44 percent of the District's total federal expenditures. Based on a total program expenditure threshold of \$300,000 for type A programs, IDEA; IDEA ARRA; ARRA Fiscal Stabilization – Basic Education; ARRA Education Jobs Fund; and the Child Nutrition Cluster were type A programs as defined by the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*. Title II – Improving Teacher Quality was a Type B program. Also, in accordance with the Supplement, the District qualified as a low risk auditee.

Finding 2011-1. Expenditures not in Accordance with Approved Budgets

Criteria. For ARRA funding related to Basic Educational Funding (BEF) and Education Jobs Fund, the District submitted grant applications to the Pennsylvania Department of Education (PDE). These applications included budgets of proposed grant expenditures. The grant applications were approved by PDE.

Condition: The budgeted expenditures for the ARRA BEF Hold Harmless grant were as follows:

Instructional Salaries:	\$ 160,000
Instructional Benefits	81,000
Instructional Supplies	306,335
Instructional Equipment	<u>325,835</u>
Total Budgeted Expenditures	\$ <u>873,170</u>

Actual Expenditures for this Grant were:

Instructional Benefits	\$ <u>873,170</u>
------------------------	-------------------

The budgeted expenditures for the ARRA Educational Jobs Fund grant were as follows:

Instructional Benefits	\$ <u>537,437</u>
------------------------	-------------------

Actual Expenditures for this Grant were:

Instructional Salaries	\$ 201,649
Instructional Benefits	<u>332,788</u>
Total Expenditures	\$ <u>534,437</u>

Context: The finding resulted from a review of the approved grant documents and a 100 percent review of all expenditures charged to the grants.

Effect: All expenditures paid from grant funds were allowable in accordance with federal regulations and terms of the grants. However, incorrect budgeting did not allow PDE to properly control and monitor grant expenditures.

Cause: Once the grants were approved, District administrators did not review the budget for allowable expenditures. Final grant reporting was completed without requesting proper budget amendments.

Recommendation: Because all expenditures were allowable in accordance with grant terms and federal regulations, no costs have been questioned. We recommend that the District implement procedures to more closely monitor grant budgets and reporting.

Views of Responsible Officials and Planned Corrective Actions: The District concurs with this finding and recommendation. The Business Manager has implemented procedures to closely monitor grant budgets.